浦发银行
SPD BANK

2019 ANNUAL REPORT

Shanghai Pudong Development Bank Co., Ltd.

浦发银行
SPD BANK

grow into a globally competitive,
top-notch joint-stock commercial bank

Mission

Finance creates value for better life

Strategic objectives

Grow into a globally competitive, top-notch joint-stock commercial bank which moves early to secure a leading position in promoting the finance sector toward high-quality development in the new era

Core values

Stick to integrity and strive for excellence

View of development: prioritize on developing principal business for stable operation in the long run

View of talent: pursue a people-centric approach to discover talent and put them at suitable positions

View of risk: make forward-looking, precise judgment, take actions prudentially, and know where to stop

View of management: conduct lawful and compliant management for intensive and efficient operation

View of business performance: seek for high-quality and sustainable business development

Corporate spirit

Strive with one heart

Organizational climate

Optimism, plainness, unity and sharing

Manager image

Righteous, wise, pioneering, and responsible

Employee image

Dedicated, professional, innovative and promising

Brand proposition

New thinking, heartfelt service

Important Notice

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors, and Senior Management members of the Bank warrant that the information presented in this Report is authentic, accurate and complete, contains no false record, misleading statement or material omission, and bear joint and several liability for the information in this Report.

2. This Report was reviewed and approved at the eighth meeting of the Seventh Board of Directors held in Shanghai on 23 April 2020. Nine Directors attended the meeting in person. All of the seven Directors with voting rights were present and voted in favor of this Report.

3. The 2019 financial statements prepared by the Bank in accordance with the Accounting Standards for Business Enterprises and the International Financial Reporting Standards have been audited by KPMG Huazhen LLP who issued a standard unqualified opinion.

4. Zheng Yang, Chairman of the Board of Directors, Pan Weidong, President of the Bank, Wang Xinhao, Vice President and Chief Financial Officer, and Pan Peidong, person in charge of accounting institutions, warrant the authenticity, accuracy and completeness of the financial statements in this Report.

5. The profit distribution plan for the reporting period approved by the Board of Directors is as follows: Distributing to all ordinary shareholders cash dividends at RMB6 (tax inclusive) per 10 shares based on the total number of ordinary shares on the day of profit distribution and equity registration. As at 31 December 2019, the Bank's ordinary shares totaled 29,352,080,397, based on which the cash dividends to be distributed were calculated in RMB17,611 million (tax inclusive).

6. There was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes.

7. The Bank provided no external guarantee in violation of the required decision-making process.

8. Risk statement on forward-looking statements: The future plans, development strategies and other prospective description stated in this Report do not constitute substantial warranty of the Bank to the investors; the investors and other related persons shall be fully aware of the risks and understand the difference between plans, estimates and commitments.

9. Notes on material risks: The Bank has no foreseeable material risks. Operating risks facing the Bank mainly include credit risk, market risk, liquidity risk, and operational risk. The Bank has taken various measures to effectively manage and control various operating risks, which are shown in the "Risk Management" under Section VI "Discussion and Analysis of Business Operation".

10. This Report was compiled in the language of both Chinese and English. If there is any discrepancy of understanding between the versions, the Chinese version shall prevail.

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Definitions

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

SPD Bank, the Company, the Parent Company, the Bank：Shanghai Pudong Development Bank Co., Ltd.

The Group：Shanghai Pudong Development Bank Co., Ltd. and its affiliated companies

Shanghai Trust：Shanghai International Trust Co., Ltd.

SPDB Financial Leasing：SPDB Financial Leasing Co., Ltd.

AXA SPDB Investment Managers：AXA SPDB Investment Managers Co., Ltd.

SPD Silicon Valley Bank：SPD Silicon Valley Bank Co., Ltd.

SPD rural banks：The 28 rural banks established by Shanghai Pudong Development Bank Co., Ltd.

SPDB International：SPDB International Holdings Limited

Central bank/PBC：People's Bank of China

CBIRC：China Banking and Insurance Regulatory Commission

CSRC：China Securities Regulatory Commission

End of the reporting period：31 December 2019

Reporting period：From 1 January 2019 to 31 December 2019

Same period of last year：From 1 January 2018 to 31 December 2018

End of last year：31 December 2018

Comparing periods：From 1 January 2018 to 31 December 2018
From 1 January 2017 to 31 December 2017

1 Corporate Profile

Corporate Profile

1.1 Company Information

Chinese name：上海浦东发展银行股份有限公司
Chinese name in short：上海浦东发展银行、浦发银行
English name：SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
English name in short：SPD BANK
Legal Representative：Zheng Yang
Initial registration date：19 October 1992
Registered & office address：12, Zhongshan Road (E-1), Shanghai 200002 PRC
Uniform Social Credit Code：9131000013221158XC
Financial Institution License Serial：B0015H131000001
Website：http://www.spdb.com.cn
Email：bdo@spdb.com.cn
Service hotline：95528

1.2 Contact Information

Secretary of the Board of Directors Name：Xie Wei
Secretary of the Board of Directors Address：Secretariat to the Board of Directors & Supervisors at 12, Zhongshan Road (E-1), Shanghai
Secretary of the Board of Directors Telephone：021-63611226
Secretary of the Board of Directors Fax：021-63230807
Secretary of the Board of Directors Email：xw@spdb.com.cn
Listing Affairs Representative Name：Li Guangming, Wu Rong
Listing Affairs Representative Address：Secretariat to the Board of Directors & Supervisors at 12, Zhongshan Road (E-1), Shanghai
Listing Affairs Representative Telephone：021-61618888 ex. Secretariat to the Board of Directors & Supervisors
Listing Affairs Representative Fax：021-63230807
Listing Affairs Representative Email：ligm-hhht@spdb.com.cn, wur2@spdb.com.cn

1.3 Information Disclosure and Access Site

Media partners selected for information disclosure："China Securities Daily", "Shanghai Securities News", "Securities Times"
Website designated by CSRC to publish this annual report：http://www.sse.com.cn
Annual report prepared at：Secretariat to the Board of Directors & Supervisors

1.4 Stocks

Type	Place of listing	Short name	Code	Short name before change
Ordinary A-share	Shanghai Stock Exchange	SPD Bank	600000	-
Preference share	Shanghai Stock Exchange	SPDB P 1 SPDB P 2	360003 360008	- -
Convertible corporate bond	Shanghai Stock Exchange	SPDB Convertible Bond	110059	-

Corporate Profile

1.5 Other Related Documents

Accounting firm engaged (financial statements prepared as per Accounting Standards for Business Enterprises)	
Name	KPMG Huazhen LLP
Office address	F/8, KPMG Tower, Oriental Plaza, No.1 East Chang'an Avenue, Dongcheng District, Beijing, China
Names of signatory accountants	Shi Haiyun, Dou Youming

Accounting firm engaged (financial statements prepared as per International Financial Reporting Standards)	
Name	KPMG Huazhen LLP
Office address	F/8, KPMG Tower, Oriental Plaza, No.1 East Chang'an Avenue, Dongcheng District, Beijing, China

Sponsor institution performing continuous supervision duties during the reporting period	
Name	CITIC Securities Co., Ltd.
Office address	F/23 CSCES Tower, No.1568 Century Avenue, Pudong New Area, Shanghai
Names of sponsor Representatives	Zhu Yu, Jiang Ying
Period of continuous supervision	15 November 2019 - 31 December 2020
Name	Guotai Junan Securities
Office address	F/36, No.669 Xinzha Road, Jing'an District, Shanghai
Names of sponsor Representatives	Zhu Zhelei, Yu Weijun
Period of continuous supervision	15 November 2019 - 31 December 2020

Depository of ordinary outstanding shares with restricted sale conditions
China Securities Depository and Clearing Co., Ltd. Shanghai Branch

1.6 Corporate Development Strategy

The Bank takes "serving the implementation of national strategies and the overall development of economy and society" as its paramount mission; keeps up with the trends of how the Chinese economy will transform and upgrade; works hard to serve the Belt and Road Initiative as well as a host of major national strategies such as the integration of Yangtze River Delta, the coordinated development of Beijing-Tianjin-Hebei Region, and the construction of Guangdong-Hong Kong-Macao Greater Bay Area; vigorously supports the key infrastructure projects on the national and regional levels as well as the development of undertakings in favor of people's wellbeing; and constantly gives full play to the credit resources and comprehensive financial services. As a bank headquartered in Shanghai, it greatly supports the city in fulfilling a host of major tasks related to "three missions and one platform", "five centers", and "four brands", by intensifying innovation in such business fields as corporate banking, retail banking and financial market business. Besides, it also proposes the strategic objective of "growing into a globally competitive, top-notch joint-stock commercial bank which moves early to secure a leading position in promoting the finance sector toward high-quality development in the new era". Centered on the aforesaid strategy, the Bank puts forward a path of development, which advocates the high-quality development as the main task, puts service as the core, adopts a market-oriented approach, and relies on customer experience and digital technology to enhance the core competitiveness, industry-wide leading edge, and global influence. In pushing forward various strategies and measures continuously, it will strive to become a trustworthy, preferred bank in the eyes of customers, a high-quality blue chip of capital market, an attentive employer who shares development results with employees, a systemically important bank which boasts of operational compliance and causes no worry for regulators, and a respectable and trusted corporate citizen.

1.7 Analysis on Core Competitiveness

The Bank owns many financial licenses allowing it to operate in banking, leasing, funds, trust, currency brokerage and overseas investment banking. All of its subsidiaries operate well, and further enhances their ability to coordinate with the parent company for joint development. The Bank is able to offer customers with a full package of comprehensive financial services. Thanks to the continuously increased efforts for coordinated development across the Group, all business segments and departments, the parent company and subsidiaries, and domestic and overseas branches manage to make joint action in a constantly improved way.

The Bank attaches high importance to advancing the strategy for digital operation, and starts from the key digitalization projects to promote digital transformation and complete the switch from old to new drivers of growth. It continues to push forward the development of open banking services, by putting 400 APIs into operation and getting connected to 210 partners. Besides, its digital employee Xiaopu has come in position. Centered on ToB, ToC and ToG, the Bank integrates the internally available resources and links them to ecological scenarios, so as to forge an ecosystem of digital operation. At the same time, it has worked with many world-leading technology companies to establish the joint laboratories themed on data intelligence, data empowerment, open banking service, and other aspects, a move that greatly fuels the business development.

The Bank continues to engage in more intensive operation and management, enhancing its capacity of sustainable development constantly. It dynamically adjusts its asset and liability allocation strategy on a quarterly basis, produces good effects from liability absorption and loan placement, and promotes revenue and profit towards steady growth. Besides, it continues to strengthen operational support, focuses on advancing digital transformation and enhancing customer experience, optimizes the end-to-end processes, and builds up the intelligent support ability. The Bank constantly steps up efforts to dispose of and dissolve NPAs, strives to put the asset quality on a stable footing, keeps optimizing the risk policies such as differentiated policies for different branches and enhancing credit management, promotes the adjustment of asset structure, and conducts the risk management and internal control in a more digitalized, professional, and institution-based way, with a view to boosting the effectiveness of compliance management and auditing supervision. Furthermore, the Bank goes deeper in channel transformation, optimizes the distribution of outlets, promotes the transformation of physical outlets, and works harder to strenghen the remote marketing services of virtual banking . In terms of personnel work, it introduces more high-tech personnel, and streamlines the composition of personnel by increasing the proportion of customer managers and product managers.

The Bank steadily expands its international operation. The operating results of its branches in Hong Kong, Singapore and London have grown steadily, and formed their unique business characteristics gradually. Making full use of the cross-border business platform, the Bank focuses its attention on the core target customer groups, actively markets overseas business, and helps high-quality customers in China to go abroad. Meanwhile, it gives full play to the advantages in free trade innovation, spares no effort to support the construction of China (Shanghai) Pilot Free Trade Zone (SHFTZ) Lin-gang Special Area, the Hainan Free Trade Port, and the Guangdong-Hong Kong-Macao Greater Bay Area.

Corporate Profile

1.8 Rankings and Awards

Domestic and overseas rankings	
Forbes magazine	65th among the "Forbes Global 2000", 13th among Chinese enterprises and 9th among Chinese banks on the list.
The Banker magazine	24th among the "Top 1000 World Banks", 9th among the Chinese-funded banks on the list. 17th among the "Top 500 Banking Brands" and 7th among the Chinese-funded banks on the list,brand value worth USD13,947 million,brand rating of AA.
Fortune magazine	216th among the "Fortune Global 500", 56th among Chinese enterprises and 8th among Chinese banks on the list.
Shanghai Enterprise Confederation	6th among 2019 Top 100 Shanghai Enterprises and 4th among 2019 Top 100 Shanghai Service Enterprises

Comprehensive financial service	
CBIRC	Exemplary Unit of Banking Financial Institutions in Dealing with Public Opinion Work in 2018 The Innovative Application Research for IoT+AI-based Financial Ecosystem was granted the third prize for excellent research achievements made in the banking and insurance industries for 2018. The "new-generation information system project of SPD Bank" was awarded as the second prize in the "2018 Banking Technology Developments".
People's Bank of China	The " 'Call SPD' mobile coordinated platform of SPD Bank for digital finance", the "big data and machine learning-based IT operation analysis system", and the "intelligent interaction-based mobile banking system" won the third prize in the "2018 Banking Technology Developments" respectively. Exemplary Organization in Individual Credit System Data Quality in 2018
Shanghai Stock Exchange	Exemplary Underwriter of Local Government Bonds at Shanghai Stock Exchange in 2019
China Central Depository & Clearing Co., Ltd.	Exemplary ChinaBond Underwriter in the Category of Banks for 2019
China Foreign Exchange Trade System	No.1 Joint-stock Commercial Bank and No.1 Asset Management and Wealth Management Subsidiary of Commercial Bank on the list of "Top 300 Interbank RMB Market Traders for 2019"
China Mergers & Acquisitions Association	The "M&A financing project where Bain Capital purchased Chindata" was rated with the Best M&A Transaction Award for 2019.
Shanghai Banking Association	Best Investment Banking Case Award for the Integration of Yangtze River Delta
China Financial Certification Authority	Best Contribution Award by Inclusive Finance
The Banker magazine	"Financial Service Innovation Prize for Top 10 Private Enterprises", China's Financial Innovation Award
Global Finance magazine	2019 "Star of China" - "Best Innovative M&A Award"
Retail Banking magazine committee	Best Open Banking Award
YICAI	"Smart Bank of the Year" on China Financial Value Ranking
Shanghai Securities News	"Award for Excellence in Asset Management of the Year" in the selection of "Elite Wealth Management Products" for 2019
Securities Times	Jun Ding Award for Open-ended Net Worth Banking Wealth Management Products of China in 2019 (Daily Gain series)
ThePaper.cn	"Financial Institution Award of the Year" and the "Smart Finance Award of the Year" in the 2019 Top Finance rankings
Economic Observer	Bank of the Year by Excellent Brand Power in the selection of financial enterprises with such excellent brand power in 2019
21st Century Business Herald	Best Asset Management Bank of 2019 Most Popular Wealth Management Product of 2019 (Selective Pension No.1 Wealth Management Plan under the Qizhen Zhuyue series of SPD Bank)
China Banking and Insurance News	"Top 10 New Media Figures of the Chinese Banking Industry" in the selection of 2019
eastmoney.com	Best Custodian Bank on the list of the Eastmoney Awards, the Best Custodian Bank, the Most Popular Asset Management Bank/Award for Contribution to Opening-up of Eastmoney Award
investorchina.com.cn	The "Trustworthy, Excellent Bank of the Year" selected at the investors' annual meeting for 2019
jnlc.com	Golden Bull Wealth Management Bank Award for 2018, Golden Bull Wealth Management Product Award for 2018 (Wealth Creation No.1 wealth management plan)

Corporate social responsibility	
China Banking Association	"Best Precision Poverty Alliviation Contribution Award" and "Best Social Responsibility Special Contribution Outlet Award" in the selection of the Top 100 CSR Undertakers in the Chinese Banking Industry for 2018
China Financial Publishing House	"CSR Case Award of the Year" in the contest held to select the annual brands and cases across the Chinese finance sector for 2019
International Finance News	Mr. Zheng Yang, Chairman of SPD Bank, was rated as the "Figure of 2019 with Outstanding Contribution to CSR".
news.qq.com	"Public Charity Award" in the first selection of the "Chinese Publicly-spirited and Socially-responsible Enterprises"
China.com.cn	"Pioneering Institution Fighting Poverty with Finance" selected by China.com.cn
The Chinese Institute of Business Administration	"Excellent Enterprise Award for Sustainable Competitiveness" in the selection of exemplary enterprises with sustained competitiveness for 2019
JRJ.com	"Award for Exemplary CSR Undertaker" in the annual selection held by JRJ.com for 2019

Others	
China Banking Association	"Best Standing Committee Member Award and Contribution Award" granted by the Second Standing Committee of China Banking Association Title of Exemplary Unit for Green Banking by Overall Performance in 2019 "Outstanding Contribution Award in Civilized and Standard Services of the Banking Sector in 2019" SPD Bank Business Department No.1, Business Department of SPD Bank Guangzhou Branch, Business Department of SPD Bank Nanchang Branch, and Business Department of SPD Bank Yuncheng Branch made their ways to the list of the "100 Role Model Units of the Chinese Banking Industry for Excellence in Civilized and Standard Services in 2019". The Business Department of SPD Bank Qingdao Branch was given the "Excellent Construction Award for 100 Role Model Units of the Chinese Banking Industry for Excellence in Civilized and Standard Services in 2019". SPD Bank topped all Chinese joint-stock commercial banks by the number of outlets getting into the 100 Role Model Units.

1.9 International Credit Ratings as at the End of the Reporting Period

Rating agency	Credit rating	Rating outlook
Moody's	Long-term deposit rating: Baa2 Short-term deposit rating: Prime-2	Stable
Standard & Poor's	Long-term issuer credit rating: BBB Short-term issuer credit rating: A-2	Stable
Fitch Ratings	Long-term issuer default rating: BBB	Stable

2 Key Indicators

Key Indicators

2.1 Major Accounting Data and Financial Indicators

In RMB millions

	2019 Audited	2018 Audited	Increase/(decrease) compared with the same period of last year (%)	2017 Audited
Major accounting data				
Operating income	190,688	170,865	11.60	168,619
Total profit	69,817	65,284	6.94	69,828
Net profit attributable to the parent company's shareholders	58,911	55,914	5.36	54,258
Net profit attributable to the parent company's shareholders deducting the non-recurring gains and losses	57,554	55,643	3.43	54,046
Net cash flows from operating activities	-68,628	-338,360	N/A	-140,673
Main financial indicators				
Basic earnings per share (RMB)	1.95	1.85	5.41	1.84
Diluted earnings per share (RMB)	1.92	1.85	3.78	1.84
Basic earnings per share after deducting non-recurring gains and losses (RMB)	1.90	1.84	3.26	1.83
Net cash flows from operating activities per share (RMB)	-2.34	-11.53	N/A	-4.79
Profitability indicators (%)				
Weighted ROE	12.29	13.14	Down 0.85 percentage point	14.45
Weighted ROE after deducting non-recurring gains and losses	12.00	13.08	Down 1.08 percentage points	14.39
Returns on average total assets	0.90	0.91	Down 0.01 percentage point	0.92
Fully-diluted ROE	11.58	12.27	Down 0.69 percentage point	13.28
Fully-diluted ROE excl. non-recurring gains and losses	11.30	12.21	Down 0.91 percentage point	13.23
Net interest spread	2.02	1.87	Up 0.15 percentage point	1.75
Net interest margin	2.08	1.94	Up 0.14 percentage point	1.86
Cost-to-income ratio	22.58	24.90	Down 2.32 percentage points	24.34
Cash dividend ratio	30.80	18.96	Up 11.84 percentage points	5.59
Percentage in total operating income (%)				
Net interest income to operating income	67.57	65.46	Up 2.11 percentage points	63.40
Non-interest income to operating income	32.43	34.54	Down 2.11 percentage points	36.60
Net income of fee and commission to operating income	21.21	22.83	Down 1.62 percentage points	27.03

Key Indicators

In RMB millions

	2019 Audited	2018 Audited	Increase/(decrease) compared with the same period of last year (%)	2017 Audited
Scale indicators				
Total assets	7,005,929	6,289,606	11.39	6,137,240
Incl.: Total loans	3,972,086	3,549,205	11.91	3,194,600
Total liabilities	6,444,878	5,811,226	10.90	5,706,255
Incl.: Total deposits	3,627,853	3,227,018	12.42	3,037,936
Net assets attributable to the parent company's shareholders	553,861	471,562	17.45	425,404
Net assets attributable to the parent company's ordinary shareholders	493,945	441,642	11.84	395,484
Net assets per share attributable to the ordinary shareholders of the parent company (RMB)	16.83	15.05	11.83	13.47
Asset quality indicators (%)				
NPL ratio	2.05	1.92	Up 0.13 percentage point	2.14
Allowance to NPLs	133.73	154.88	Down 21.15 percentage points	132.44
Allowance to total loans	2.74	2.97	Down 0.23 percentage point	2.84

Notes:

(1) Earnings per share, diluted earnings per share, and weighted ROE are calculated according to the Rules for Information Disclosure by Companies Offering Securities to the Public No.9 – Calculation and Disclosure of ROE and Earnings Per Share (Revised in 2010).

Basic earnings per share = net profit attributable to ordinary shareholders of the parent company/weighted average number of ordinary shares outstanding. Diluted earnings per share = (net profit attributable to ordinary shareholders of the parent company + effect of dilutive potential ordinary shares on net profit attributable to ordinary shareholders of the parent company)/(weighted average number of ordinary shares outstanding + weighted average number of dilutive potential ordinary shares converted into ordinary shares). Weighted ROE = net profit attributable to ordinary shareholders of the parent company/weighted average net assets attributable to ordinary shareholders of the parent company.

(2) The Bank distributed dividends of RMB825 million and RMB900 million of SPDB P2 and SPDB P1, respectively in March and December 2019. When calculating the earnings per share and weighted ROE disclosed in the Report, the Bank considered the impact of the distribution of the preference stock dividends of the two tranches.

(3) Non-recurring gains and losses are calculated based on the definition outlined in CSRS Announcement [2008] No.43 – Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit and Loss.

(4) As per the Notice on Revising and Issuing the Format of 2018 Financial Statements Prepared by Financial Enterprises (C.K. [2018] No.36) issued by the Ministry of Finance, the Company has adopted the revised format to develop its financial statements. At the same time, the bill trading spread was moved from "Other business income" and "Other business expenses" to "Profit/loss on investments" in the reporting period. The same adjustment was also applied to the comparative data from previous period.

(5) Net assets per share attributable to ordinary shareholders of the parent company = (net assets attributable to shareholders of the parent company - preference shares of other equity instruments and perpetual bonds)/total number of ordinary shares at the end of the period.

(6) Returns on average total assets = net profit/asset average balance, asset average balance = (total assets at the beginning of the period+ total assets at the end of the period)/2.

(7) Fully-diluted ROE = net profit attributable to the parent company's ordinary shareholders during the reporting period/net assets attributable to the parent company's ordinary shareholders as at the end of the reporting period.

(8) Fully-diluted ROE after deducting non-recurring gains and losses = net profit attributable to the parent company's ordinary shareholders during the reporting period after deducting non-operating gains and losses/net assets attributable to the parent company's ordinary shareholders as at the end of the reporting period.

(9) Net interest spread is the difference between average yield of total interest-earning assets and average cost of total interest-bearing liabilities. Net interest income ratio = net interest income/average balance of total interest-earning assets.

(10) Cost-to-income ratio = operation and administrative expenses/operating income.

(11) Cash dividend ratio = cash dividend amount/net profit attributable to the parent company's ordinary shareholders in the consolidated statements in the bonus year. The ratio is calculated based on 29,352,080,397, the total ordinary shares of the Company as at the end of the reporting period.

(12) Total loans = corporate loans + personal loans + principal balance of discounted bills; total deposits = corporate deposits + personal deposits + principal balance of other deposits.

Key Indicators

2.2 Differences between Accounting Data Prepared as per ASBE and IFRS

Since the Group adopted the IFRS 16 Leases on 1 January 2019 for the first time, differences have emerged in the net profit and net assets of the Group for the reporting period between its domestic financial statements prepared as per the Accounting Standards for Business Enterprises (ASBE) and its international financial report prepared pursuant to the International Financial Reporting Standards (IFRS). Related standard explanation can be seen in the "Preparation basis and accounting policy" with respect to international financial statements. Differences in accounting data are displayed as below:

In RMB millions

Accounting standards	Net profit in the period	Net assets as at the end of the period
ASBE	59,506	561,051
IFRS	59,380	560,519
Difference in amount	126	532

2.3 Key Financial Data per Quarter of the Group in 2019

In RMB millions

Item	1st quarter (Jan. - Mar.)	2nd quarter (Apr. - Jun.)	3rd quarter (Jul. - Sep.)	4th quarter (Oct. - Dec.)
Operating income	50,084	47,515	48,787	44,302
Total profit	19,317	18,901	19,512	12,087
Net profit attributable to the parent company's shareholders	16,459	15,647	16,244	10,561
Net profit attributable to the parent company's shareholders deducting the non-recurring profit or loss	16,437	15,599	15,078	10,440
Net cash flows from operating activities	185,433	-176,601	-76,281	-1,179

2.4 Non-recurring Gains and Losses and Amount

In RMB millions

Item	2019	2018	2017
Proceeds from disposal of non-current assets	1,470	51	516
Government subsidies	485	515	488
Other net non-operating income	-47	-59	-447
Income tax effect of non-recurring gains and losses	-488	-147	-269
Total	1,420	360	288
Incl.: Non-recurring gains and losses attributable to the parent company's shareholders	1,357	271	212
Non-recurring gains and losses attributable to minority shareholders	63	89	76


浦发银行
SPD BANK
因你诞生 为你奋进
浦发银行庆祝浦东开发开放30周年
30th

Shanghai Pudong Development Bank Co., Ltd.
Zheng Yang, Party Committee Secretary and Chairman

Message from Chairman of the Board of Directors

SPD Bank celebrated the 20th anniversary of listing in 2019. In the past two decades, we have relied on the capital market to seize the historic opportunities brought by the sustained and rapid growth of the Chinese economy. Bearing national strategies in mind, we spared no effort to support the real economy and meanwhile realized the leapfrog development. Over the same period, no matter how complicated and changeable the economic landscape was at home and broad, we always rose to challenges, upheld our founding mission, and practiced our core values of "sticking to integrity and striving for excellence". Pursuing a customer-centric approach, we attached high importance to principal business, sought for professional development, and never wavered from the path to high-quality, sustainable growth. When the seas are in turmoil, heroes are on their mettle. Looking back at the road taken, every stride represents the unremitting efforts all of us at SPD Bank have made to blaze a new trail in the finance sector.

We keep moving forward with absolute determination.

In 2019, all of us at SPD Bank, worked hard to overcome challenges and achieved hard-won business results, by centering on the main task of "adjusting structure, stabilizing growth; ensuring operational compliance, improving quality; and optimizing management, shoring up capability". In the year, the Group saw its total assets crossing the RMB7 trillion mark, racked up the operating income in RMB190.7 billion and the net profit in RMB58.9 billion, operated 1,602 outlets in total, and hired over 55,000 employees. In 2019, SPD Bank performed brilliantly in the capital market. Our share price rose by 30% throughout the year, ranking top among listed banks. At the end of the year, the Company posted a total market value in RMB363.1 billion, ranking 19th among all A-share listed companies. In 2019, SPD Bank continued elevating its position among market peers. We ranked 24th in the "Top 1000 World Banks" released by the British magazine The Banker and 216th in the Fortune's Global 500. Furthermore, we were rated above the investment grade by all the three major international rating agencies.

In the year, we continued putting in place modern enterprise systems, and conducted corporate governance with improved efficiency. With the Party leadership inextricably interwoven with all aspects of corporate governance, the Party committee would hold discussions before any major decision was made. Therefore, at SPD Bank formed a work pattern in which the political and organizational advantages of the Party were well integrated with the merits of the modern corporate governance. We kept refining the incentive and restraint mechanism. The year of 2018 witnessed that our Senior Management purchased the Company's stock for the first time. Following that, our Senior Management collectively bought 408,000 shares of the Company for a second time. Fully demonstrating the confidence of the Senior Management in the future development of SPD Bank, this move was positively received among market players.

In the year, we continued to support the real economy, gave a boost to the implementation of national strategies as well as the economic transformation and upgrading drive. Actively responding to the calls of the state, we worked harder in support of many key national strategies, which included the Belt and Road Initiative, the Yangtze Economic Belt, the Coordinated Development of Beijing-Tianjin-Hebei Region, the Guangdong-Hong Kong-Macao Greater Bay Area, the reform of state-owned assets and enterprises, and the development of inclusive finance. As a bank based in Yangtze River Delta, we unswervingly implemented and promoted the regional integration strategy, got deeply involved in the construction of financial infrastructure and factor market in the region, coordinated key projects and customer services as a whole, and helped to build the Delta into a world-class city cluster. Centered on the major missions Chinese President Xi Jinping assigned to Shanghai, we spared no effort to let the "three major tasks, one platform", "five centers", and "four brands" taking root in the city. Ahead of others, we established a new branch at SHFTZ Lin-gang Special Area, releasing a comprehensive service scheme targeted at STAR Market enterprises, and issued China's first credit card themed on "SPD Bank Going from the Yangtze River Delta to the World". With all of these efforts, we managed to incorporate the business tenet of "serving customers and society with financial strength" into our products.

Message from Chairman of the Board of Directors

In the year, we continued to move in the direction of high-quality development, strengthened innovation and transformation, and enhanced development resilience. As we recognized, technology was the only force that could turn the traditional business model of commercial banks upside down. Based on this notion, we starting from the four core elements, that is, customers, scenarios, data, and business models, to push forward the development of open banking services. The first digital employee of the Chinese banking industry, "Xiaopu", made a striking appearance. As a result, we succeeded in advancing smart operation. In the meantime, with the help of self-built platforms and externally connected ecologies, we realized precision marketing, and saw the personal financial assets exceeding RMB2 trillion. We tried to reap revenue from the more diversified and balanced sources. As a result, corporate banking, retail banking, and financial market, three major business lines, contributed to our net operating income by 38%, 43%, and 19%, respectively. Additionally, we successfully issued small and micro enterprise bonds in RMB50 billion, perpetual bonds in RMB30 billion, and convertible bonds in RMB50 billion, which replenished our funds and capital effectively, and enhanced our strength for further development.

In the year, we continued to refine the comprehensive risk management system, and cement three lines of defense (front-office, middle-office and back-office). Risk prevention and control is a top priority at SPD Bank. We kept creating favorable conditions to make sure non-performing assets (NPAs) could be disposed of efficiently in accordance with laws and regulations. Despite the burdens on our shoulders, we worked together to address the existing risks and keep a tight lid on the new ones, in the hopes of getting asset quality better assured. We stressed that risk management and internal control should be conducted with digital means, improved the functions of risk prediction, prevention, and forewarning, intensified the vertical management of the Board of Directors for audits, and enhanced the auditing independence and effectiveness. At the same time, we did more to coordinate the three lines of defense for cooperated operation and share related information, with a view to elevating our risk management standards to a higher level.

For people who aim high, it is the time to set off and forge ahead. What we did in dribs and drabs add up where we are now. Every single achievement made by us is impossible without the support and care of our shareholders and customers. In 2019, we wrapped up the election of the Board of Directors and the Board of Supervisors for a new term, with the new leadership having come in position. On behalf of the Board of Directors, I would like to express my heartfelt gratitude to all shareholders, customers, and persons from all walks of life for their long-term support and care in the growth and development of SPD Bank. At a new starting point, the newly elected Board of Directors and management team will strive to live up to all expectations. Embracing innovation and working hard, we will seek for long-standing development amid stability, continue to carry forward the fine tradition of SPD Bank, and go all out to write a new chapter for the Bank!

Wise men keep up with the times and carry things through.

In 2020, China will strive to complete the building of a moderately prosperous society in all respects and achieve the goals of the 13th Five-year Plan. It is also a year crucial for SPD Bank to advance its Three-year Action Plan. In the face of more discerning customers, fierce market competition, and growing risk challenges, all of us at SPD Bank will make pioneering, determined, concrete efforts with the spirit of "always getting ready for a brand new start". While pursuing progress while ensuring stability, we will seize every opportunity to achieve creative development, keep various risks under control, and embark on a path of innovation and development which emphasizes high efficiency and steady growth.

We will build SPD Bank a community with a shared future. The community with a shared future for mankind is a new concept that Chinese President Xi Jinping has repeatedly expounded for the sake of human society. If this is the case for the entire world, why not for SPD Bank? As the COVID-19 pandemic sweeps the globe, the world economy has to deal with the mounting downturn pressure. Against such a background, banks will definitely withstand the growing business pressure, as well. Only getting united as one and shouldering due responsibilities, can we cope with and survive a time as harsh as this one. Closely committed to the concept of "operating as one bank" and "acting as one legal person", we will enhance integration, strengthen joint action, and achieve strategic coordination on all fronts. To give full play to the overall strength of the Group, we will expand the customer base and offer better customer services, thus forming a synergy. Besides, we will intensify the application of financial technology (FinTech) to share data and connect systems and platforms together. Also, we will keep building the bank-wide governance system and governance capacity.

To align ourselves with the world's top-notch standards, we will try to secure a victory in the fight crucial to our Three-year Action Plan. The Three-year Action Plan of Shanghai Pudong Development Bank for 2019-2021 outlined "growing into a globally competitive, top-notch joint-stock commercial bank which moves early to secure a leading position in promoting the finance sector toward high-quality development in the new era" as our strategic goal for the present and the future. Centered on the aforesaid goal, we put forward a path of development, which advocates the high-quality development as the main task, puts service as the core, adopts a market-oriented approach, and relies on customer experience and digital technology to enhance the core competitiveness, industry-wide leading edge, and global influence. At the moment when the timeframes of the "Two Centenary Goals" converge, the Three-year Action plan is not only an important strategic guide that leads the Bank to transition from the 13th Five-Year Plan period to 14th Five-Year Plan period, but also a blueprint from which SPD Bank can gain insights and ideas to live up to its expectations and set off again. To secure the decisive victory, we will nail down a roadmap and carry it through. Through the implementation of the Three-year Action Plan, we are expected to form a business system centered on customer experience and a digital service model characterized by opening and sharing, which will lay a solid foundation for our further development.

With the bottom line for risk management never overstepped, we are determined to win the battle for guarding against financial risks. In 2020, we will wrap up the tough battle for guarding against and mitigating financial risks. Affected by the coronavirus epidemic, the banking industry will see its asset quality under severe scrutiny. Always alert to potential risk and crisis, we will refine the comprehensive risk management mechanism which covers every element horizontally and longitudinally, and move faster to conduct risk management in a digitalized, intensive, model-based, and professional manner. For key business fields and major risk points, taskforces will be recruited for timely and accurate troubleshooting. As to potential risks, proactive measures will be taken to mitigate such risks gradually. At the same time, vigorous efforts will be made to keep a tight lid on new risks, and multiple moves be rolled out to improve the effects of collection and disposal efforts. With respect to the "Black Swan" and "Gray Rhino" events that may take place in the future, we will intensify daily risk monitoring and evaluation, make sound disposal plans, and firmly hold the bottom line of "incurring no systemic or regional financial risks".

With the corporate culture further improved, we are committed to the mission which advocates finance creates value for better life. Culture is the soul of an enterprise. Centered on strategic objectives, we will further enrich the connotation of our corporate culture, enhance the brand value, reshape the brand, and regain the glory of the past days. We will further refine and enrich the concepts of our corporate culture, strengthen the cultivation of a risk culture, compliance culture and innovation culture, strive to create the brands of "digital SPD", "robust SPD", "enterprising SPD" and "happy SPD", and convert the cultural strength into productivity and creativity. The year of 2020 is bound to be remembered. In the face of the ruthless pandemic, we will never forget our founding mission, and gather our front-line forces to overcome difficulties together. With professional, high-quality, convenient and efficient financial services, we will do our part to secure a victory in the epidemic fight, bringing people back to the normal life, and stimulating the development of economy and society. In the future, we will work together to undertake our responsibilities for the country, economy, society, and environment, and deliver more convictive and attentive services at a faster pace!

With the big picture in mind, one can be the immediate embodiment of solemnity and might. In the future, we will aim to grow into a globally competitive, top-notch joint-stock commercial bank. We will provide customers with a full package of high-quality financial services, to become a trustworthy, preferred bank in the eyes of customers. We will provide long-term and stable investment returns for shareholders, to become a high-quality blue chip of capital market. We will provide the workforce with the broad space for career development, to become an attentive employer who shares development results with employees. We will firmly establish a mindset of defending the bottom line, to become a systemically important bank which boasts of operational compliance and causes no worry for regulators. We will actively take responsibilities for consumers, society and the environment, to become a respectable,trusted and excellent corporate citizen. In short, we will move early to secure a leading position in promoting the finance sector toward high-quality development in the new era.

Zheng Yang, Party Committee Secretary and Chairman
Shanghai Pudong Development Bank Co., Ltd.

Shanghai Pudong Development Bank Co., Ltd.
Pan Weidong, Deputy Party Committee Secretary, Vice Chairman & President

Message from President

"In the face of new opportunities and challenges at home and abroad, SPD Bank in 2019 carried out the decisions and plans made by the CPC Central Committee and the State Council, the regulatory requirements, as well as the core messages conveyed by Chinese President Xi Jinping in his important speech on an inspection tour to Shanghai, and focused on the main task of "adjusting structure, stabilizing growth; ensuring operational compliance, improving quality; and optimizing management, shoring up capability". With the generous support of shareholders, customers and people from all walks of life, all of us at SPD Bank worked hard to maintain a momentum for sound development.

At the end of 2019, our Group's total assets crossed the RMB7 trillion mark for the first time, up 11.39% over the beginning of the year. The operating income stood at RMB190,688 million, up 11.60% year on year. Throughout the year, our Group's net profit attributable to the parent company's shareholders posted RMB58,911 million, up 5.36% year on year. Thanks to the issuance of perpetual bonds in RMB30 billion and convertible bonds in RMB50 billion, our Group's capital adequacy ratio hit 13.86% by the end of the year, up 0.9 percentage point year on year. With these figures, our Group fulfilled the major business objectives and requirements set out by the Board of Directors, achieving hard-won business results.

Pursuing progress while ensuring stability and increasing stability in the midst of progress

In 2019, we adopted multiple measures to optimize structure and make progress over all business segments. Our corporate banking business line did everything possible to tackle with challenges and difficulties. Centered on serving the real economy as well as key regions and core customers, it optimized the supply of assets, and accomplished the best business results in the recent three years, which were measured by the operating income, customer base, deposit, loan and other indicators. Our retail banking business line assumed its responsibilities actively. As the efforts to get more out of data produced marked effects, it managed to almost double its liabilities, operating income and customer base within three years. As our largest source of income for two straight years, the business wrapped up the digitalization drive for penetrative management across the board. The outstanding personal financial assets went beyond RMB2 trillion. Our financial market business line followed the trends and gripped market opportunities to realize all-round, balanced development. The scale of fund assets operated actively reached RMB1.91 trillion, the net worth wealth management products accounted for more than a half of the total, and the size of asset custody business hit RMB13 trillion.

Maintaining a strategic focus to defuse financial risks

In 2019, united as one entirety, we stepped up efforts to dispose of and dissolve the existing risks in a steady, prudential manner, so as to consolidate the asset quality. We upheld the stringent strategy for NPA collection and risk mitigation which enabled us to stabilize development and increase revenue. We continuously optimized risk policies such as differentiated policies for different branches, enhanced credit management, instructed how to supply credit resources in a precise way, and streamlined the asset structure. While advancing the digitalized, professional operation, we greatly increased the timeliness and effectiveness of compliance management and auditing supervision, which laid a much-needed foundation for the next round of high-quality development.

Unveiling open banking services for innovation and transformation

In 2019, we forged ahead with determination. By developing open banking services, we put in place a digitalized business model, reshaped the experience delivered to customers, and offered them with the ultimate services. After unveiling China's first API Bank in July 2018, we kept enriching the connotation and denotation of this open banking service. As the open ecosystem forged and took effect, we managed to provide financial services with quality and efficiency further improved, and gain differentiated competitiveness. By the end of 2019, we launched 400 API services and got connected to 210 apps of partners, both of which were leading the industry. This signaled an in-depth integration among government,

Message from President

enterprise and industry platforms. Besides, as the first digital employee of the Chinese banking industry, Xiaopu came in position and heralded a new way to offer financial services. Meanwhile, the cloud adoption drive advanced on all front. We kept building an enterprise-level micro-service platform and an ecology-oriented infrastructure system. Throughout the year, we invested RMB4,120 million in IT development, which accounted for over 2% of our operating income.

In the face of the still complicated environment at home and abroad as well as the new requirements raised by the new era, we will in 2020 maintain the strategic focus and uphold the guiding principle of "pursuing progress while ensuring stability and increasing stability in the midst of progress". In practice, we will serve the real economy actively, forestall financial risks resolutely, and spotlight business gains, key areas, and a solid footing. At the same time, we will rise to various challenges, grip every possible opportunity, and take the initiative to obtain a new round of high-quality development. In brief, we will growing into a globally competitive, top-notch joint-stock commercial bank which moves early to secure a leading position in promoting the finance sector toward high-quality development in the new era.

Striving forward with one heart and mind

We will take the initiative to undertake the mission of better serving the high-quality development of the real economy with tremendous courage. In the face of the abrupt coronavirus pandemic, we will continue to innovate in financial services and products, and further increase the financial support for all kinds of customers affected by the epidemic, especially small and micro enterprises and private businesses. We will keep optimizing the customer operation mechanism, by forming a new customer management mode which has distinct characteristics and is guided with a clear-cut principle for the three major business lines, that is, corporate banking, retail banking, and financial institution. We will stress collaboration, joint operation, and integration, strengthen the use of FinTech, and start to optimize the operation processes from the side of customers, with a view to enhancing customer experience and service capabilities. In the meantime, we will take multiple measures, closely focus on key national strategies and major tasks assigned to Shanghai, and accelerate the supply of acceptable assets in key regions, industries, and featured businesses. We will strive to expand low-cost liabilities and promote the liability business towards sustainable growth. We will extend the multi-point presence and expand the sources of income to make the fee-based business bigger, stronger, and firmer. We will focus on increasing the credit supply and securing the revenue growth, and bring resources under precise allocation and meticulous management, in a bid to better meet financial needs of the real economy and realize the steady growth of operating income.

Realizing digitalized operation across the board and putting in place new business modes through reform

Since the outbreak of the COVID-19 pandemic, the achievements we made through the transformation towards digital operation in the past two years has enabled us to develop various businesses and render customer services without interruption. With"developing open banking services" taken as the foremost strategy, we will continue promoting the full-stack digital construction in a bid to realize the full coverage and the comprehensive, in-depth connectivity. At the same time, we will create an open and shared digital business model, go beyond linear development, build up core competitiveness, and switch to the fast lane for overtaking others. Furthermore, following the requirements for promoting digital operation which is leading, penetrative, inclusive, and close-ended, and adopting the customer-centric approach, we will proceed from ecological scenarios, and make full use of FinTech to meet customer needs for financial services in a real-time, seamless way. From the perspective of user experience, we will do our utmost to enhance the full-stack, digitalized operation capabilities with respect to customer operation, key technical areas, and FinTech ecosystem substantially.

Conducting penetrative management for all-round integration

We will actively use digital means to boost the Head Office's ability in leading development and conducting penetrative management, to optimize the business and management processes, and to do better in direct operation, direct customer retention, and direct service delivery. Pursuing a market-oriented and service-based approach, we will propel the all-round integration between any two of the front, middle and back offices, technology and business, and banking services and non-banking services, to produce the synergy of operating as one bank and ecological development. At the same time, we will strengthen the operation of data assets, rely on a variety of digital technologies, and enhance the intelligent risk control capabilities in relation to risk forewarning, prediction, forecasting, and other steps, with an aim to ensure the sustained, stable development across the board. We will focus attention on key areas, key branches, and key projects, curb new bad assets and slash existing ones, intensify recovery efforts, reduce various risks earnestly, and consolidate the already achieved business results. We will exercise strict corporate governance, strengthen internal control compliance and auditing supervision, and use digital means to enhance the effectiveness of compliance management and auditing supervision. Moreover, we will intensify the fundamental management, continue to optimize the related institutions and mechanisms as needed by the digital transformation drive, further unleash the business vitality and growth potential, and boost the governance capacity as a commercial bank in the new era.

In an era full of change, only by embracing trends and assuming responsibilities, can one achieve extraordinary success. Dear shareholders, looking into the future, we will race against time and make persistent efforts to seek steady progress and seize opportunities for innovative development and rigid risk control, in the hopes of growing into a globally competitive, top-notch joint-stock commercial bank. We will promote the development of Chinese economy by stabilizing our growth rate, and deal with the uncertainty brought by the external environment with our certainty in self-development. We will embark on a brand-new path to high-quality development, confident in living up to the expectations of all shareholders!

Pan Weidong, Deputy Party Committee Secretary, Vice Chairman & President
Shanghai Pudong Development Bank Co., Ltd.

Shanghai Pudong Development Bank Co., Ltd.
Sun Jianping, Chairman of the Board of Supervisors

Message from Chairman of the Board of Supervisors

Despite the complex and ever-changing situation in 2019, SPD Bank stuck to implementing the national macroeconomic policies and regulatory requirements, and focused on the annual main task of "adjusting structure, stabilizing growth, tightening compliance, improving quality, optimizing management, and building up capabilities". In actual operation, the Bank further promoted structural transformation, served the real economy, strengthened risk prevention, and intensified basic management. It basically completed the key business objectives and missions set for the year. As a result, its market competitiveness, social influence, and corporate cohesion got further increased throughout the year.

In 2019, the Board of Supervisors performed its supervisory duties diligently as per the pertinent laws and regulations such as the Company Law, the Guidelines for Corporate Governance of Commercial Banks, and the Guidelines for the Work of the Board of Supervisors of Commercial Banks as well as the Articles of Association of the Bank. In strict accordance with the division of responsibilities for each entity of corporate governance, it kept keenly aware of its position, prioritized on supervising the duty performance with respect to financial management, major decisions made by the Board of Directors, and strove to get more out of its supervisory initiative.

In 2019, the Board of Supervisors continued to refine the supervision mechanism. Centered on the priority issues under supervision, it inspected and oversaw the operation and management practice of the Bank by the combined used of ex ante surveying, in-process inspection, and ex post assessment, among other methods. Consequently, a total of six supervision and evaluation reports were produced, which were the Report on the Supervision and Inspection of the Completion of Key Annual Tasks, the Report on the Evaluation of Annual Duty Performance by Directors, Supervisors and Senior Management Members, the Annual Corporate Supervision and Evaluation Report, the Special Supervision Report on the Correction of Annual Final Financial Accounts as Instructed by the Official Reply, the Special Inspection Report on the Completion of Goals by the Legal Representative of the Bank for the Tenure 2016-2018, and the Report on Annual Inspection of Directors and Supervisors.

In the past year, the Bank stepped up financial management, engaged in financial accounting, and prepared financial statements in accordance with laws and regulations. Its financial activities were conducted so normatively and rigorously that the business results of business activities could be revealed fairly. As a result, the Bank saw its ability in continuous operation on the constant rise. The Board of Supervisors focused its attention on the financial management practice across the Bank. It paid particular attention to the authenticity, accuracy and integrity of periodic reports, and issued review opinions and suggestions objectively. Meanwhile, it continued tracking the formation and implementation of important financial decisions, and put under stricter supervision the Bank's capital management, liquidity management and consolidated management, among other aspects. Besides, it kept following up with financial risk control, and examined the indicators used for forewarning key financial risks.

In the past year, the Board of Directors and its members discharged their duties in making major management decisions, and played their due roles in scientific decision-making and strategic management according to law. Laser-focused on how the Board of Directors and its members performed their duties, the Board of Supervisors prioritized on whether their decision-making process took place according to law. It stepped up efforts to supervise directors' meeting attendance and independent opinions, paid particular attention to the Bank's development strategy and business philosophy, and intensified the supervision and inspection of how the 13th five-year strategic plan was executed. At the same time, it continued to track the improvement of corporate governance, and worked harder to oversee the enhancement of corporate governance structure, and optimization of decision-making procedures, related-party transactions, and other domains.

In the past year, the Senior Management and its members acted on the national strategies, regulatory requirements, and resolutions reached by the Board of Directors. Bearing the annual business mission, they strove to put measures in

Message from Chairman of the Board of Supervisors

operation, and achieved good results in the operation and management practice. With eyes set on the executive force of the Senior Management and its members, the Board of Supervisors attached great importance to the implementation of national strategies, regulatory provisions, corporate strategies/plans, and resolutions reached by the Board of Directors, and paid high attention to the realization of the annual business mission and key tasks as well as the supervision of how corrections were made as per the regulatory opinions, in a bid to lift the power of execution across the Bank to a higher level. Furthermore, it put comprehensive risk management on a more important position, brought the risk, compliance & internal control, anti-money laundering (AML) and audit work under intensified supervision, and made strides in establishing a complete set of comprehensive risk & internal control management systems across the Bank.

In the past year, the Board of Supervisors elected a new term of supervisors according to the pertinent laws and regulations. It kept perfecting the supervision mechanism, stressed to produce a synergy of supervision, and boosted the exchange of information on internal control and the sharing of achievements in this regard.

In a boat race, those who row the hardest will win. Triumph comes when all work together in solidarity. The year of 2020 marks the completion of the 13th Five-year Plan of China. It is also a year crucial for SPD Bank to advance its Three-year Action Plan. Spearheaded by the guiding principles of the 19th CPC National Congress, the Board of Supervisors will follow the core messages conveyed at the National Financial Work Conference and the Central Economic Work Conference as well as the requirements of financial regulators and competent authorities to fulfill its supervisory duties in accordance with laws and regulations, further elevate the Bank's corporate governance standards and capabilities to a higher level, and accomplish the goal of growing into a globally competitive, top-notch joint-stock commercial bank.

Sun Jianping, Chairman of the Board of Supervisors
Shanghai Pudong Development Bank Co., Ltd.

Front Row:Zheng Yang,Party Committee Secretary and Chairman(Center) Pan Weidong, Deputy Party Committee Secretary, Vice Chairman, President（Right）
Sun Jianping,Chairman of the Board of Supervisors(Left)
Back Row:Chen Zheng'an,Deputy Party Committee Secretary,Executive Director(Center) Xu Haiyan,Vice President(Right 3)
Jiang Fangping,Head of Discipline Inspection and Supervision Office at SPDBank(Left3) Liu Yiyan，Executive Director, Vice President, CRO（Right2）
Wang Xinhao，Vice President, CFO（Left2）Cui Bingwen，Vice President（Right1）Xie Wei，Vice President, Secretary to the Board of Directors（Left1）

6 Discussion and Analysis of Business Operation

Discussion and Analysis of Business Operation

6.1 Overall Business Operation

In the face of new opportunities and challenges at home and abroad, the Bank in 2019 carried out the decisions and plans made by the CPC Central Committee and the State Council as well as the requirements of regulators. Centered on the main task of "adjusting structure, stabilizing growth; ensuring operational compliance, improving quality; and optimizing management, shoring up capability", it pursued progress while ensuring stability, seized every opportunity to achieve creative development and keep various risks under control, and created a sound momentum for growth with both operating income and net profit on the rise.

Scale and profit grew steadily.

As at the end of the reporting period, the total assets of the Group posted RMB7,005,929 million, representing an increase of RMB716,323 million or 11.39% over the end of previous year. Of these, the balance of loans in local and foreign currencies stood at RMB3,972,086 million, representing an increase of RMB422,881 million or 11.91% over the end of previous year. The Group's total liabilities amounted to RMB6,444,878 million, an increase of 10.90%, of which, the balance of deposits in local and foreign currencies was RMB3,627,853 million, an increase of RMB400,835 million or 12.42% over the end of 2018.

During the reporting period, the Group saw its operating income and net profit both on the rise. The Group achieved an operating income of RMB190,688 million, an increase of RMB19,823 million or 11.60% over 2018; a total profit of RMB69,817 million, an increase of RMB4,533 million or 6.94% over 2018; and net after-tax profits attributable to the parent company's shareholders of RMB58,911 million, an increase of RMB2,997 million or 5.36% over 2018. In 2019, the average return on assets (ROA) of the Group stood at 0.90%, a decrease of 0.01 percentage point from last year; the weighted average return on equity (ROE) was 12.29%, a decrease of 0.85 percentage point from last year; and the cost-to-income ratio was 22.58%, a year-on-year decrease of 2.32 percentage points.

The business structure was optimized continuously.

During the reporting period, the Group took multiple measures to adjust structure and stabilize growth, with remarkable effects produced in this regard. Its three major business segments saw their operating income structure being optimized continuously. Retail banking continued making the largest contribution among all business lines, and new retail loans amounted to RMB192,148 million, accounting for 45.44% of loan increment across the board. The Group's net interest income surged to RMB128,850 million, an increase of 15.21% year on year; interest expenses dropped by 1.54% year on year; and net non-interest income posted RMB61,838 million, up 4.77% year on year.

Asset quality further improved.

During the reporting period, the Group's credit business operated steadily. To cope with the complicated external environment and meet the more prudential regulatory requirement, the Group further consolidated asset quality and disposed of the existing risks in a proper and orderly way. As at the end of the reporting period, based on the five-tier loan classification, the Group's balance of NPLs in the last three categories was RMB81,353 million, an increase of RMB13,210 million over the end of 2018. The NPL ratio stood at 2.05%, an increase of 0.13 percentage point over the end of 2018. Allowance to NPLs posted 133.73%, a decrease of 21.15 percentage points from the end of 2018. And allowance to total loans ratio (provision-to-loan ratio) was 2.74%, a decrease of 0.23 percentage point as compared with the end of 2018.

FinTech developed fast.

The Company unveiled China's first opening banking service API Bank in 2018. In the following year, it made further efforts to scale up API scenarios, made innovative scenarios more influential, and expanded the platform scale fast as a whole. As at the end of the reporting period, the Company launched 400 API services in total, got connected to 210 partners applications, and struck over 160 million API transactions which involved nine business fields such as account management, loan/financing, and investment/wealth management. Since the debut of API Bank, the Company managed to integrate its financial products and services with many government, enterprise, and industry platforms closely. In this way, it could provide customers with ubiquitous services under various types of production and living scenarios. During the reporting period, the Company invested RMB4,120 million in IT development, which accounted for over 2% of its operating income.

Steady progress was made towards conglomeration and internationalization.

During the reporting period, the companies in which the Group invested operated steadily well, generating revenue worth RMB9,825 million and net profit worth RMB3,359 million. Hong Kong Branch became further influential in the market; Singapore Branch continued offering commodities and other services unique to itself; and London Branch did a lot to help the Bank operate across different time zones of Asia and Europe.

6.2 Analysis of Income Statement

During the reporting period, the Group realized sustained development across all business lines. The net interest income grew rapidly, the cost-to-income ratio continued to stay at a fairly low level, the operating income hit RMB190,688 million, up RMB19,823 million or 11.60% year on year, and the net profits attributable to the parent company's shareholders posted RMB58,911 million, an increase of 5.36% year on year.

In RMB millions

Item	The reporting period	Same period of last year	Change in amount
Operating income	190,688	170,865	19,823
--Net interest income	128,850	111,844	17,006
--Net fee and commission income	40,447	39,009	1,438
--Other net income	21,391	20,012	1,379
Operating expenses	120,824	105,522	15,302
--Tax and surcharges	1,946	1,852	94
--Operation and administrative expenses	43,052	42,541	511
--Impairment losses on credit assets and impairment losses on other assets	74,707	60,420	14,287
--Other operating costs	1,119	709	410
Net non-operating income and expenses	-47	-59	12
Total profit	69,817	65,284	4,533
Income tax expense	10,311	8,769	1,542
Net profit	59,506	56,515	2,991
Net profit attributable to the parent company's shareholders	58,911	55,914	2,997
Minority interest income	595	601	-6

6.2.1 Operating income

The following table sets out the composition of the Group's operating income and the proportions of each part in the recent three years.

Item	2019 (%)	2018 (%)	2017 (%)
Net interest income	67.57	65.46	63.40
Net fee and commission income	21.21	22.83	27.03
Other net income	11.22	11.71	9.57
Total	100.00	100.00	100.00

Discussion and Analysis of Business Operation

During the reporting period, the Group's total business income was RMB354,681 million, representing a year-on-year increase of RMB20,976 million or 6.29%.

The following table sets out the changes in the total business income.

In RMB millions

Item	Amount	Percentage in total business income (%)	Increase/decrease over the same period of previous year (%)
Loan interest income	197,427	55.67	10.03
Interest income on investment	62,287	17.56	-8.41
Fee and commission income	51,196	14.43	10.80
Interest income on due from and placements with banks and other financial institutions	12,630	3.56	19.43
Interest income from balance with central bank	6,198	1.75	-8.93
Leasing interest income	2,488	0.70	20.14
Other income	22,455	6.33	8.92
Total	354,681	100.00	6.29

The following table sets out the geographic distribution of the Group's operating income.

In RMB millions

Region	Operating income	Increase/decrease over the same period of previous year (%)	Operating profit	Increase/decrease over the same period of previous year (%)
Head Office	81,295	19.77	30,767	0.70
Yangtze River Delta Region	39,335	8.18	28,048	27.29
Pearl River Delta and West Side of Taiwan Straits	11,266	-1.54	3,693	-52.66
Bohai Rim	15,140	1.91	-1,959	-970.67
Central China	16,517	5.74	6,627	-11.44
Western China	10,939	4.98	-3,115	Negative in the same period of last year
North-eastern China	4,844	5.67	375	Negative in the same period of last year
Overseas institutions and subsidiaries	11,352	16.97	5,428	3.31
Total	190,688	11.60	69,864	6.92

Notes:

(1) Head Office: Headquarters (Head Office and institutions directly under it);

(2) Yangtze River Delta: Shanghai, Jiangsu Branch and Zhejiang Branch;

(3) Pearl River Delta and West Side of Taiwan Straits: Guangdong Branch and Fujian Branch;

(4) Bohai Rim: Beijing Branch, Tianjin Branch, Hebei Branch and Shandong Branch;

(5) Central China: Shanxi Branch, Henan Branch, Hubei Branch, Hunan Branch, Anhui Branch, Jiangxi Branch and Hainan Branch;

(6) Western China: Chongqing Branch, Sichuan Branch, Guizhou Branch, Yunnan Branch, Guangxi Branch, Shaanxi Branch, Gansu Branch, Qinghai Branch, Ningxia Branch, Xinjiang Branch, Inner Mongolia Branch and Tibet Branch;

(7) North-eastern China: Liaoning Branch, Jilin Branch and Heilongjiang Branch;

(8) Overseas institutions and subsidiaries: Overseas branches and domestic and overseas affiliates.

6.2.2 Net interest income

During the reporting period, the Group incurred a net interest income of RMB128,850 million, an increase of RMB17,006 million or 15.21% year on year.

The following table sets forth the interest income/expenses as well as average yield and costs of the assets and liabilities of the Group during the reporting period.

In RMB millions

	The reporting period			Same period of last year		
Interest-earning assets	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Loans and advances	3,716,595	197,427	5.31	3,359,630	179,426	5.34
Investments	1,557,832	62,287	4.00	1,563,222	68,006	4.35
Balance with central bank	419,818	6,198	1.48	451,095	6,806	1.51
Due from and placements with banks and other financial institutions	425,557	12,630	2.97	338,976	10,575	3.12
Other financial assets	67,063	3,552	5.30	57,048	2,675	4.69
Total	6,186,865	282,094	4.56	5,769,971	267,488	4.64

In RMB millions

	The reporting period			Same period of last year		
Interest-bearing liabilities	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)
Deposits from customers	3,543,080	76,451	2.16	3,168,364	61,014	1.93
Due to and placements from banks and other financial institutions	1,402,875	39,311	2.80	1,535,071	58,108	3.79
Debt securities issued	876,693	30,741	3.51	705,096	29,788	4.22
Due to central bank	202,653	6,741	3.33	204,731	6,734	3.29
Total	6,025,301	153,244	2.54	5,613,262	155,644	2.77

6.2.2.1 Interest income

During the reporting period, the Group generated the interest income totaling RMB282,094 million, an increase of RMB14,606 million or 5.46% year on year; and its interest income from retail loans stood at RMB97,785 million, an increase of RMB12,225 million or 14.29%, with the average yield rate reaching 6.16%, down 0.19 percentage point over last year.

Interest income from loans and advances

In RMB millions

	The reporting period			Same period of last year		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	1,838,209	89,548	4.87	1,835,441	85,927	4.68
Retail loans	1,586,527	97,785	6.16	1,346,459	85,560	6.35
Discounted bills	291,859	10,094	3.46	177,730	7,939	4.47

Note: Of these, the average yield of general short-term loans and medium and long-term loans was 5.38% and 5.53%, respectively.

Discussion and Analysis of Business Operation

Interest income on investment

During the reporting period, the Group's interest income on investment stood at RMB62,287 million, representing a year-on-year decrease of 8.41%. The average investment yield rate was 4.00%, representing a decrease of 0.35 percentage point over the prior year.

Interest income on due from and placements with banks and other financial institutions

During the reporting period, the Group generated the interest income on due from and placements with banks and other financial institutions totaling RMB12,630 million, up 19.43% over the prior year; and it saw the average yield rate from such business decreasing by 0.15 percentage point over last year to 2.97%.

6.2.2.2 Interest expense

During the reporting period, the Group's interest income expense was RMB153,244 million, representing a year-on-year decrease of RMB24,00 million or 1.54%. The above drop was mainly attributed to a decrease in interest expenses on due to and placements from banks and other financial institutions.

Interest expense on deposits from customers

During the reporting period, the Group's interest expense on deposits from customers stood at RMB76,451 million, representing a year-on-year increase of 25.30%. The average cost ratio reported 2.16%, representing an increase of 0.23 percentage point over the prior year.

The following table sets forth the average balance, interest expense and average cost ratio of corporate deposits and retail deposits at the Group in 2019 and 2018.

In RMB millions

	The reporting period			Same period of last year		
	Average balance	Interest expense	Average cost ratio (%)	Average balance	Interest expense	Average cost ratio (%)
Corporate customers						
Current deposits	1,235,440	12,927	1.05	1,218,097	10,978	0.90
Time deposits	1,318,151	38,788	2.94	1,166,323	32,279	2.77
Retail customers						
Current deposits	223,123	704	0.32	204,151	590	0.29
Time deposits	552,973	20,346	3.68	379,287	13,681	3.61

Interest expenses on due to and placements from banks and other financial institutions

During the reporting period, the Group's interest expenses on due to and placements from banks and other financial institutions totaled RMB39,311 million, a decrease of 32.35% over the previous year, as a result of the shrinking interbank fund size and the dropping interest rate.

Interest expense on debt securities issued

During the reporting period, the Group recorded interest expenses of RMB30,741 million on debt securities in issue, an increase of 3.20% over the previous year.

6.2.3 Net non-interest income

During the reporting period, the Group racked up the net non-interest income in RMB61,838 million, up 4.77% year on year. Specifically, net fee and commission income rose by 3.69% to RMB40,447 million, and other non-interest income went up by 6.89% to RMB21,391 million.

In RMB millions

Item	The reporting period		Same period of last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Net fee and commission income	40,447	65.41	39,009	66.09
Incl.: Fee and commission income	51,196	82.79	46,205	78.29
Fee and commission expenses	-10,749	-17.38	-7,196	-12.20
Profit or loss on investments	13,571	21.95	15,797	26.77
Profit or loss on changes in fair value	3,765	6.09	798	1.35
Exchange profit or loss	312	0.50	1,155	1.96
Other business income	1,788	2.89	1,696	2.87
Asset disposal profit or loss	1,470	2.38	51	0.09
Other income	485	0.78	515	0.87
Total	61,838	100.00	59,021	100.00

6.2.3.1 Fee and commission income

During the reporting period, the Group's fee and commission income continued to go up. Such income hit RMB51,196 million, an increase of RMB4,991 million or 10.80% year on year.

In RMB millions

Item	The reporting period		Same period of last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Fees from bank card business	28,415	55.50	23,390	50.62
Fees from custodian business and other fiduciary activities	11,556	22.57	12,831	27.77
Fees from investment banking activities	3,631	7.10	3,048	6.60
Agency commission	2,723	5.32	1,883	4.07
Credit commitment fees	2,154	4.21	2,276	4.93
Settlement and clearing fees	975	1.90	1,020	2.21
Others	1,742	3.40	1,757	3.80
Total	51,196	100.00	46,205	100.00

Discussion and Analysis of Business Operation

6.2.3.2 Profit or loss on investments

During the reporting period, the Group reaped an income on investments of RMB13,571 million, a year-on-year decrease of 14.09%.

In RMB millions

Item	The reporting period		Same period of last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading financial assets	11,341	83.58	13,253	83.90
Net profit from bill trading spread	2,022	14.90	1,032	6.53
Precious metals	349	2.57	-641	-4.06
Investments on long-term equity as calculated by equity method	171	1.26	164	1.04
Other equity instrument investments	44	0.32	40	0.25
Dividends from subsidiaries	-	-	-	-
Other creditor's rights investments	-144	-1.06	361	2.29
Derivatives	-168	-1.24	1,610	10.19
Creditor's rights investments	-309	-2.28	-22	-0.14
Other	265	1.95	-	-
Total	13,571	100.00	15,797	100.00

6.2.3.3 Profit or loss on changes in fair value

In RMB millions

Item	The reporting period		Same period of last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Precious metals	3,122	82.92	-573	-71.80
Trading financial instruments	1,843	48.95	3,155	395.36
Hedged bonds	296	7.86	103	12.91
Loans measured at fair value through profit or loss	-54	-1.43	-	-
Derivatives	-1,366	-36.28	-1,887	-236.47
Others	-76	-2.02	-	-
Total	3, 765	100.00	798	100.00

6.2.4 Operation and administrative expenses

During the reporting period, the Group's operation and administrative expenses were RMB43,052 million, representing a year-on-year increase of 1.20%. Cost-to-income ratio was 22.58%, representing a year-on-year decrease of 2.32 percentage points.

In RMB millions

Item	The reporting period		Same period of last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Employee expenses	27,015	62.75	24,643	57.93
Rental expenses	3,140	7.29	2,995	7.04
Depreciation and amortization expenses	2,869	6.67	2,773	6.52
Electronic equipment operating and maintenance expenses	818	1.90	760	1.79
Others	9,210	21.39	11,370	26.72
Total	43,052	100.00	42,541	100.00

6.2.5 Impairment losses on credit assets and impairment losses on other assets

During the reporting period, the Group adhered to the principle of putting NPLs under stringent classified management, and worked hard to consolidate the foundation of asset quality. Its impairment losses on loans and advances totaled RMB69,170 million, up 18.48% over 2018.

In RMB millions

Item	The reporting period		Same period of last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Loans and advances to customers	69,170	92.59	58,383	96.63
Investments	1,744	2.33	870	1.44
Other assets	3,793	5.08	1,167	1.93
Total	74,707	100.00	60,420	100.00

6.2.6 Income tax expense

During the reporting period, the Group incurred an income tax of RMB10,311 million, an increase of RMB1,542 million or 17.58% over the previous year.

In RMB millions

Item	The reporting period	Same period of last year
Profit before income tax	69,817	65,284
Income tax calculated at China's statutory tax rate	17,454	16,321
Effect of different tax rates applied by subsidiaries	-46	-32
Effect of expenses that are not deductible	289	302
Effect arising from income not subject to tax	-7,716	-7,878
Adjustments on income tax for prior years	330	56
Income tax expense	10,311	8,769

6.3 Analysis of the Balance Sheet

6.3.1 Analysis of assets

As at the end of the reporting period, the total assets of the Group reached RMB7,005,929 million, representing an increase of RMB716,323 million or 11.39%, as compared with the end of previous year.

In RMB millions

Item	End of the reporting period		End of last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans	3,972,086	56.70	3,549,205	56.43
Interest accrued on loans	14,584	0.21	11,705	0.19
Less: Allowance for impairment losses on loans	-108,479	-1.55	-105,421	-1.68
Financial investments	2,083,547	29.74	1,922,815	30.57
Long-term equity investment	2,049	0.03	1,968	0.03
Derivative financial assets	38,719	0.55	43,274	0.69
Cash and deposits with central bank	477,853	6.82	443,723	7.05
Due from and placements with banks and other financial institutions	279,235	3.99	248,108	3.95
Goodwill	6,981	0.10	6,981	0.11
Others	239,354	3.41	167,248	2.66
Total	7,005,929	100.00	6,289,606	100.00

6.3.1.1 Loans to customers

As at the end of the reporting period, the Group's total loans and advances to customers were RMB3,972,086 million, an increase of 11.91% from the end of last year. The ratio of total loans and advances to total assets was 56.70%, representing an increase of 0.27 percentage point as compared with the end of previous year.

6.3.1.2 Financial investments

In RMB millions

Item	End of the reporting period		End of the reporting period	
	Amount	Percentage (%)	Amount	Percentage (%)
Trading financial assets	505,318	24.25	395,668	20.58
Creditor's rights investments	1,074,927	51.59	1,144,249	59.51
Other creditor's rights investments	497,508	23.88	378,860	19.70
Other equity instrument investments	5,794	0.28	4,038	0.21
Total	2,083,547	100.00	1,922,815	100.00

Trading financial assets

In RMB millions

Item	End of the reporting period		End of last year	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	67,719	13.4	54,332	13.72
Trust and asset management plans	65,313	12.93	71,131	17.98
Fund investments	360,856	71.41	263,191	66.52
Equity investments	4,306	0.85	1,128	0.29
Other investments	7,124	1.41	5,886	1.49
Total	505,318	100.00	395,668	100.00

Creditor's rights investments

In RMB millions

Item	End of the reporting period		End of last year	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	687,240	63.93	723,766	63.25
Trust and asset management plans	378,429	35.21	403,473	35.26
Other creditor's rights instruments	2,155	0.20	9,650	0.84
Accrued interest	15,818	1.47	14,863	1.31
Impairment allowances	−8,715	−0.81	−7,503	−0.66
Total	1,074,927	100.00	1,144,249	100.00

Other creditor's rights investments

In RMB millions

Item	End of the reporting period		End of last year	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	487,435	97.98	371,501	98.05
Trust and asset management plans	2,825	0.57	2,487	0.66
Accrued interest	7,248	1.45	4,872	1.29
Total	497,508	100.00	378,860	100.00

Other equity instrument investments

In RMB millions

Item	End of the reporting period		End of last year	
	Balance	Percentage (%)	Balance	Percentage (%)
Equity	4,983	86.00	4,038	100.00
Funds	811	14.00	–	–
Total	5,794	100.00	4,038	100.00

Discussion and Analysis of Business Operation

The following table sets out the composition of total bond investments at the Group by issuers.

In RMB millions

Item	End of the reporting period		End of last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Ministry of Finance, local governments and central bank of China	679,616	54.7	616,715	53.65
Policy banks	334,693	26.94	273,144	23.76
Commercial banks and other financial institutions	112,419	9.05	152,509	13.26
Others	115,666	9.31	107,231	9.33
Total bond investments	1,242,394	100	1,149,599	100

The following table sets out the top 10 financial bonds held in nominal value.

In RMB millions

The Group	Par value	Annual interest rate (%)	Maturity date	Impairment reserves set aside
Policy bank bonds 2018	16,100	4.98	12-Jan-25	1.82
Policy bank bonds 2018	10,750	4.04	6-Jul-28	1.58
Policy bank bonds 2018	10,430	4.73	2-Apr-25	1.63
Policy bank bonds 2017	10,200	4.44	9-Nov-22	1.59
Policy bank bonds 2017	8,530	4.30	21-Aug-24	1.31
Policy bank bonds 2019	8,450	3.42	2-Jul-24	1.04
Policy bank bonds 2018	7,000	4.15	26-Oct-25	1.09
Policy bank bonds 2019	6,547	3.30	1-Feb-24	1.00
Policy bank bonds 2017	6,230	4.39	8-Sep-27	0.71
Policy bank bonds 2018	6,200	4.69	23-Mar-23	0.97

6.3.1.3 Long-term equity investment

As at the end of the reporting period, the balance of long-term equity investment at the Group recorded RMB2,049 million, up 4.12% from the end of last year. Specifically, the investment balance in associates stood at RMB1,841 million, up 4.78% over the end of last year. The balance of allowance for impairment losses on long-term equity investment at the Group was zero by the end of reporting period.

6.3.1.4 Derivatives

As at the end of the reporting period, major categories and amounts of derivatives held by the Group are set out in the following table.

In RMB millions

	End of the reporting period			End of last year		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Non-hedging derivative products:						
Interest rate swap contracts	5,032,981	13,221	13,017	3,178,256	12,882	14,673
Currency swap contracts	1,875,203	16,168	16,688	3,745,734	23,836	22,517
Option contracts	667,976	3,013	2,739	668,433	3,940	3,105
Precious metal derivative financial instruments	182,064	5,432	8,110	135,375	1,814	1,414
Foreign exchange forward contracts	44,615	589	394	92,855	587	861
Commodity contracts	9,903	208	137	2,825	62	55
Derivative financial instruments designated as hedging instruments at fair value:						
Interest rate swap contracts	20,289	21	401	20,777	146	141
Currency swap contracts	4,094	67	17	2,134	7	27
Total		38,719	41,503		43,274	42,793

6.3.1.5 Goodwill

As per ASBE provisions, the Group conducted the impairment test on the goodwill out of the purchase of Shanghai Trust as at the end of the reporting period. In the test, the Group compared the book value and the recoverable amount of related assets or asset portfolios (including goodwill). If the recoverable amount is lower than the book value, the gap between them shall be booked into profit or loss during the reporting period. The recoverable amount of assets and asset portfolios is calculated through the cash-flow forecast method based on the five-year budget approved by the Senior Management. The cash flow for a longer-than-five-year span shall be calculated with the estimated growth rate. The corresponding asset portfolios encompass Shanghai International Trust Co., Ltd., China International Fund Management Co., Ltd., Tullett Prebon SITICO (China) Limited, and Shangxin Asset Management Co., Ltd. The impairment test findings suggested that no impairment reserves needed to be set aside during the reporting period. By the end of reporting period, the book value of goodwill at the Group stood at RMB6,981 million.

6.3.2 Analysis of liabilities

As at the end of the reporting period, the total liabilities of the Group reached RMB6,444,878 million, representing an increase of RMB633,652 million or 10.90%, as compared with the end of previous year.

In RMB millions

Item	End of the reporting period		End of last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Total deposits	3,627,853	56.29	3,227,018	55.53
Interest payable on deposits	33,989	0.53	26,297	0.45
Due to and placements from banks and other financial institutions	1,390,952	21.59	1,335,955	22.99
Debt securities issued	1,003,502	15.57	841,440	14.48
Due to central bank	233,423	3.62	221,003	3.80
Trading financial liabilities	23,295	0.36	34,912	0.60
Derivative financial liabilities	41,503	0.64	42,793	0.74
Others	90,361	1.40	81,808	1.41
Total liabilities	6,444,878	100.00	5,811,226	100.00

6.3.2.1 Composition of total deposits

As at the end of the reporting period, the total deposits of the Group reached RMB3,627,853 million, representing an increase of RMB400,835 million or 12.42%, as compared with the end of previous year.

In RMB millions

Item	End of the reporting period		End of last year	
	Balance	Percentage (%)	Balance	Percentage (%)
Current deposits	1,551,360	42.76	1,464,038	45.37
Incl.: Corporate deposits	1,312,073	36.16	1,244,437	38.56
Retail deposits	239,287	6.60	219,601	6.81
Time deposits	2,074,055	57.17	1,759,075	54.51
Incl.: Corporate deposits	1,477,382	40.72	1,330,802	41.24
Retail deposits	596,673	16.45	428,273	13.27
Other deposits	2,438	0.07	3,905	0.12
Total	3,627,853	100.00	3,227,018	100.00

6.3.3 Analysis of changes in shareholders' equity

As at the end of the reporting period, shareholders' equity of the Group was RMB561,051 million, up 17.28% from the end of last year. The equity attributable to the Bank's shareholders recorded RMB553,861 million, an increase of 17.45% over the end of last year; and the retained earnings totaled RMB170,730 million, up 21.77% over the end of last year, which was mainly credited to the net profit increase and profit distribution during the reporting period.

In RMB millions

Item	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General risk reserve	Other comprehensive income	Retained earnings	Total equity attributable to the parent company's shareholders
Opening balance	29,352	29,920	81,760	109,717	75,946	4,659	140,208	471,562
Increase	–	32,778	–	16,088	303	2,608	58,911	110,688
Decrease	–	–	–	–	–	–	28,389	28,389
Closing balance	29,352	62,698	81,760	125,805	76,249	7,267	170,730	553,861

In RMB millions

Item	End of the reporting period	End of last year	Increase/decrease over the end of previous year (%)
Share capital	29,352	29,352	–
Other equity instruments	62,698	29,920	109.55
Capital reserve	81,760	81,760	–
Other comprehensive income	7,267	4,659	55.98
Surplus reserve	125,805	109,717	14.66
General risk reserve	76,249	75,946	0.40
Retained earnings	170,730	140,208	21.77
Total equity attributable to the parent company's shareholders	553,861	471,562	17.45
Minority shareholders' equity	7,190	6,818	5.46
Total equity	561,051	478,380	17.28

6.4 Items with Changes above 30% in the Accounting Statements and Reasons

In RMB millions

Item	End of the reporting period	End of last year	Change (%)	Main reason for the change during the reporting period
Precious metals	30,870	10,475	194.70	The self-operated and agency precious metals held scaled up
Financial assets purchased under resale agreements	2,873	11,573	-75.17	Bonds purchased under resale agreements scaled down
Other creditor's rights investments	497,508	378,860	31.32	Investments in government bonds and policy bank bonds scaled up
Other equity instrument investments	5,794	4,038	43.49	Repossessed equity scaled up
Other assets	122,212	83,442	46.46	Funds pending clearance increased
Trading financial liabilities	23,295	34,912	-33.28	Oversold precious metals scaled down
Financial assets sold under repurchase agreements	227,583	119,564	90.34	Bonds sold under repurchase agreements scaled up
Accrued liabilities	6,698	4,747	41.10	Financial guarantee contracts and allowance for impairment losses incurred by loan commitments increased
Other equity instruments	62,698	29,920	109.55	Equity component of perpetual bonds and convertible bonds emerged for the first time
Other comprehensive income	7,267	4,659	55.98	Change to the valuation of other creditor's rights investments

In RMB millions

Item	Jan.-Dec. 2019	Jan.-Dec. 2018	Change (%)	Main reason for the change during the reporting period
Fee and commission expenses	10,749	7,196	49.37	Increase in expenses arising from personal service fees
Profit or loss on changes in fair value	3,765	798	371.80	Valuation of interest rate derivatives and bond funds increased
Exchange profit or loss	312	1,155	-72.99	Exchange rate fluctuated and exchange gains dropped
Asset disposal profit or loss	1,470	51	2,782.35	Profit or loss from disposal of Dongyin Mansion
Impairment losses on other assets	-1	3	-133.33	Allowance for impairment losses on repossessed assets reversed
Other operating expenses	1,119	709	57.83	Other operating expense increased
Other comprehensive income after tax, net	2,609	6,983	-62.64	The fair value of other creditor's rights investments changed to a smaller amount during the reporting period than last year
Net cash flows used by operating activities	-68,628	-338,360	N/A	Net cash flows of customer deposits and deposits from banks and other financial institutions increased
Net cash flows used/generated by investing activities	-66,973	257,889	-125.97	Net cash recovered from investments decreased

6.5 Analysis of Loan Quality

6.5.1 Five-tier loan classification

In RMB millions

Five-tier risk classification	End of the reporting period	Percentage (%)	Increase/decrease over the same period of the previous year (%)
Pass	3,790,250	95.42	12.26
Special mention	100,483	2.53	-4.04
Substandard	39,667	1.00	42.77
Doubtful	22,201	0.56	16.46
Loss	19,485	0.49	-8.50
Total	3,972,086	100.00	11.91

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In RMB millions

Category	End of the reporting period	Percentage (%)	Increase/decrease over the same period of the previous year (%)
Restructured loans	4,765	0.12	34.92
Overdue loans	87,796	2.21	-4.06

Notes:

1) Restructured loans refer to loans which have been impaired but their contract clauses have been renegotiated.

2) At the Group, a loan shall be entirely classified as overdue, once its principal or interest becomes overdue for one day or longer.

6.5.2 Loan structure and loan quality by product types

As at the end of the reporting period, the proportion of corporate loans was 47.37%, a decrease of 3.80 percentage points from the end of previous year; the proportion of personal loans was 42.18%, an increase of 0.39 percentage point as compared with the end of previous year; and the proportion of discounted bills was 10.45%, an increase of 3.41 percentage points as compared with the end of the previous year.

In RMB millions

Product type	End of the reporting period			End of last year		
	Loan balance	NPLs	NPL ratio (%)	Loan balance	NPLs	NPL ratio (%)
Corporate loans	1,881,586	59,000	3.14	1,815,874	49,175	2.71
General corporate loans	1,847,828	58,899	3.19	1,778,999	48,983	2.75
Trade finance	33,758	101	0.30	36,875	192	0.52
Discounted bills	415,124	288	0.07	250,103	-	-
Retail loans	1,675,376	22,065	1.32	1,483,228	18,968	1.28
Personal housing loans	730,260	1,978	0.27	588,988	1,585	0.27
Personal business loans	274,606	3,906	1.42	240,404	3,759	1.56
Credit card and overdraft	421,535	9,715	2.30	433,470	7,832	1.81
Others	248,975	6,466	2.60	220,366	5,792	2,63
Total	3,972,086	81,353	2.05	3,549,205	68,143	1.92

6.5.3 Loan structure and loan quality by industries

In RMB millions

	End of the reporting period			End of last year		
	Loan balance	Percentage in total loans (%)	NPL ratio (%)	Loan balance	Percentage in total loans (%)	NPL ratio (%)
Corporate loans	1,881,586	47.37	3.14	1,815,874	51.17	2.71
Real estate	334,229	8.41	2.63	283,516	7.99	0.36
Manufacturing	330,592	8.32	5.98	305,290	8.60	6.27
Lease and commerce services	264,423	6.66	0.82	265,795	7.49	0.32
Water, environment and public utilities management	152,055	3.83	0.22	165,400	4.66	0.13
Transportation, warehouse and postal services	141,266	3.56	0.58	125,359	3.53	0.72
Construction	139,388	3.51	1.80	141,439	3.99	1.17
Wholesale and retail	136,718	3.44	8.10	207,144	5.84	8.57
Financial services	82,438	2.08	–	56,467	1.59	0.01
Mining	79,581	2.00	6.54	77,164	2.17	5.15
Energy and utilities	67,941	1.71	1.65	64,389	1.81	0.79
Information transmission, software and IT services	38,852	0.98	2.17	25,023	0.71	3.84
Agriculture, forestry, farming and fishery	27,785	0.70	16.25	27,205	0.77	5.70
Research and technology services	24,016	0.60	1.51	21,401	0.60	1.19
Culture, sports and entertainment	18,301	0.46	0.67	10,573	0.30	0.51
Healthcare and social welfare	16,936	0.43	–	11,837	0.33	–
Education	11,883	0.30	–	10,302	0.29	0.21
Others	15,182	0.38	8.97	17,570	0.50	1.89
Discounted bills	415,124	10.45	0.07	250,103	7.04	–
Personal loans	1,675,376	42.18	1.32	1,483,228	41.79	1.28
Total	3,972,086	100.00	2.05	3,549,205	100.00	1.92

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6.5.4 Loan structure by geography

In RMB millions

Region	End of the reporting period		End of last year	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Head Office	647,562	16.30	526,613	14.84
Yangtze River Delta Region	1,071,262	26.97	1,049,321	29.55
Pearl River Delta and West Side of Taiwan Straits	405,925	10.22	345,174	9.73
Bohai Rim	489,848	12.33	444,619	12.53
Central China	551,588	13.89	458,935	12.93
Western China	509,496	12.83	464,613	13.09
North-eastern China	193,224	4.86	179,470	5.06
Overseas institutions and subsidiaries	103,181	2.60	80,460	2.27
Total	3,972,086	100.00	3,549,205	100.00

6.5.5 Loan structure by collateral types

In RMB millions

Item	End of the reporting period		End of last year	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Unsecured loans	1,621,602	40.82	1,325,740	37.35
Guaranteed loans	706,838	17.80	739,258	20.83
Loans secured by mortgages	1,422,864	35.82	1,284,367	36.19
Pledged loans	220,782	5.56	199,840	5.63
Total	3,972,086	100.00	3,549,205	100.00

6.5.6 Loan migration

Item (%)	2019		2018		2017	
	Year-end	Average	Year-end	Average	Year-end	Average
Pass loan migration ratio	3.05	3.10	3.14	3.59	4.04	5.63
Special-mention loan migration ratio	40.40	36.92	33.44	36.74	40.04	45.11
Substandard loan migration ratio	51.39	66.22	81.04	83.92	86.80	79.97
Doubtful loan migration ratio	38.94	48.33	57.72	48.10	38.47	53.02

6.5.7 Loans of top ten customers

In RMB millions

Customer name	31 December 2019	Percentage (%)
Customer A	9,270	0.23
Customer B	5,503	0.14
Customer C	5,070	0.13
Customer D	5,179	0.13
Customer E	5,100	0.13
Customer F	4,900	0.12
Customer G	4,818	0.12
Customer H	4,798	0.12
Customer I	4,541	0.12
Customer J	4,520	0.12
Total	53,699	1.36

6.5.8 Management of LGFV loans

During the reporting period, the Bank constantly improved and enhanced its management of debt financing to local governments, and kept control of key businesses like local government financing vehicles (LGFVs) and local government bonds, according to the requirements of CBIRC and its own operation and management needs.

First, in strict accordance with the pertinent state polices and regulatory requirements, the Bank implemented classified management of local government debt financing based on the LGFV list.

Second, the Bank optimized the indicators to evaluate the comprehensive affordability of local governments, which involved the total economic volume, fiscal revenue, debt solvency, regional credit environment, and local political and social stability of the prefecture-level cities, counties, and development zones (parks). Based on the evaluation results, the regional access standards were set out explicitly.

Third, based on limit monitoring and concentration management over LGFV business, the Bank kept those branches with a high proportion of LGFV business and the provinces and cities with great debt repayment pressure on the special control list for targeted, progressive administration in terms of policy orientation, resources allocation, and other aspects.

Fourth, the Bank was determined to forestall and defuse the risks arising from hidden debts of local governments. It put the existing businesses under classified guidance for proper disposal, guarded against and mitigated the risks arising from the mature and existing hidden local government debts on LGFVs, and it put new businesses under normative management.

Fifth, while properly addressing subsequent financing needs of projects in construction of LGFV companies, the Bank continued to support financing needs of projects related to people's livelihood, actively pushed forward the transformation of the business model, and rolled out financing projects in cooperation with local and social capital as per related provisions, with a view to serving local economic development.

Sixth, the Bank continued to implement the requirements of laws, regulations and policies concerning local government budget management, debt management, debt limit management, etc., and underwrote local government bonds by following the return-risk balance principle in a targeted way. It properly realized the interconnection of key links in the process of debt replacement, which guaranteed its own interests and rights.

During the reporting period, the LGFV loan business ran stably, with risks being controllable and meeting regulatory requirements.

6.5.9 Year-end NPLs and corresponding measures taken

As at the end of the reporting period, based on the criteria of five-tier loan classification, the balance of substandard, doubtful and loss loans of the Group was RMB81,353 million, an increase of RMB13,210 million over the end of 2018; and the NPL ratio was 2.05%, up 0.13 percentage point over the end of last year.

The Bank adopted the following measures:

First, it increased credit facilities to key industries and regions, ensured credit newly extended was of high quality, exited from those industries under control and contraction and made according adjustment to customers, and accelerated the optimization of the industry structure of credit assets.

Second, it started to build an industry limit management system, and introduced a portfolio limit management mode where industries were used as the primary criteria with the regions as a supplement. With related policies and systems rolled out or enhanced, quantitative instruments could transmit credit policies and helped to streamline the asset structure constantly.

Third, it followed the stringent principle of classified management and got the asset quality further improved. To meet the more prudential regulatory requirements and deal with the uncertainties the changed macro-environment would impose on the operation in 2020, the Bank took the initiative to bring the corporate loans overdue for over 60 days and the risk loans in key areas under the NPL management as at the end of 2019.

Fourth, it stepped up efforts to reduce and dispose of NPLs. With emphasis placed on the following five domains: the curb of NPLs from lower migration, the cash recovery, the recovery of large-value NPLs, the proper write-off arrangements, and the introduction of more disposal channels, the Bank managed to lift its risk response capabilities on all fronts, and pursued an objective-oriented approach to address both immediate and root issues, coordinate every aspect of work as a whole with proactive actions, and attach equal importance to the front-end risk mitigation and the back-end business compliance.

Fifth, it intensified the risk forewarning management and continued to streamline its structure with solid efforts. It continued to optimize the forewarning mechanism for corporate banking, retail credit, financial market, wealth management/ investment and all other business lines, and issued early warnings in a more timely and effective way. At the same time, it pushed forward cash withdrawal, put credit funds in place beforehand, and strengthened the management of matured interest, so as to defuse the potential risk arising from the customers who triggered early warnings, reduce the expected losses, and revitalize the existing assets.

Sixth, it stepped up risk inspection of various businesses from conventional credit business to new-typed business with a widened coverage, monitored business risks based on the penetration principle and tried to solidify the asset quality.
Seventh, it went further to build three professional mechanisms with respect to asset preservation, took cash recovery as the main task and continued to protect and dispose of NPAs through various channels and means, increased professional guidance for key regional branches, business fields, and projects in relation to NPL recovery and mitigation, and made vigorous efforts to conduct asset preservation management in a digitalized way.

6.5.10 Credit extension to group customers

For group customers, the Bank insisted on the principles of "unified credit extension, moderate credit limit and differentiated administration", with collective management and risk control on the credit extension to group customers. Based on customers' risk conditions and ability to undertake risks, the Bank could work out the overall credit line to group customers reasonably, and prevent the credit over-concentration risk. Based on business development realities and in full consideration of differentiated management of group customers, it further refined the classified management model for group customers with balance between risk and efficiency. It ensured general stability of credit extension to group customers and satisfied the regulator's requirements for credit concentration of group customers through continuously refining the credit extension management system for group customers, optimizing the credit extension management procedure and stepping up early warning and post-lending management.

6.5.11 Provisions for loan impairment

In RMB millions

The Group	The reporting period	Same period of last year
Opening balance	105,542	105,892
Provision in the year	69,170	58,354
Write-off and disposal in the year	-68,004	-61,290
Recovery of loans and advances written off in previous years	3,539	3,748
Other changes	-1,456	-1,162
Closing balance	108,791	105,542

Note: Description of provisions for loan impairment: The Group assessed the expected credit loss in combination of forward-looking information. The method adopted by the measurement of expected credit loss reflected the following elements: the unbiased-probability weighted average amount determined by assessing a series of possible results; the time value of money; the reasonable and well-grounded information on related past events, current conditions and predictions of economic prospects that can be obtained on the balance sheet date without incurring unnecessary extra costs or endeavors.

6.6 Analysis of Other Regulatory Indicators Applicable for Commercial Banks

6.6.1 Capital structure

As calculated based on relevant provisions in the Capital Management Measures for Commercial Banks (Trial) as promulgated by CBIRC:

In RMB millions

Item	End of the reporting period		End of last year	
	The Group	The Bank	The Group	The Bank
Total capital	666,724	651,429	599,114	587,655
Incl.: Core tier-one capital	496,289	483,001	444,926	434,850
Additional tier-one capital	60,295	59,916	30,278	29,920
Tier-two capital	110,140	108,512	123,910	122,885
Capital deduction items	11,029	27,008	9,806	26,424
Incl.: Core tier-one capital deduction items	11,029	27,008	9,806	26,424
Additional tier-one capital deduction items	–	–	–	–
Tier-two capital deduction items	–	–	–	–
Net capital	655,695	624,421	589,308	561,231
Minimum capital requirement (%)	8.00	8.00	8.00	8.00
Requirement for capital reserve and counter-cyclical capital (%)	2.50	2.50	2.50	2.50
Additional capital requirement	–	–	–	–
Risk-weighted assets	4,731,354	4,598,796	4,311,886	4,196,285
Incl.: Credit risk-weighted assets	4,334,610	4,233,697	3,934,963	3,841,869
Market risk-weighted assets	60,490	50,184	57,099	49,322
Operational risk-weighted assets	336,254	314,915	319,824	305,094
Core tier-one capital adequacy (%)	10.26	9.92	10.09	9.73
Tier-one capital adequacy (%)	11.53	11.22	10.79	10.45
Capital adequacy ratio (%)	13.86	13.58	13.67	13.37

Notes:

(1) The above are capital adequacy data and information of the Bank and the Group as measured based on the Capital Management Measures for Commercial Banks (Trial) as promulgated by CBIRC. Net core tier-one capital = core tier-one capital – core tier-one capital deduction items; net tier-one capital = net core tier-one capital + addtional tier-one capital – addtional tier-one capital deduction items; net total capital = net tier-one capital + tier-two capital – tier-two capital deduction items.

(2) According to the Regulatory Requirements for Disclosure of Capital Composition of Commercial Banks as promulgated by CBIRC, the Bank discloses information of capital composition in the reporting period, explanations of relevant items and main features of capital instruments under the special column of investor relations on the official website (www.spdb.com.cn).

(3) Capital instruments enjoying preferential policy for transition period: According to relevant provisions in the Capital Management Measures for Commercial Banks (Trial) as promulgated by CBIRC, the unqualified tier-two capital instruments issued by commercial banks before 12 September 2010 can enjoy preferential policies, that is, a progressive decreasing of 10% each year since 1 January 2013. At the end of 2012, the book value of unqualified tier-two capital of the Bank was RMB38.6 billion, which was decreased by 10% progressively each year since 2013 to come to RMB11,580 million as at the end of the reporting period.

6.6.2 Leverage ratio

The leverage ratio indicators of the Group have been calculated in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised) released by CBIRC. As at the end of the reporting period, the Bank's leverage ratio was 6.56%, up 0.16 percentage point over the end of last year; and that of the Group was 6.83%, up 0.15 percentage point over the end of last year.

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In RMB millions

Item	End of the reporting period		End of last year	
	The Group	The Bank	The Group	The Bank
Net tier-one capital	545,555	515,909	465,398	438,346
Balance of on-and-off-balance sheet assets after adjustment	7,983,704	7,858,498	6,969,609	6,853,657
Leverage ratio (%)	6.83	6.56	6.68	6.40

The Bank discloses detailed information of the leverage ratio for the reporting period under the special column of investor relations on official website of the Bank (www.spdb.com.cn).

6.6.3 Liquidity coverage ratio

In RMB millions

The Group	End of the reporting period
Quality liquidity assets	924,828.11
Net cash outflow	749,619.62
Liquidity coverage ratio (%)	123.37

6.6.4 Net stable funding ratio

In RMB millions

The Group	31 December 2019	30-Sep.-2019	30-Jun.-2019	30-Mar.-2019
Net stable funding ratio (%)	103.36	105.04	104.72	100.66
Stable funds available	3,636,069	3,586,326	3,463,818	3,338,665
Stable funds needed	3,518,010	3,414,333	3,307,783	3,316,886

6.6.5 Other regulatory financial indicators of the Bank for the past three years

Item (%)		Standard value as at the end of reporting period	Actual value		
			31 December 2019	31 December 2018	31 December 2017
Capital adequacy ratio (%)		≥ 10.5	13.58	13.37	11.76
Tier-one capital adequacy ratio (%)		≥ 8.5	11.22	10.45	9.97
Core tier-one capital adequacy ratio (%)		≥ 7.5	9.92	9.73	9.21
Asset liquidity ratio (%)	RMB	≥ 25	52.18	56.05	58.87
	Total in local and foreign currencies	≥ 25	51.61	55.43	57.16
Proportion of loans to the single biggest customer to net capital (%)		≤ 10	1.48	1.75	2.13
Proportion of loans to the top ten customers to net capital (%)		≤ 50	8.60	10.18	12.43
Allowance to NPLs		≥ 130	133.85	156.38	133.39
Allowance to total loans ratio		≥ 1.8	2.70	2.94	2.81

Notes:

(1) In the table, the capital adequacy ratio, liquidity ratio, proportion of loans to the single biggest customer, proportion of loans to the top ten customers, allowance to NPLs, and allowance to total loans ratio are calculated based on data submitted to the regulator, under the data standard of the parent company.

(2) As per the provisions set out in the Notice on Adjusting Regulatory Requirements for Allowance for Loan Losses at Commercial Banks (Y.J.F. [2018] No.7) issued by CBIRC, all joint-stock banks shall adopt the regulatory standard of putting their allowance to NPLs and allowance to total loans ratio under differentiated and dynamic adjustment.

6.7 Business Overview of the Bank

6.7.1 Principal business

Approved by PBC and CBIRC, the main business of the Bank covers: absorption of public deposits, grant of short-term, middle-term and long-term loans, settlement, bill discounting, issuance of financial bonds, agency issuance, agency cashing and underwriting of governmental bonds, buy and sale of governmental bonds, inter-bank borrowing, L/C and L/G services, agency receipt and payment and agency insurance business, safe box business, foreign exchange proceeds deposits, foreign exchange loans, foreign exchange remittance, foreign currency exchange, international clearing, inter-bank foreign exchange borrowing, acceptance and discounting of foreign exchange instruments, foreign exchange loans, foreign exchange guarantee, settlement and surrendering of exchange, buy and sale of foreign negotiable securities other than stocks per se or as agent, self-operation of foreign exchange trading, foreign exchange trading on an agency basis, credit inquiry, consultation and attestation, offshore banking, portfolio investment and fund custody, national social security fund custody, and other business approved by PBC and CBIRC.

6.7.2 Development of the banking industry

The Chinese banking industry served the real economy with quality and efficiency better assured in 2019. As at the end of December 2019, the financial institutions across the Chinese banking industry posted the outstanding assets of RMB282.51 trillion, representing a year-on-year-increase of 8.07% and the total liabilities of RMB258.24 trillion, up 7.64% year on year. In the year, RMB loans increased by RMB17 trillion, which was RMB1.1 trillion more than the increment in the previous year. The loans granted to private enterprises grew by RMB4.25 trillion, and the outstanding small and micro enterprise loans in the category of inclusive finance surged by over 25% year on year to RMB11.6 trillion. In the year, the banking industry stepped up efforts to prevent and control various risks. Specifically, commercial banks started to classify all loans overdue for over 90 days as NPAs for proper management. Considerable progress was achieved in the tough struggle to guard against and mitigate financial risks: shadow banking risks and cross-financial risks continued to be restrained, and peer-to-peer (P2P) lending risk declined sharply. To push forward the reform of the banking industry, regulators unveiled 19 opening-up measures.

6.7.3 Performance of main business lines

6.7.3.1 Corporate banking

During the reporting period, adhering to the customer-oriented approach, the Bank deepened the customer operation, worked hard to serve the real economy, and provided all-round financial services for customers including but not limited to commercial credit, transaction banking, investment banking, electronic banking, cross-border business, and offshore business. Meanwhile, it vigorously operated corporate customers as a digital ecology, strengthened financial innovation, and saw its key business indicators picking up. During the reporting period, its corporate banking business segment reaped a net income in RMB64,550 million. Besides, the Bank continued to push forward the multi-level, classified customer operation, and consolidated the customer base. As at the end of the reporting period, the number of corporate customers reached 1,549,800, an increase of 29,800 over the end of 2018. With breakthroughs achieved over key products, it managed to further pave the ground for "starting a new undertaking all over again".

Strategic customer operation at the Head Office

During the reporting period, the Bank enhanced the systems designed to operate customers by different layers and categories, achieved some preliminary results in overhauling how strategic customers of the Head Office would be operated, put in place the mechanisms fit for customers under direct administration of the Head Office, and allocated all resources available in a centralized way. Under the business model where the Head Office played a principal role with branches in cooperation, it managed to realize the full coverage of diversified business needs, upstream and downstream industries and ecosystems, and branches and subsidiaries at home and abroad. As at the end of the reporting period, the corporate deposits denominated in local and foreign currencies from the strategic customers of the Head Office amounted to RMB549,569 million, up RMB185,119 million or 50.79% over the end of last year; and the corporate loans denominated in local and foreign currencies stood at RMB230,158 million, up RMB53,883 million or 30.57% over the end of last year.

Corporate deposits and loans

The Bank further optimized the credit customer structure through vigorously supporting upgraded industries, traditional competitive industries, strategic emerging industries, modern services and green industries but strictly curbing financing to industries with high pollution, high energy consumption and overcapacity. As at the end of the reporting period, the total corporate deposits of the Bank posted RMB2,781,026 million, representing an increase of RMB219,435 million or 8.57%

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over the end of previous year; and its corporate loans (including discounted bills) hit RMB2,287,994 million, representing an increase of RMB232,086 million or 11.29% over the end of previous year.

Investment banking

During the reporting period, the Bank underwrote 1,083 bonds worth RMB539,073 million as a lead underwriter, of which there were 550 debt financing instruments worth RMB397,806 million, 44 financial debts worth RMB33,687 million, 18 creditor's rights financing programs worth RMB6,800 million, 93 overseas bonds worth RMB22,191 million, and 387 local government bonds worth RMB78,589 million. Additionally, the balance of debt financing instruments in duration amounted to RMB974,605 million. The M&A finance business continued to develop rapidly with a balance of domestic and overseas M&A loans growing by 12.09% year on year to RMB90,561 million. In gathering and integrating the financing needs of various customers across the entire market, the Bank saw its portfolio financing (matchmaking) business crossing the RMB200 billion mark. With respect to the pension business, the Bank won the bid for the custodianship of 30 occupational annuity plans owned by 29 units above the provincial level. As at the end of the reporting period, the pension funds under trusteeship hit RMB280,300 million, of which the occupational annuities under trusteeship amounted to RMB45,700 million.

Transaction banking

During the reporting period, the volume of e-channel transactions increased by 6.67% year on year to RMB52.11 trillion. The number of active payment and settlement customers crossed the 100,000 mark, representing a net increase of 41,700 over the same period of last year. As at the end of the reporting period, the outstanding small and micro enterprise loans in the category of inclusive finance increased by 23.22%. The number of firms granted with such loans rose by 30,700 compared with the beginning of 2019. Besides, the Bank fulfilled the objective of cutting interest rate. In 2019, the interest rate of total loans extended by the standard of "two increases" stood at 5.51%, down 0.62 percentage point over 2018, a level that could meet the pertinent regulatory requirement. Furthermore, the asset quality remained stable: the non-performing ratio of loans under the category of inclusive finance stood at 2.36%. The number of core enterprises in the supply chain went up by 191 to 365; the number of upstream and downstream customers in the supply chain surged by 4,244 to 9,078; and the number of upstream and downstream customers in automobile finance hit 1,510 after a rise of 646.

International business vehicles

In the reporting period, the Bank gripped market opportunities to develop international business vehicles (including offshore, free trade zone and overseas branches), with an emphasis placed on developing core customers and accelerating optimization of the business structure. As a result, all businesses were boosted and had good development. As at the end of the reporting period, total assets of all the international business vehicles amounted to RMB317,554 million, representing a year-on-year increase of 9.03%. In the reporting period, these vehicles realized business revenues of RMB3,709 million cumulatively.

6.7.3.2 Retail banking

During the reporting period, the Bank upheld the customer-centric approach to seek for digital operation and enhance the customer experience. Narrowing focus on key and weak business fields, it dug deep into the market potential, and kept arming customer service, product innovation, risk control system, management mechanism, and channel development with digital means. Consequently, it realized the digitalized penetrative management, and achieved remarkable results in digital empowerment. The retail banking business segment managed to double its liabilities and revenues within three years, and its net operating income hit RMB73.4 billion, accounting for 43% of the Bank's total. Hence, the business line became the largest source of revenue for two straight years.

Personal customers and deposits

During the reporting period, the Bank innovated in its customer operation and service modes, and improved its customer services, in a bid to increase customer satisfaction and sense of gain. At the same time, digitalized tools were employed to help the Bank boost its customer operation capabilities, enrich the connotation of non-financial services constantly, and render customers with whichever service they need without any delay. There were 86,493,200 personal customers (include credit card holders) across the Bank; the assets of retail customers under management kept growing steadily to a balance of RMB2,030,392 million; the personal deposits totaled RMB817,400 million, up RMB185,861 million or 29.43% over the beginning of 2019.

Retail credit business

During the reporting period, the Bank, with a view to improving people's livelihood, focused on retail credit, continuously innovated in housing mortgage, operation loans, consumer loans, and other aspects, and enhanced its capability of rendering inclusive finance services. As at the end of the reporting period, the Bank's total personal loans amounted to

RMB1,661,209 million, an increase of 12.95% compared with that at the end of 2018. Of these, the balance of housing mortgages totaled RMB724,536 million. Practicing the service tenet of "putting customers at the center", the Bank continued to develop and promote more innovative inclusive finance products. It actively struck partnerships with local administration centers for housing provident funds. A total of 102 housing provident fund point loans went online, which covered 28 tier-one branches in 24 Chinese provinces, to cater to customers' needs for small-amount consumption credit. At the same time, the Bank cemented the banking-taxation cooperation, with its target customers covering tens of millions of enterprises which needed to issue invoices. Moreover, it creatively launched the online financing service targeted at small store owners, a move further expanding the scope and capacity of services in inclusive finance.

Wealth management business

During the reporting period, the Bank actively adapted itself to the changed market environment, consolidated the foundation for business development, and increased the penetration to branches and sub-branches. It focused attention on teaming up with leading companies of different industries, stressed the importance of group-wide coordination, intensified innovation in product development, sale mode, and sale distribution, and made its products more competitive. Breakthroughs were secured successively in many single funds such as Foresight Fund, Technological Innovation Fund, and Yangtze River Delta ETF (feeder fund). At the same time, the Bank reinforced market analysis and prediction, adjusted key product strategies in a timely manner, promoted the agency sale of funds, insurances, trusts and other products, and furnished customers with a full package of professional wealth management services. The per capital sale volume of wealth managers soared consequently. During the reporting period, the wealth management business line recorded an income of RMB5,143 million, up 32.25% year on year.

Debit card and payment settlement

During the reporting period, the Bank worked with over 200 partners to issue co-branded cards and themed cards, by launching the card number and face customization service, and optimizing the online card claiming and mailing service. Meanwhile, it became one of the first banks to promote the payment with cellphone number, payment with facial recognition, OPPO PAY, and VIVO PAY. The move helped to further diversify the card-free payment experience. In the reporting period, the Bank cumulatively issued 9,094,000 new debit cards, a year-on-year increase of 6.29%, bringing the total number of debit cards in circulation to 74,673,800, a year-on-year increase of 11.84%. With respect to merchant collection, the Bank got united as one to win the leading merchants of such sectors as educational training, healthcare, automobile and real estate and promote a host of digitalized tools including Payment Solution, micro-programs, intelligent patrol. As a result, it managed to enhance the size and quality of active merchant customers as well as the efficiency of services provided for them. Moreover, the Bank strengthened the merchant access and accepted terminal compliance management, thus promoting the business line towards sound, quality development.

Credit card

During the reporting period, the Bank saw all indicators of credit card business growing steadily and keeping various risks under control. As at the end of the reporting period, the Bank had 43,990.8 thousand credit cards in circulation, up 17.30% year on year; the number of accounts in circulation went up 9.16% year on year to 32,019.4 thousand; and the balance of credit card overdrafts decreased by 2.75% year on year to RMB421,397 million. During the reporting period, the Bank's credit card transactions amounted to RMB2,174,319 million, a year-on-year increase of 20.36%; and the business generated a total income of RMB53,088 million, a year-on-year drop of 3.96%.

Private banking

During the reporting period, the Bank, when developing private banking business, tapped deep into customer operation, relied on its group-wide advantages, sought for joint development of different regions, optimized the hierarchical management mode fit for private banking customers, and forged a product lineup that covered all brands and categories. At the same time, it strove to cast a brand offering a complete set of attentive services with respect to "asset management, investment bank, family wealth inheritance, and financial consultation". Furthermore, the Bank cemented the professional team of private banking personnel, did better in professional asset allocation and delivery of comprehensive services, optimized the exclusive service experience on all fronts, and moved faster to increase the comprehensive contribution of private banking customers. As at the end of the reporting period, the Bank had over 40,000 private banking customers, and managed their financial assets worth over RMB500 billion.

6.7.3.3 Financial market and financial institution

In the reporting period, the Bank, in line with the regulatory requirements, enhanced the customer operation, stepped up product and business innovation, expanded the business scale, optimized the business structure, and grasped market opportunities to lift their business standards in financial market business, intensify investment & trading ability, and enhance its operating cost-effectiveness and risk control. As at the end of the reporting period, the scale of fund assets operated by the Bank reached RMB1.91 trillion. In the reporting period, the Bank's financial market business realized a net income of RMB32,182 million, a year-on-year increase of 11.42%.

Investment transaction

Interbank business: The Bank continued to optimize the asset structure and increased the supply of standardized assets. Bond trading: The Bank actively adjusted the asset allocation strategy, tried to grip every possible market opportunities, and shored up the spread income and portfolio income. Bill business: The Bank kept up with the market trends with a view to enhancing the integrated business gains. Agency business: The Bank worked harder to build the SPD Risk Hedging brand, released the Blue Book on Market Outlook of SPD Risk Hedging in 2019, offered market players with professional judgments and strategic recommendations, and upgraded the agency business and service. In the meantime, the Bank tried to seize the opportunities arising from such market segments as interest rate, exchange rate, precious metals, and commodities, put in place an array of innovative businesses, and debuted a host of quite competitive products (including foreign exchange structured derivatives, Foreign Exchange E Alliance, Commodity E Alliance, SPD Merchant Banking). As a result, it managed to maintain its leading position among market players and become more competitive overall.

Financial institution business

In the reporting period, the Bank, centered on the business tenet of "putting customers at the center", kept pushing forward customer operation and optimizing various products and services. Besides, it continued to cement the network of fund, credit and agency services, spared no effort to frame a new network of sale points and digital operations, and raised customer service standards and business efficiency as usually. As at the end of the reporting period, the Bank had entered partnerships with 2,400 target customers, which covered all of the 16 divided sectors. Of which, there were 494 credit customers of various Chinese-funded financial institutions, a decrease of 16.55% over the end of last year. The daily average liabilities of financial institutions amounted to RMB1,581.5 billion, with current liabilities accounting for 19.99%. The number of interbank agency customers was further expanded, of which the number of interbank agency customers in the Cross-border Interbank Payment System reached 216. The online interbank platform could better serve and support customers. The total customers of such platform numbered 1,822, up 103.32% from last year, and the number of active customers soared by 124% over last year. The Bank saw the satisfaction rate of customers from banking, securities, funds, futures, insurance, trust and other sectors as high as 97%. The Bund 12 Interbank Salon gained the increasing influence as an interbank cooperation brand. In 2019, the Bank finished registering and releasing the salon as a trademark, and established a three-in-one interbank exchange framework that consisted of the above salon, SPDB Financial Markets Academy, and the e Peers platform.

Asset management

During the reporting period, the Bank kept forging its new product lineup vigorously where net worth products accounted for more than 50%, and continued scaling up its wealth management business at a steady pace. At the same time, it took the initiative to streamline the asset structure, enhance the proportion of standardized assets, and leverage on the advantages of non-standardized assets. Besides, it continued to dispose the existing business risks and control the new business risks with intensified efforts, and rectified the existing problematic products at a steady pace. In mapping out the future plan, it advanced the application and preparation of subsidiaries in an orderly way, and achieved impressive progress in transforming business mode and management mode. During the reporting period, the fee-based business generated an income of RMB5,180 million.

Asset custody

During the reporting period, the Bank closely followed up with trending market topics, actively rose to various challenges, and sped up the structural optimization. Pursuing a technology-led approach, it improved the internal control system, guaranteed operational safety, and propelled the asset custody business toward sustained, robust development. As at the end of the reporting period, the asset custody business had a scale of RMB13.04 trillion, an increase of 9.30% year on year. During the reporting period, the business generated a custody fee income of RMB2,825 million, a year-on-year decrease of 10.80%.

6.7.3.4 FinTech

Digital employee: In 2019, the Bank unveiled the first "digital employee" in the Chinese banking industry. Designed with the digitalized financial service interface with people-oriented services at the core (or "humanized user interface"), the digital employee could help users to better experience, understand and benefit from financial services. With the filmquality portrait modeling technologies, it was able to present the 3D digital portrait in a more vivid way. The adoption of learning technologies made the digital employee possible to talk with humans naturally, with the help of facial and body expressions. Based on cloud services, it offered such functions as rapid replication and elastic expansion, and supported the interaction with tablets, cellphones, PC, and other devices. Besides, such technologies as security network, multi-factor authentication, and continuous biological authentication were employed to make sure the digital employee could interact with users in a secure, reliable fashion, and offer them with more considerate, intelligent services.

Smart micro-outlet: The Bank launched the independently designed smart micro-outlet "SPDB Cabin Outlet", which integrated a number of technologies such as intelligent language interaction, biological recognition, financial media identification, bill detection, holographic imaging, and remote access into a space in a cabin size. This design got rid of the limitations of traditional counters, and enabled banking outlets to go wherever customers were literally. After its debut at China International Financial Exhibition in November, the smart micro-outlet made a huge hit.

Security shield: The Bank established a fully-covered, intelligent information security system, got the security management system passing the ISO/IEC 27001 certification, and increased the R&D of new security technologies with a view to setting up a cyber-information security system. At the same time, it constructed a security operation center. Relying on the cyber situation awareness platform, it basically possessed the ability to sense the external threatening situation and deal with attacks properly.

Input into innovative research and applied technology

In RMB millions

	2019
IT input	4,120.37
Incl.: System development input	1,458.06
Input for purchasing electronic equipment	355.18
Infrastructure input	320.31
IT consulting input	40.22

As at 31 December 2019, the number of persons engaged in technological development at the Bank:

Person

	31 December 2019
Personnel of the Information Technology Department of the Head Office	3,898

6.7.3.5 Channel and service

Network building

During the reporting period, the Bank newly established 13 intra-city sub-branches. By extending the coverage of FinTech, it ceased operating 100 business institutions. As at the end of the reporting period, it had established 41 tier-one branches and 1,606 banking outlets in 31 provinces, municipalities directly under the central government, and autonomous regions, Hong Kong Special Administration Region, Singapore and London.

Electronic banking

During the reporting period, the Bank worked towards the strategic goal of "growing into a globally competitive, top-notch joint-stock commercial bank". Specifically, it advocated getting more out of AI innovation, put experience in the first place, and reshaped business processes, so as to enhance the user experience and service efficiency, both online and offline. On the online front, the Bank introduced the intelligent mobile app APP10.0, put in place an open user system, attracted more new customers, and chiefly reshaped the APP-based wealth management experience by launching the smart account book service, transforming wealth management products toward digital operation, and developing an information channel (phase 1). In the offline aspect, the Bank strove to reconstruct the outlet business processes, enabled outlets to review and approve business applications through remote video and to issue cards with PAD devices outside business premise, explored to establish 5G+ smart outlets and inter-sector outlets, and armed outlets with intelligent service experience. As to the remote end, the Bank cast the intelligent customer service, promoted Smart Xiaopu toward the omni-channel application, recruited dedicated marketing teams, developed the smart call-out service capabilities, and further enhanced the remote sales capacity. At the same time, it studied to bring such advanced financial technologies as graph data, biological recognition, and blockchain into integrated innovation and application, continued to improve intelligent risk control capabilities, and guaranteed the high-quality and healthy development of retail business.

As at the end of the reporting period, the Bank had 34,350.2 thousand personal online banking customers, who conducted 451 million transactions in a total amount of RMB6.35 trillion in the reporting period; and it had 42,595.7 thousand personal mobile banking customers, up 22.89% over the end of last year, who conducted 1,516 million transactions in a total amount of RMB9.02 trillion in the reporting period. The number of personal customers using card-bound internet payment service reached 38,289.2 thousand, up 26.06% year on year, and 2,961 million transactions in a total amount of RMB1.82 trillion were conducted during the reporting period. The Bank had 5,327 self-service cash devices in service and 3,212 self-service outlets with the e-channel trading substitution rate up to 98.98%.

Operation supports

During the reporting period, the Bank, aiming to enhance "efficiency, excellence, value and security", wrapped up the construction of the "smart operation" mode, and proposed a plan to build the "smart operation plus" system in the three years to come. First, the Bank took a lead in supporting the development of front-office business, and further enhanced its capability of comprehensive, differentiated operation through refining the front office interaction mechanism, giving full play to its advantages in professional operation, supporting cross-region collaborative marketing efforts, and forming such composite support modes as direct operation according to the Head Office's strategy. Second, it steadily pressed forward building "light-asset" outlets, advanced the reform of operation factors (paper-free, seal-free, and electronic archive) on all fronts, and put in place the directly connected and online operation modes. The 6S management was upgraded, operation marketing efforts were increased, and a new model was set up for operation and service rendering at outlets. Third, the Bank continued to forge the end-to-end business processes, prioritized on reshaping corporate account opening, salary payroll, foreign exchange and other business forms into end-to-end, online processes, and injected the innovative DNA to all business processes from the customer acquisition level, the middle-office operation level, and the back-office control level. Fourth, it refined the intensive operation and management model, got rid of limitations brought by institutions and levels, and formed a business support system where different branches could make joint action, the Head Office and branches could coordinate their efforts as a whole, and the middle and back offices could be integrated as one. As a result, there emerged a "logically concentrated, moderately physically dispersed" operation pattern. Besides, exchange policy review, remote authorization and other business forms were conducted on a cross-regional agency basis, which therefore highlighted the flexibility and elasticity of business supports. Meanwhile, operation support personnel continued to undertake the routine work of the front-office departments, a move extending the depth and breadth of operation supports. Fifth, "stable internal control" measures were advanced to ensure safe transformation; and two shifts were promoted in the bank-wide internal control management, that is, shifting the focus from "previous experience and ex post supervision" to "digital analysis and preventive supervision", and shifting the focus from "ex post" to "ex ante and in-process" phases; and reconstructed the internal control system, increased the application of data in various inspections, identified problems accurately, and intensified the risk forewarning mechanism, thereby holding onto the bottom line for risk management.

6.7.3.6 Human resources management

During the reporting period, the Bank enhanced executive forces, focused on the leading role of Party building and the overall goals set by the human resources management strategy, and provided the organizational and personnel supports for the operation and management work across the board. First, centered on the leading role of Party building, it organized the educational campaigns and a variety of Party building activities on the theme of "staying true to our founding mission". Second, combined with the internal and external environment, the three-year human resources action scheme was produced properly to strengthen forward-looking planning. Third, the post, title, and salary reform was pressed forward to refine related systems. Fourth, efforts were made to continue optimizing the organizational structure of the Bank and meet the requirements raised by the transformation drive. Fifth, a good job was done in terms of control over workforce size and structure as well as optimization of outlet distribution and increase in production capacity. Sixth, emphasis was put on official management, talent echelon building, digital support, education and training, so as to build a team of high-quality personnel, and improve the level of digitalized and intensive operation of human resources. Seventh, steps were taken to improve a host of employee incentive and constraint mechanisms including market-based remuneration management, all-employee performance-based management, and dynamic personnel promotion management, and to strengthen process management and supervision improvement.

6.7.4 Analysis of major holding and participating companies

6.7.4.1 External equity investments

In RMB millions

Investment balance of the Group at the end of the reporting period	11,338
Change of investment balance at the end of the reporting period compared with the previous year	4,204
Change of investment balance at the end of the reporting period (%)	58.93

In RMB millions

	End of the reporting period	End of last year
Investment balance in joint ventures	1,841	1,757
Investment balance in associates	208	211
Other equity investments	9,289	5,166
Total	11,338	7,134

Notes: (1) Joint ventures include AXA SPDB and SPD Silicon Valley Bank;

(2) Associates include China Trust Registration Corporation Limited. Shanghai Trust, a subsidiary of the Bank, sent a director to China Trust Registration Corporation Limited.

(3) Other equity investments mainly include Shenlian International Investment, China UnionPay Co., Ltd., and National Financing Guarantee Fund Co., Ltd.

6.7.4.2 Interests in unlisted financial enterprises

In RMB millions

Investee	Investment balance	Stake in the company (%)	Book value at the end of the period	Profit/loss during the reporting period	Other changes in owner's equity during the reporting period	Accounting item
Shenlian International Investment Co., Ltd.	286	16.50	647	31	-2	Financial investments: Other equity instrument investments
China UnionPay Co., Ltd.	104	3.07	949	13	252	Financial investments: Other equity instrument investments
National Financing Guarantee Fund Co., Ltd.	1,000	3.03	1,000	–	–	Financial investments: Other equity instrument investments
China Trust Protection Fund Co., Ltd.	500	4.35	500	25	–	Financial investments: Trading financial assets
Shanghai Life Insurance Co., Ltd.	80	1.33	80	–	–	Financial investments: Trading financial assets
AXA SPDB Investment Managers Co., Ltd.	974	51.00	1,336	166	–	Long-term equity investment
SPD Silicon Valley Bank	500	50.00	505	-5	–	Long-term equity investment
China Trust Registration Corporation Limited	100	3.33	102	–	–	Long-term equity investment
Total	3,544		5,119	230	250	

Note: Profit/loss during the reporting period refers to the influence of the investment on profit of the Group during the reporting period.

Discussion and Analysis of Business Operation

6.7.4.3 Analysis of major investee companies of the Group

(1) Shanghai Trust

Shanghai International Trust Co., Ltd., established in 1981, is one of the earliest trust companies in China. In March 2016, the Bank completed the purchase of Shanghai Trust's equity by issuing ordinary shares to Shanghai Trust's original shareholder, Shanghai International Group Co., Ltd. and became the controlling shareholder of Shanghai Trust. Shanghai Trust has a registered capital of RMB5 billion, in which the Bank holds 97.33% shares. By actively advancing the business transformation, making every effort to cultivate the active management capability and constantly innovating with business and management modes, Shanghai Trust built up its brand image on the market and witnessed a leading comprehensive strength among trust companies in China.

As at the end of the reporting period, assets under the consolidated management of Shanghai Trust amounted to RMB951,467 million. During the reporting period, Shanghai Trust achieved an operating income of consolidated statement in RMB4,587 million and a net profit of RMB2,000 million.

(2) SPDB Financial Leasing

SPDB Financial Leasing Co., Ltd., established in May 2012, is China's first financial leasing Company jointly incorporated by commercial bank, advanced manufacturing enterprise and comprehensive financial holding group. SPDB Financial leasing has a registered capital of RMB5 billion, in which the Bank holds 61.02% shares. SPDB Financial Leasing hinged around professionalized, internationalized and characterized guiding principles to enhance the professional level of leasing business and strive to build green finance and a characteristic business pattern in the entire industry chain of aviation.
As at the end of the reporting period, the total assets of SPDB Financial Leasing reached RMB74,014 million. During the reporting period, SPDB Financial Leasing achieved a net operating income of RMB2,553 million and a net profit of RMB602 million.

(3) SPDB International

SPDB International Holdings Limited ("SPDB International") was opened officially in Hong Kong in March 2015. SPDB International has licenses of Type 1 "dealing in securities", Type 4 "advising on securities", Type 6 "advising on corporate finance" and Type 9 "asset management" in regulated activities from Hong Kong Securities and Futures Commission and is eligible to act as a listing sponsor in Hong Kong. SPDB International is dedicated to forging itself into a full-licensed investment banking business platform. Relying on the domestic market and marketing channels, it serves customers' cross-border investment and financing demands and provides them with a full package of whole-process, integrated financial services that cover shares, bonds and loans at home and abroad, as exemplified by listing sponsor, securities sales and trading, asset management, and investment consultation, thus achieving the linkage and complementation of investment banking business and commercial banking business.

As at the end of the reporting period, the total assets of SPDB International reached HKD10,650 million. During the reporting period, it achieved an operating income of HKD1,644 million and a net profit of HKD529 million.

(4) AXA SPDB Investment Managers

AXA SPDB Investment Managers Co., Ltd. is a fund management joint venture established in August 2007. AXA SPDB Investment Managers has a registered capital of RMB1,910 million, in which the Bank holds 51% shares. During the reporting period, assets of AXA SPDB Investment Manager scaled up, and the investment performance maintained stable. As at the end of the reporting period, assets under the management of AXA SPDB Investment Managers reached RMB473,800 million. During the reporting period, AXA SPDB Investment Managers achieved an operating income of RMB870 million and a net profit of RMB325 million.

(5) SPD Silicon Valley Bank

SPD Silicon Valley Bank Co., Ltd., established in August 2012, is the first bank owning an independent legal person status and committing itself to serving technological innovation enterprises in China and also the first Sino-US bank. SPD Silicon Valley Bank has a registered capital of RMB1 billion, in which the Bank holds 50% shares. SPD Silicon Valley Bank devotes itself to serving China's technological innovation enterprises and builds a "technological innovation ecosystem" in China. It strives to become the premier bank of China's technological innovation enterprises and their investors.

As at the end of the reporting period, the total assets of SPD Silicon Valley Bank reached RMB17,018 million. Its operating income was RMB289 million and net profit was RMB-16.34 million during the reporting period.

(6) SPD rural banks

SPD rural banks are banking financial institutions with an independent legal person status incorporated by the Bank by actively responding to the national call for supporting agriculture, farmers and rural areas and small and micro enterprises. The Bank incorporated its first SPD rural bank in Mianzhu earthquake stricken area in Sichuan in 2008. As at the end of the reporting period, a total of 28 SPD rural banks were established in counties across 18 provinces and cities of the nation, two thirds of which are located in central and west areas of China. SPD rural banks are committed to serving agriculture, rural areas and farmers and supporting small and micro enterprises in the county areas, with a focus on farmer households and small and micro enterprises; in terms of market positioning, rural banks insist on targeting county economy, making positive efforts and contributions in alleviating the borrowing difficulties of farmers and small and micro enterprises and expanding the reach of financial services to the countryside. In 2019, seven SPD rural banks were named "China's Top 100 Rural Banks".

As at the end of the reporting period, 28 SPD rural banks possessed total assets of RMB38,300 million. Their deposit balance was RMB31,600 million and loan balance was RMB23,400 million. They had 1,040 thousand settlement customers and 50 thousand loan customers. With the agro-related loans and small and micro enterprise loans accounting for over 88% of total loans, SPD rural banks faithfully practiced the inclusive finance policy. During the reporting period, 28 SPD rural banks achieved an operating income of RMB1,070 million and a net profit of RMB130 million.

6.8 Other Information Disclosed Pursuant to Regulatory Requirements

6.8.1 Interest receivable

As at the end of the reporting period, the details of interest receivables at the Group can be seen in the note disclosures of various financial assets and liabilities in financial statements.

6.8.2 Repossessed assets and provision for impairment

In RMB millions

The Group	End of the reporting period		End of last year	
	Amount	Balance of allowance for impairment	Amount	Balance of allowance for impairment
Real estate	772	171	774	171
Others	1	-	2	-
Total	773	171	776	171

6.8.3 Financial assets and other assets measured at fair value

The internal control system in connection with measurement of fair value: For financial instruments traded in active markets, the determination of fair value is based on quoted market prices. For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques or third-party quotation.

The valuation techniques include the techniques referring to prices used in market transactions recently conducted by all parties being familiar with the situation and are willing to make the transaction voluntarily, the current fair value of other financial instruments that are essentially the same, and the discounted cash flow method. The valuation techniques should make use of market parameters as much as possible. However, when there are no market parameters, valuation should be made for credit spread, market volatility and correlation of the counterparty. Variation of these relevant assumptions will have impact on fair value of these financial instruments.

Discussion and Analysis of Business Operation

In RMB millions

Items in connection with measurement of fair value	31 December 2018	Profit/loss on changes in fair value during the current period	Accumulated changes of fair value recorded into equity	Impairment accrued during the current period	31 December 2019
Financial assets					
1. Precious metals	10,475	3,012	-	-	30,870
2. Trading financial assets	395,668	1,843	-	-	505,318
3. Derivative financial assets	43,274	-4,536	-	-	38,719
4. Loans measured at fair value through profit or loss	482	-54	-	-	3,180
5. Loans measured at fair value through other comprehensive income	249,153	-	-532	229	412,935
6. Other creditor's rights investments	378,860	296	7,211	573	497,508
7. Other equity instrument investments	4,038	-	905	-	5,794
Total financial assets	1,081,950	542	7,584	802	1,494,324
Financial liabilities					
1. Trading financial liabilities	34,912	110	-	-	23,295
2. Derivative financial liabilities	42,793	-1,290	-	-	41,503
Total financial liabilities	77,705	-1,180	-	-	64,798

Note: This table has no consequent articulation.

6.8.4 Entrusted asset management, asset securitization and various agency and custody businesses as well as their profit or loss within the reporting period

6.8.4.1 Review on wealth management business in the reporting period

The Bank focused on enhancing meticulous management standards, kept improving the structure of products, and vigorously promoted the research, development and innovation of wealth management products. Such measures as enriching cash management products, transforming net-value products at a faster pace, launching products exclusive to well-divided customer groups, and forging consumer wealth management brands were adopted to promote the wealth management business towards stable, sound development. During the reporting period, the wealth management business reaped an income of RMB5,140 million, up 32.13% year on year.

6.8.4.2 Asset securitization and its profit or loss in the reporting period

During the reporting period, centered on the business objectives of "reducing NPAs, enhancing asset quality, and increasing liquidity", the Bank actively facilitated credit asset securitization projects to further intensify active management of assets and liabilities by means of securitization. Throughout the year, it issued seven credit asset securitization projects, and underwrote 33 asset securitization projects totaling RMB19,163 million as the lead underwriter.

6.8.4.3 Custody business and its profit or loss in the reporting period

During the reporting period, the Bank carried out customer funds custody, trust custody, security investment funds custody, special QDII assets custody, insurance funds custody, custody for special fund accounts, custody for assets of securities companies, custody for assets of futures companies, private fund custody, direct equity custody, custody for banks' wealth management products, enterprise annuity custody, and benefit scheme custody. As at the end of the reporting period, the asset custody business had a scale of RMB13.04 trillion, an increase of 9.35% year on year. During the reporting period, the business generated a total of RMB2,825 million of custody fee income, down 10.58% year on year.

6.8.4.4 Funds and securities (agency) business and its profit or loss in the reporting period

In terms of agency funds and securities business, the Bank selected key funds as partners, and constructed a reserve of selective funds named "Kao Pu Choice". It focused on marketing open-ended public fund products, G-smart Investment, Pu Fa Bao, and special account of standard asset funds. A non-interest income of RMB441 million was achieved from fund agency business with retail customers in the reporting period.

As for the agency insurance business, the Bank actively transformed its installment insurance business. During the reporting period, it generated a paid-in premium income of RMB22,598 million and a non-interest income of RMB925 million.

As to the precious metal business, the Bank rolled out the gold trading training camp, and optimized the Jin Pin Hui trading community platform on the mobile banking app. During the reporting period, it generated a non-interest income of RMB223 million.

6.8.5 Off-balance-sheet items that might exert material impact on financial position and business performance of the Bank

In RMB millions

The Group	End of the reporting period	End of last year
Credit commitments	1,182,694	1,033,663
Incl.: Banker's acceptance bill	473,598	419,815
Letters of credit issued	162,473	161,120
Letters of guarantee issued	88,940	101,003
Credit card and loan commitments	457,683	351,725
Operating lease commitments	9,243	10,141
Capital commitments	3,932	3,423

6.9 Discussion and Analysis on Future Development

6.9.1 Management measures in 2020

The Bank will earnestly implement the decisions made by the CPC Central Committee and the State Council, the core messages of the Central Economic Work Conference, and regulatory requirements; uphold the guiding principle of "pursuing progress while ensuring stability and increasing stability in progress"; actively serve the needs of real economy; and resolutely forestall financial risks. It will press forward the implementation of the Three-year Action Plan and make sure the complete success of the Five-year Period Plan. Spearheaded by the spirit of "always getting ready for a brand new start", it will embark on a new path to high-quality development on all fronts.

——Enhancing user experience and creating a new customer operation mode at a faster pace. A new customer operation mode which has distinct characteristics and is guided with a clear-cut principle for the three major business lines, that is, corporate banking, retail banking, and financial institution. Efforts will be made to increase collaboration, joint operation, and integration, strengthen the use of FinTech, and deliver the ultimate customer experience.

——Adopting multiple measures and prioritizing on stabilizing the growth of operating income. The Bank will speed up the supply of acceptable assets in key regions, industries and business fields, vigorously expand the low-cost liabilities with a view to promoting the liability business towards sustainable development, extend the multi-point presence and expand the sources of income to make the fee-based business bigger, stronger, and firmer, and optimize the resource allocation strategy in full support of operating income growth.

——Controlling risk and guaranteeing the sustained, robust development across the board. The Bank will further pinpoint the position of risk management functions, enabling it to better bolster up business development. Centered on key fields, it will step up efforts to dispose of/mitigate risks and recover NPLs. Besides, it will exercise strict corporate governance, and strengthen internal control compliance and auditing supervision.

Discussion and Analysis of Business Operation

——Intensifying management and consolidating the foundation for high-quality development. The Bank will advocate scientific management, and take good care of all the fundamental work; optimize a variety of institutions and mechanisms, and further unleash the business vitality across the board; and move faster to push forward the transformation toward digital operation, and forge the engines of growth all over again.

6.9.2 Potential risks

Globally, the political and economic uncertainty continues and the economic recovery faces great pressure. Domestically, the Chinese economy is in a stage of transformation, with institutional, structural, and cyclical issues becoming prominent. The economic downward pressure gets further intensified, coupled with the impact of the COVID-19 pandemic. Under this circumstance, some industries and regions suffer from a hug blow. Related enterprises have to deal with severe challenges. The operational risks facing commercial banks cannot be ignored.

In terms of supervision environment, commercial banks are imposed with more prudential regulatory requirements in areas such as credit expansion in the broader sense, comprehensive risk management and real estate finance, so they must accelerate the transformation of operation mode, and strive to realize the high-quality development. As for competition environment, with the interest rate liberalization and financial disintermediation deepening, commercial banks face more challenges in terms of customer operation, product pricing, asset acquiring and risk management; the continuous surge of FinTech enterprises has also brought impact on traditional banking businesses.

6.10 Risk Management

6.10.1 Risks facing the Bank

As a special enterprise dealing in currencies and credit, the Bank faces the following major risks in operation: credit risk, liquidity risk, market risk (including interest rate risk and exchange rate risk), operational risk (including settlement risk, technical risk, and system risk) as well as compliance risk, legal risk, IT risk, strategic risk, reputational risk, country risk, etc.

6.10.2 Statement on credit risk conditions

6.10.2.1 Policy making

First, the Bank formulated the new three-year risk appetite for 2019-2021 on the Head Office level, and guided all subsidiaries and overseas branches to compile their respective risk appetite. Thanks to these efforts, policies were put in place in light of actual business needs, and there formed a "1+3+5" framework of risk appetite policies that covered every aspect of the Group.

Second, the Bank established a three-level credit policy system, to standardize the overall credit supply, industry policies, and customer lists. It revised over 30 industry credit policies, devised seven new industry credit policies, refined the customer classification standards, and drafted the criteria for selecting leading enterprises.

Third, the Bank organized efforts to implement differentiated policies for different branches and put such policies under regular management, made decisions from actual conditions, and instructed credit supply in a precise way. It verified 1,365 groups, 5,262 enterprises, 31 featured industries, and 357 supply chains in two phases, and realized differentiated management in terms of customer access, approval and authorization, industry quota, and other aspects. Besides, it optimized management dynamically, issued the supporting list adjustment rules, authorization-related competition and cooperation rules, and other rules, and made sure all policies could be put in place as prescribed.

Fourth, the Bank exploited the rigid constraints of industry quotas, and allowed policies to play their guiding roles efficiently. It implemented the "mandatory + instructive" industry quota management on all fronts, and brought the quotas for industries with overcapacity under coordinated and computer-controlled management.

6.10.2.2 Credit extension management

First, the Bank closely followed up with the macro economic and financial situation, earnestly implemented the requirements set forth by financial regulators, followed its credit supply policies, and prudentially conducted credit review to protect the asset quality and security. As a result, it achieved concreted results in adjusting the credit structure.

Second, the Bank completed developing the intensive credit approval systems with the efficiency and quality of loan application review improved on all fronts. It became increasingly clear about how to develop the credit business in a high-quality, sustainable way, and put in place institutions and mechanisms to guarantee the compliance of credit approval and the fulfillment of asset quality control goals.

Third, the Bank made remarkable strides in fundamental management and institutional building for credit extension, unified the credit approval standards preliminarily, elevated the credit usage management continuously, and enhanced the meticulous management gradually, all of which gave impetus to business development and risk prevention/control.

Fourth, the Bank moved earlier to get involved in major projects and innovative projects, by nailing down project plans and controlling risks. In doing so, it offered guarantee for the implementation of such credit projects.

Fifth, the Bank gave the multi-level, diversified credit training programs, narrowed focus on professional operation, and continued to enhance the competence of credit teams.

Sixth, the Bank kept conducting onsite inspections on credit extension management of its branches and sub-branches with a view to enhancing the quality and compliance control over credit business.

6.10.2.3 Risk forewarning

First, the Bank continuously refined its risk forewarning mechanism, strengthened risk screening and cross-warning management of the key credit customers from the corporate banking, retail banking, financial market, wealth management, and consolidated subsidiaries.

Second, the Bank kept developing the digitalized risk control systems with intensified efforts, improved the basic systems required by the digital operation of risk management, and boosted the risk identification, monitoring and operation capabilities on all fronts.

Third, the Bank intensified effective application of risk forewarning information and stepped up effective interaction between any two aspects of risk forewarning, credit review & approval, risk classification, credit rating, and credit inspection.

Fourth, the Bank continued to reduce and exit loans to customers who triggered forewarnings, further optimizing the credit structure.

6.10.2.4 Asset preservation

The Bank made greater efforts in collecting and resolving NPLs, striving to increase the efficiency of disposing risk-bearing loans.

First, it exercised the list-based classified management of risk-bearing loans, and managed the large risk-bearing customers with accurately tailored policies.

Second, the Bank made full use of various disposal means such as cash recovery, debt-to-equity swap, debt repayment with non-cash assets, debt restructuring, loss write-off, asset securitization, risk elimination and exit, and spelled out the debt liquidation plan for each account and advanced the implementation.

Third, the Bank intensified the supervision, guidance and management of key branches, business fields, and key projects' risk dissolution of NPAs, continuously refined the asset preservation mechanism, and strove to increase the effect and efficiency of NPA disposal.

6.10.3 Statement on liquidity risk conditions

The objectives of liquidity risk management of the Bank are set to get adequate funds on time and at reasonable cost as needed by the repayment of matured debts, the performance of other payment obligations and the satisfaction of fund needs arising from normal business with a view to ensuring liquidity safety; and to lower liquidity cost and achieve the balance between the total amount and structure of assets/liabilities and the balance between liquidity and profitability through proactive management.

Discussion and Analysis of Business Operation

During the reporting period, the Bank kept layered, beforehand, balanced management of liquidity risk in line with the principle of aggregate balance and structural equilibrium; it carried out real-time monitoring on daily position accounts in local and foreign currencies, and made centralized allocation of positions in local and foreign currencies; it established a beforehand declaration system for large-amount positions, and established a monitoring mechanism for total liquidity level; it prepared a cash flow gap table on a daily basis, used the gap management method to predict cash flow gap changes in on-and-off-balance sheet items in the future, and dynamically conducted on- and off- balance sheet liquidity risk assessment; it also considered its own liquidity risk appetite and risk limit requirements to make active financing arrangement and make beforehand smooth and dynamic adjustments to liquidity gaps related to asset and liability portfolios, enabling it to realize a gross balance and structure equilibrium in the business development and effectively meeting the requirements for liquidity management goals.

During the reporting period, the Bank kept a close eye on the macro-economic changes, kept abreast of the regulation effects of credit policies and monetary policies, took into consideration its own structure of asset and liability and general capital balance, timely adjusted the direction, size and structure of cash flow gap, and actively prevented liquidity risk, thereby realizing a sound business operation and keeping the liquidity at a reasonable and balanced level. A host of specific strategies were adopted. First, multiple measures were adopted to promote the marked growth of general deposits and deposits from other banks with business relations, consolidate the liability base, and improve the quality of liabilities. Second, efforts were made to coordinate and promote such active liability instruments such as financial bonds and to diversity liability channels. Third, more steps were taken to strengthen macro-economic research and prediction as well as dynamic forecast of liquidity profile across the Bank, to accurately allocate assets and liabilities, to optimize the asset and liability structure, and to strengthen active risk management. Fourth, continuous efforts were made to optimize the daily liquidity management of treasury, improve and refine the position forecast mechanism, raise the position forecast standards, and enhance the position smoothing effect.

As at the end of the reporting period, the proportion of liquidity available across the Group calculated by the regulatory standards was 51.64%; the proportion of liquidity available across the Bank was 51.61%, down 3.82 percentage points over the end of last year; the RMB excess reserve ratio stood at 3.12%, up 0.63 percentage point over the end of last year; the liquidity coverage ratio of the Group posted 123.37%, and the liquidity coverage ratio of the Bank was 122.16%, up 0.25 percentage point over the end of last year. In brief, the overall liquidity was appropriate and robust.

6.10.4 Market risk management conditions

In 2019, the Board of Directors of the Bank nailed down the market risk appetite for 2019-2021. During the reporting period, the Bank closely tracked market risk exposures and market changes at home and abroad, stepped up dynamic monitoring and risk prejudgment, and intensified transaction behavior monitoring and transaction strategy tracking. Consequently, it managed to keep the market risk monitoring indicators within the scope of risk appetite. The stress test results showed that under an extreme unfavorable scenario, the Bank would face certain negative influences, which were within the controllable range.

During the reporting period, the Bank paid close attention to the impacts brought by the regulatory policies, Sino-US trade negotiations, and international geopolitical events, continued to strengthen market risk management, and protected business development from being negatively impacted by any major events in the financial market. First, it continued to develop related systems and boost the ability to measure complex derivatives. Second, upon the approval of the Board of Directors, it started a project aimed to align itself with the new standardized approach to market risk according to Basel III, and planned to establish a new standardized approach-based measurement system in line with the requirements of Basel III and domestic regulators, so as to comprehensively improve and optimize the market risk policy system and management process. Third, it added the market risk evaluation indicator to the operation evaluation rules of subsidiaries, in a bid to promote the financial market business toward a healthy and stable development.

As at the end of the reporting period, the Bank's consolidated market risk capital was RMB5,255 million under the standardized approach, and capitals occupied by general risk and specific risks are as follows.

In RMB millions

Date	General risk capital					Specific risk capital	Total
	Interest rate risk	Exchange rate risk	Risk of options	Risk of commodity	Risk of stock		
2019年12月31日	1,401.71	1,079.95	74.18	883.05	228.21	1,588.29	5,255.39

6.10.5 Statement on operational risk

Operational risk refers to the risk of losses caused by an imperfect or problematic internal procedure, staff or IT system and external events. Operational risk includes legal risk but excludes strategy risk and reputational risk.

In 2019, with increasing external fraud risk and regulatory punishments as well as increasingly rich and complicated businesses and business procedures, the Bank witnessed mounting operational risk. Relevant departments and branches developed corrective measures to address some key risk indicators with abnormal changes. During the reporting period, the Bank carried out onsite inspections and trainings for grassroots-level institutions, and put forth suggestions for rectifying the problems identified in the inspections. Operational risk was controllable in large.

6.10.6 Statement on other risks

6.10.6.1 Compliance risk

Centered on the corporate strategies, the Bank nailed down the compliance management plan and carried it through. It kept stepping up efforts in matter handling, precise accountability, optimized evaluation, advance of digitalized management, and other aspects. With positive results achieved, it managed to secure sustained, robust business development. During the reporting period, the Bank's compliance risk management was in an overall good shape.

6.10.6.2 AML

Strictly following the risk-oriented requirements set out by regulators, aiming to carry out effective money-laundering risk management, and starting from the control over customers with high money-laundering risk, the Bank set up a money-laundering risk co-management mechanism to embed AML management requirements into its business procedures, and tried to build a three-in-one AML assessment system combining customers, products and institutions. It stringently implemented relevant resolutions passed by the UN Security Council and the Chinese government, and intensified the risk management of sensitive businesses. Moreover, the Bank helped competent authorities to crack down on illegal activities such as telecommunication frauds, underground banks and illegal fundraising, and performed social responsibilities and AML obligations substantially.

6.10.6.3 Legal risk

The Bank implemented the requirements of corporate governance according to law, strengthened the identification, prevention, handling and management of legal risks, strove to increase the digital application in legal risk management, and conducted the legal risk management with quality and effect better assured. At the same time, it stepped up efforts to identify and prevent legal risks from innovative business forms and key business fields, strengthened the systemic prevention and management of legal risks in fields such as contracts and intellectual property rights, and continued to promote the legal publicity and education work during the Seventh Five-year Plan period, strove to enhance the awareness of governance by law among all employees, and assumed the responsibilities for popularizing laws vigorously.

6.10.6.4 IT risk

IT risk was on the rise as banks became increasingly dependent on information technology and there was a growing variety of IT means. During the reporting period, the Bank worked hard on improving its IT risk management system, conducted special IT risk assessments on outsourcing of technological development, business continuity management, and many other aspects, and put forward the suggestions on enhancing risk management and control. Efforts were made to continue monitoring and reporting IT risk indicators, and to further strengthen the business continuity management of the Head Office and branches. The Bank completed constructing the backup site for business premise of the Head Office.

6.10.6.5 Strategic risk

Sticking to the strategic management model of "strategy-planning-budget-appraisal", the Bank increased the leading role of strategies in the development, and closely followed two main lines of risk control and income guarantee in work. Overall, the Bank's strategic mentality fitted well with the situation changes and national strategies, with increasing force of strategy execution and ability to control strategic risk. The strategic risk was kept steady and controllable in the period.

Discussion and Analysis of Business Operation

6.10.6.6 Reputational risk

The Bank persistently improved its reputational risk management mechanism, carried out reputational risk screening, intensified the public opinion management at key nodes, and intensified a full-course management of reputational risk, thus making reputation management more systemic. Besides, it intensified new media management and application, thus continuously raising the scale and influence of positive publicity. During the reporting period, the reputational risk was controllable with a steady trend, without any repercussions of major reputational risk.

6.10.6.7 Country risk

During the reporting period, in order to cope with the extremely complex external environment, the Bank continued to consolidate the foundation of the country risk management process. It adopted a number of effective measures, in the hopes of optimizing the country risk management system, improving the country risk limits, strengthening country risk monitoring, developing country risk management tools, and exploring how to conduct country risk stress tests. Consequently, a group-wide country risk management framework took shape basically. As at the end of the reporting period, the country risk exposure remained in a steady state and a sound structure. Related quotas were performed in a satisfactory way. In brief, the country risk was controllable in general.

6.11 Business Innovation, New Business Varieties Launched or Derivative Finance Business Conducted

Intelligent mobile app APP10.0: Spearheaded by the vision of "being an open-minded, warm, smart, and considerate financial enterprise", the Bank overhauled and upgraded the four major channels of its mobile banking APP as well as such service segments as my account, wealth management. At the same time, it launched a host of scenario-based, social networking-enabled wealth management and investment modes such as open-ended user system, Wealth Management Room interactive marketing service platform, channel of professional financial and economic information, and "Drips into Gold" wealth management plan, so as to build a set of open-ended retail apps.

5G+ smart outlet: On 17 May 2019, the Bank teamed up with China Mobile to launch the first 5G+ smart outlet in Shanghai, explored how to use many advanced finance technologies such as 5G, unconscious authentication, and mixed reality, pioneered to introduce many intelligent services including unconscious authentication in store, precision marketing, no-media transaction, virtual wealth management room, and immersive experience, and opened the first bank card under a 5G network environment in China.

"Smart Xiaopu" intelligent voice customer service: The Bank developed the "SPDB Brain" visual and acoustic center. With it, telephone banking could offer scenario-based intelligent services such as natural language-based product recommendation and business consultation as a means of man-machine interaction. Besides, capable of fast learning and iterative optimization, the center could guarantee the constant improvement for the quality of service and experience in the form of human-machine interaction. So far, the speech recognition rate has exceeded 85% and the service success rate gone beyond 75%, both of which have few equals in the industry.

Smart operation of outlets: The Bank prioritized on reshaping business processes and enhancing intelligent service experience at outlets. It established the remote review service system through videoconferencing technology. With such service, 10 retail identification review businesses were all conducted in a remote yet concentrated way, a move managing to divert or substitute more than 90% of retail business at outlets. In the meantime, the Bank intensified the support for the massive salary payroll business conducted outside business premise, and rolled out the instant card issuance and validation service through PAD devices, in a bid to enhance the efficiency of customer acquisition outside business premise and the quality of related experience. Additionally, it actively explored for new service modes at new-type smart outlets, by co-launching the 5G smart outlet with China Mobile in Shanghai and setting up cross-sector outlets in many places such as Nanchang, Guangzhou and Zhengzhou.

Remote smart banking: Pursuing a marketing-oriented approach, the Bank tried to propel virtual banking towards remote and intelligent operation. The omni-channel application of Smart Xiaopu marked the telephone banking business of the Bank realized the iterative upgrade from IVR to AI. Covering 1,061 FAQs, 183 chatting scenes, and 158 all-voice operated navigations through transaction menu, the app could deliver the improved interactive customer experience where the manpower substitution rate exceeded one third and AI service reached the leading level of the industry. The Bank conducted remote marketing by focusing on customer maintenance and product sales, and built the multi-dimension, hierarchal, classified marketing teams capable of rendering intelligent call-out services.

Intelligent risk control: Ahead of any other peers, the Bank explored to bring many advanced financial technologies as graph data, biological recognition, and blockchain into integrated innovation and application, continuing to improve intelligent risk control capabilities. It applied many advanced algorithms such as graph models and unsupervised algorithms for a variety of innovative application, removed the limitation that the original transaction monitoring was only for the existing customers, and intensified risk prevention and control as early as possible. Besides, the facial recognition technologies were embedded into various scenarios such as APP migration in case of mobile phone replacement, and prevention of potential customer information leakage, so as to achieve a win-win outcome in both experience enhancement and risk control. Moreover, the Bank joined hands with other peers to explore the application of blockchain technology for risk prevention and control, and to establish a fraud blacklist sharing mechanism.

SPD Life Service: The app saw its registered users crossing the 1 million mark. Added with three major functions: scenario-based marketing and customer acquisition, diversion of customer flow at outlet lobbies, and customer reward program, it initially grew into a scenario-based, online retail banking ecology.

Salary Affairs Administration Center: The Bank rolled out the first online salary payroll customer acquisition tool Salary Affairs Administration Center in the industry. With the tool, it could win the prospective salary payroll customers and handle their reservations online. Since its debut, the tool has acquired 748 new companies as salary payroll customers, of which the enterprises with over 100 and 500 employees accounted for 91% and 68% of the total, respectively.

6.12 Significant Impacts of Changes in Interest Rate, Exchange Rate, Tax Rate, and New Policies and Regulations on Commercial Banks' Operation and Profitability

First, the interest rate liberalization reform achieved substantial progress. In August 2019, the central bank of China initiated the reform of the formation mechanism of the loan prime rate (LPR), weakened the role of the loan benchmark interest rate, and promoted the loan interest rate from double-track to one-track operation, and further improved the monetary policy transmission mechanism. All of these moves worked together to lower down the financing cost facing the real economy gradually. In 2020, the central bank will continue encourage commercial banks to apply the results of LPR reform, try to get loan interest rates fully linked to LPR, and further cut down on social financing costs. Against such a backdrop, commercial banks are expected to continuously strengthen the research and prediction of interest rate trends. In addition to intensify services for the real economy, they will improve the asset and liability management capabilities, stabilize interest spreads, and further reinforce the operation of fee-based business.

Second, the market-based RMB exchange rate reform was further pressed forward. As the trade frictions between China and the US continued to escalate, RMB exchange rate presented a clearer characteristic of two-way fluctuation in 2019. The central bank adjusted the offshore RMB liquidity through the issue of central bank bills, the RMB swap, and other means. As a result, it further enhanced the RMB exchange rate formation mechanism. Therefore, the RMB exchange rate basically remained stable at a reasonable and balanced level. In 2020, the world will still remain under the complex political and economic situation. Commercial banks need to be alert to the exchange rate risks brought about by the impact of uncertain events, further build up their ability in exchange rate risk management, cross-border operation, and global asset allocation, and turn crises into opportunities with a view to winning more space for related business lines to further develop.
Third, intensified tax cut and fee reduction benefited more economic entities. In 2019, China further increased tax cuts and fee reductions, pushed forward the value-added tax (VAT) reform, and continuously optimized the business environment of enterprises through tax cuts, fee deductions, and tax rebates. In 2020, the Chinese government will continue pursuing the proactive fiscal policy, implement the tax reduction and fee reduction policy with intensified efforts, in the hopes of easing the downward pressure on the national economy and lifting more enterprises out of business dilemmas. Especially for the industries and regions severely affected by the coronavirus epidemic, the government will offer them further more supporting policies so as to hedge against the negative impact exerted by the epidemic on the real economy. The improvement in the tax environment not only does good to business operations, but also helps commercial banks reduce their credit risks, offering a strong guarantee for them to provide financial services properly.

Fourth, the macro prudential assessment (MPA) framework continued to be enriched. In 2019, the central bank of China included the disbursement of targeted reserve requirement ratio (RRR) cut funds to private and small and micro enterprises into the scope of MPA assessment, and studied and formulated the Systemically Important Bank Assessment Measures and the regulation rules for financial holding companies. Both of the two moves further refined the MPA policy framework. In 2020, the central bank will continue to strengthen the counter-cyclical adjustment role of MPA, promote commercial banks to supplement capital through more channels, enable banks to serve the real economy more efficiently. At the same time, it will strengthen the standardized operation of commercial banks, and guide them to embark on the road to high quality and sustainable development.

Discussion and Analysis of Business Operation

6.13 Proceeds from Fund-raising Activities

On 23 September 1999, the Bank publicly issued 400 million RMB ordinary shares, with issuing price per share of RMB10, and after the issuing cost is deducted, the fund actually raised was RMB3.955 billion.

On 8 January 2003, the Bank issued 300 million more RMB ordinary shares with issuing price per share of RMB8.45, and after the issuing cost was deducted, the fund actually raised was RMB2.494 billion.

On 16 November 2006, the Bank issued 439,882,697 more RMB ordinary shares with issuing price per share of RMB13.64, and after the issuing cost was deducted, the fund actually raised was RMB5.91 billion.

On 21 September 2009, the Bank privately issued 904,159,132 RMB ordinary shares, with issuing price per share of RMB16.59, and after the issuing cost was deducted, the fund actually raised was RMB14.827 billion.

On 14 October 2010, the Bank privately issued 2,869,764,833 RMB ordinary shares, with issuing price per share of RMB13.75, and after the issuing cost was deducted, the fund actually raised was RMB39.199 billion.

On 28 November 2014, the Bank privately issued 150 million preference shares, with carrying value per share of RMB100, and after the issuing cost was deducted, the fund actually raised was RMB14.960 billion.

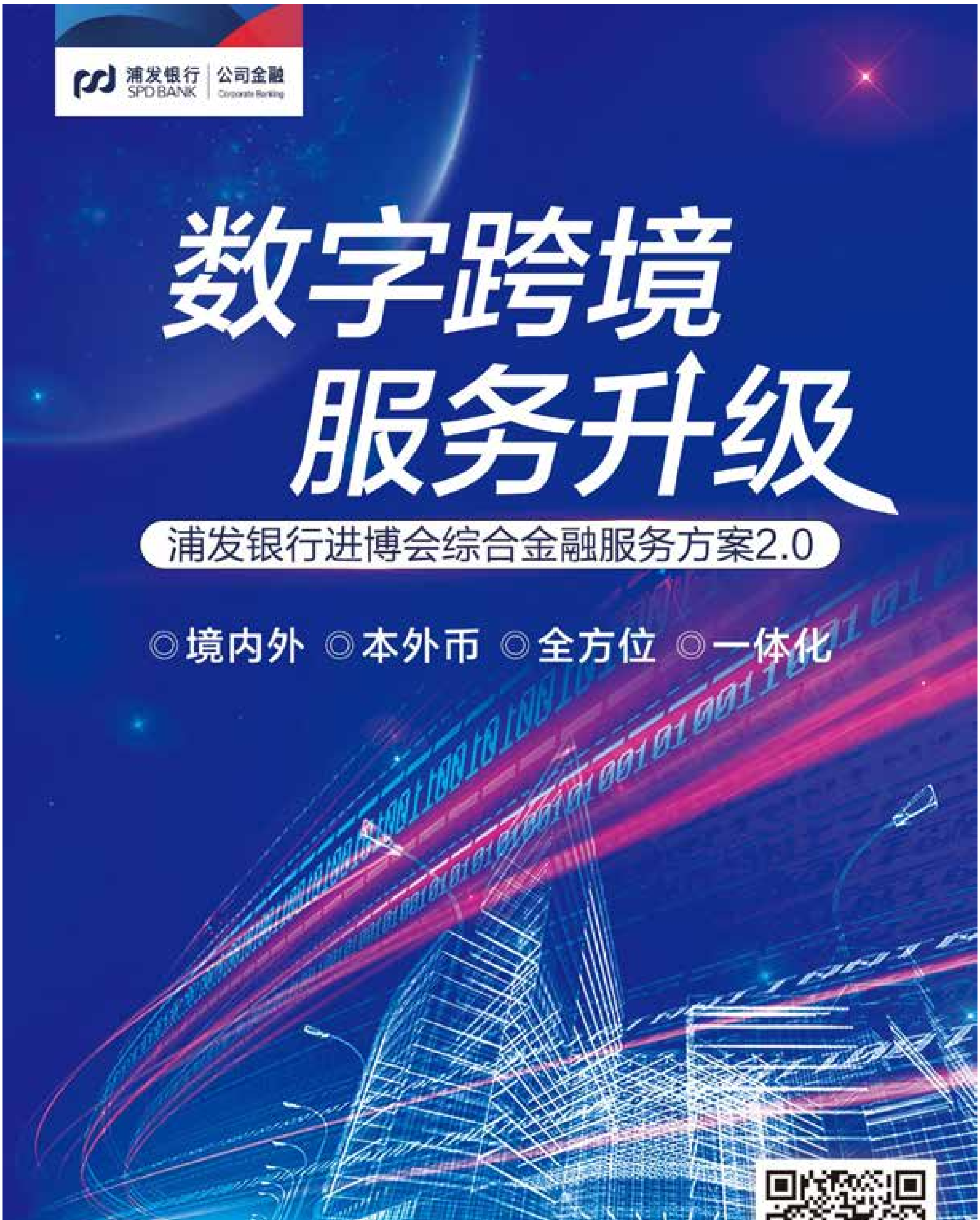
On 3 March 2015, the Bank privately issued 150 million preference shares, with carrying value per share of RMB100, and after the issuing cost was deducted, the fund actually raised was RMB14.960 billion.

On 18 March 2016, the Bank issued 999,510,332 RMB ordinary shares to purchase 97.33% shares of Shanghai Trust with issuing price per share of RMB16.36 and a consideration of RMB16.352 billion.

On 4 September 2017, the Bank privately issued 1,248,316,498 ordinary shares, with issuing price per share of RMB11.88, and after the issuing cost was deducted, the fund actually raised was RMB14.817 billion.

On 12 July 2019, the Bank finished issuing the 2019 Undated Additional Tier 1 Capital Bonds of Shanghai Pudong Development Bank Co., Ltd. in RMB30 billion in the national interbank bond market, and after the issuing cost was deducted, the funds actually raised were RMB29.996 billion.

On 1 November 2019, the Bank finished issuing the A share convertible corporate bonds. The proceeds amounted to RMB50 billion and the net funds stood at some RMB49.912 billion after deducting the issuance expense. On 15 November 2019, the abovementioned A share convertible bonds were listed on SSE (stock name: SPDB Convertible Bond, stock code: 110059).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公司金融 Corporate Banking
数字跨境
服务升级
浦发银行进博会综合金融服务方案2.0
◎境内外 ◎本外币 ◎全方位 ◎一体化

7 Important Matters

Important Matters

7.1 Plan on Ordinary Shares' Profit Distribution or Capitalization of the Capital Reserve

7.1.1 Making and implementation of cash bonus policy

In order to further implement the requirements of regulators including CSRC and SSE in respect of cash bonus of listed companies, and truly protect the legitimate interests of investors, the Articles of Association of the Bank defines the basic principle for profit distribution, the specific and decision making procedures, the organization and implementation and the profit distribution policy changes, and states that the Bank's cash bonus scheme shall meet relevant rules of the regulators, and except for special cases, the accumulated distribution of profit from the cash bonus in the past three years shall be no less than 30% of yearly average distributable profit realized in the past three years.

The Bank's decision making procedure for profit distribution met relevant requirements in the Articles of Association of the Bank and decisions made on the shareholders' meeting, and the cash bonus' criteria and proportions were clear and well defined, and all Independent Directors expressed opinions on the profit distribution scheme. The Bank listened to the opinions and claims of minority shareholders, and the profit distribution scheme considered the industry features, development stage, profitability, and capital needs of the Bank, as well as the investors' requirements for sharing the Bank's growth, and development achievements and obtaining reasonable return on investment.

7.1.2 Plan or scheme of the Bank for ordinary shares profit distribution and for conversion of capital reserve to ordinary shares in past three years

In RMB millions

Bonus year	Number of bonus shares per 10 shares	Number of dividend payout per 10 shares (RMB) (tax inclusive)	Number of capital increase per 10 shares	Amount of cash bonus (tax inclusive)	Net profit attributable to the parent company's ordinary shareholders in the consolidated statements in the bonus year	Cash dividend rate (%)
2019年		6.00	–	17,611	57,186	30.80
2018年	–	3.50	–	10,273	54,189	18.96
2017年	–	1.00	–	2,935	52,533	5.59

Note: The 2019 profit distribution plan can be implemented only when it is approved by the shareholders' meeting.

Cash dividend rate = cash dividend amount/net profit attributable to the parent company's shareholders in the consolidated statements in the bonus year. The rate is calculated based on 29,352,080,397, the total ordinary shares of the Company as at the end of the reporting period.

7.1.3 2019 profit distribution plan of the Bank

The audited 2019 accounting statement showed that, the Bank's realized a total net profit of RMB56,447 million, and after deducting the dividends of SPDB Preference share Tranche 1 (SPDB P 1) and SPDB P 1 of RMB1,725 million issued in the year, the actual profit distributable to ordinary shareholders this year would be RMB54,722 million. The Bank proposed the 2019 profit distribution plan as follows:

(1) To withdraw discretionary surplus reserve at 30% of after-tax profit of the year, RMB16,934 million in total;

(2) Pursuant to the Administrative Measures for Reserve Provisioning of Financial Enterprises issued by the Ministry of Finance, a financial enterprise which undertakes the deposit and loan business shall set aside a certain portion of its after-tax net profit as general reserve, and the balance of general reserve shall not be lower than 1.5% of the closing balance of risk assets in principle. Pursuant to the above provision, the Bank set side RMB3.1 billion for general reserve in 2019.

(3) To distribute to all ordinary shareholders cash dividends at RMB6 (tax inclusive) per 10 shares based on the total number of ordinary shares on the day of profit distribution and equity registration.

After the above distribution plan was implemented, the remaining undistributed profit was retained as replacement capital according to requirements of the regulatory authority on capital adequacy of commercial banks.

As at 31 December 2019, the Bank's ordinary shares totaled 29,352,080,397, based on which the cash dividends to be distributed were calculated in RMB17,611 million (tax inclusive).

7.2 Public Issuing of Convertible Corporate Bonds during the Reporting Period

On 1 November 2019, the Bank finished issuing the A share convertible corporate bonds. The proceeds amounted to RMB50 billion and the net funds stood at some RMB49,912 million after deducting the issuance expense. On 15 November 2019, the abovementioned A share convertible bonds were listed on SSE (stock name: SPDB Convertible Bond, stock code: 110059).

7.3 Public Issuing of Undated Additional Tier 1 Capital Bonds during the Reporting Period

On 12 July 2019, the Bank finished issuing the 2019 Undated Additional Tier 1 Capital Bonds in the national interbank bond market upon the approval of CBIRC and PBC. The bonds issued came in a size of RMB30 billion, with a coupon rate of 4.73% in the first five years (which can be adjusted for once every five years) and the redemption right exercisable on the interest dates of the fifth and following years.

All funds raised by the bonds shall be used to replenish the additional tier one capital of the Bank as per applicable laws and the approval of the regulators.

7.4 Public Issuing of Special Financial Bonds for Small and Micro Enterprise Loans during the Reporting Period

On 27 March 2019, the Bank finished issuing the Special Financial Bonds for Small and Micro Enterprise Loans in First Tranche of 2019 in the national interbank bond market upon the approval of CBIRC and PBC. The bonds issued came in a size of RMB50 billion. These 3-year fixed rate bonds had a coupon rate of 3.50%. All funds raised by the bonds shall be used to disburse loans to small and micro enterprises as per applicable laws and the approval of the regulators.

7.5 No Change to Registered Capital during the Reporting Period

7.6 No Fund Occupied during the Reporting Period

7.7 Appointment of and Termination of Relationship with Accounting Firms

In RMB10,000

Whether a new accounting firms is appointed:	Yes
Name of accounting firm	KPMG Huazhen LLP
Remuneration for accounting firm	570
Years for audit of accounting firm	1 year

In RMB10,000

	Name	Remuneration
Accounting firm for internal control audit	KPMG Huazhen LLP	145

Important Matters

7.8 The Bank Had No Bankruptcy Reorganization during the Reporting Period

7.9 Influences of Changes in Accounting Policies on the Bank

In May 2019, the Ministry of Finance issued a notice to revise the Accounting Standards for Business Enterprises No.7 – Exchange of Non-monetary Assets (hereinafter referred to as "ASBE No.7 (2019)") and the Accounting Standards for Business Enterprises No.12 – Debt Restructuring (hereinafter referred to as "ASBE No.12 (2019)") and required the enterprises which practiced ASBE shall implement the revised two standards from 10 June 2019 and 17 June 2019, respectively. As per the above requirements of the Ministry of Finance, the Bank put into operation the ASBE No.7 (2019) and the ASBE No.12 (2019) on the prescribed dates.
The ASBE No.7 (2019) refines the scope for which the non-monetary assets exchange standards are applied, sets out explicitly the time point for recognition of assets received and the time point for derecognition of assets surrendered as well as the accounting treatment in case of inconsistency between the two time points, and revises the principles used to measure multiple assets received or surrendered in the same exchange of non-monetary assets measured at fair value. The adoption of the ASBE No.7 (2019) has no material impact on the operating performance and financial position of the Group.

The ASBE No.12 (2019) modifies the definition of debt restructuring, specifies the scope of application, and sets out the provisions for the recognition, measurements and presentation of financial instruments involved in debt restructuring as well as the principles governing the applicable financial instruments. As for debt restructuring through liquidation of a debt by asset, the ASBE No.12 (2019) modifies the measurement principles for the initial recognition of non-financial assets received by the creditor, and provides that the gains and losses a debtor sustains from debt restructuring shall no longer be presented in the two separate forms of asset transfer-incurred gains/losses and debt restructuring-incurred gains/losses. As for debt restructuring through conversion of a debt into equity instrument, the ASBE No.12 (2019) modifies the measurement principles for the initial recognition of shares owned by the creditor, and adds guidance for the measurement principles governing the initial recognition of the debtor's equity instruments. The adoption of the ASBE No.7 (2019) has no material impact on the operating performance and financial position of the Group.

7.10 Major Litigation and Arbitration

As at the end of the reporting period, the Bank as a plaintiff had 13,048 pending proceedings, which involved an amount of RMB36,010 million. As at the end of the reporting period, the Bank as a defendant (excluding the third person) had 245 pending proceedings, which involved an amount of RMB2,436 million.

7.11 Related-party Transactions

7.11.1 Overview of related-party transactions

According to relevant provisions in the Administrative Measures on Related-party Transactions of Commercial Banks and Insiders and Shareholders, the Interim Measures for the Equity Management of Commercial Banks, and the Accounting Standards for Business Enterprises issued by CBIRC as well as relevant provisions governing related-party transactions formulated by CSRC and SSE, there were no related parties that were controlled by the Bank during the reporting period.
In the reporting period, the Bank further consolidated its related-party transaction management, identified related parties on a dynamic basis, built a database of related-party transactions, optimized the related-party transaction review procedure, pushed refined management of related-party transactions, and stepped up daily monitoring, statistics and analysis of related-party transactions to ensure the regularity of related-party transactions and compliance of information disclosure. Transactions between the Bank and its related parties observed the principles of integrity and equity, powerfully promoting the synergy of the Bank, other companies under the Group and related shareholders.

7.11.2 Conditions of material related-party transactions

Counterparty	Transaction type	Amount	Approved by	Main contents of transactions
Shanghai International Trust Co., Ltd.	Comprehensive credit line	RMB2.7 billion	The 43rd session of the Sixth Board of Directors	A comprehensive credit line worth RMB2.7 billion, a comprehensive credit line worth RMB13.3 billion (convertible into another currency of equivalent value), and a comprehensive credit line worth RMB500 million were extended to Shanghai International Trust Co., Ltd., to SPDB Financial Leasing Co., Ltd., and to Tullett Prebon SITICO (China) Limited, respectively, each with a term of one year and on terms not favorable than those available to unrelated parties in similar transactions.
SPDB Financial Leasing Co., Ltd.		RMB13.3 billion		
Tullett Prebon SITICO (China) Limited		RMB500 million		
SPD Silicon Valley Bank Co., Ltd.	Investments	RMB500 million	The 48th session of the Sixth Board of Directors	A capital increase equivalent to RMB500 million would be made to SPD Silicon Valley Bank within five years to come, and the Senior Management would be authorized to wrap up the related matters accordingly.
Shenergy (Group) Co., Ltd.	Comprehensive credit line	RMB12 billion	The 49th session of the Sixth Board of Directors	A two-year comprehensive credit line of RMB12 billion was granted to Shenergy (Group) Co., Ltd. on terms not favorable than those available to unrelated parties in similar transactions.
Yangtze River Storage Technology Co., Ltd.		RMB3 billion and USD500 million		A credit line of RMB3 billion and a credit line of USD500 million were extended to Yangtze River Storage Technology Co., Ltd. The two credit lines had the same term as that of the credit line granted to its ultimate controller Tsinghua Holdings Co., LTD. on terms not favorable than those available to unrelated parties in similar transactions.

7.11.3 Related legal persons and transaction balance

Related legal persons of the Bank mainly comprise substantial legal person shareholders (i.e. legal person shareholders who directly, indirectly, and jointly hold or control 5% or more of shares or voting power in the Bank); groups to which legal person shareholders are affiliated and their subsidiaries; companies that are controlled or greatly influenced by related natural persons; and companies in which the Bank invests and have great influence. As at the end of the reporting period, related-party transactions between the Bank and its related legal persons were as follows:

7.11.3.1 Loans and advances

In RMB millions

	End of the reporting period	End of last year
Associates and joint ventures	-	-
Other related parties: Group companies of substantial shareholders (excluding shareholders)	491	239
Other major related parties: Companies with significant influence by key management personnel (excluding shareholders)	877	-
Total	1,368	239
	The reporting period	Same period of last year
Interest income from loans and advances	65	19

Important Matters

7.11.3.2 Deposits from customers

In RMB millions

	End of the reporting period	End of last year
Substantial shareholders	4,421	5,324
Associates and joint ventures	1,747	–
Other related parties: Companies with significant influence by key management personnel (excluding shareholders)	10,107	1,733
Other related parties: Group companies of substantial shareholders (excluding shareholders)	43,542	37,999
Total	59,817	45,056
	The reporting period	Same period of last year
Interest expense	1,561	1,484

7.11.3.3 Due to and placements from banks and other financial institutions

In RMB millions

	End of the reporting period	End of last year
Associates and joint ventures	1,981	1,058
Other related parties: Companies with significant influence by key management personnel (excluding shareholders)	10,771	–
Other related parties: Group companies of substantial shareholders (excluding shareholders)	20,585	5,113
Total	33,337	6,171
	The reporting period	Same period of last year
Interest expense	422	124

7.11.3.4 Commission income

In RMB millions

	The reporting period	Same period of last year
Associates and joint ventures	195	22
Other related parties: Companies with significant influence by key management personnel (excluding shareholders)	28	–
Other related parties: Group companies of substantial shareholders (excluding shareholders)	18	3
Total	241	25

7.11.3.4 Commission income

In RMB millions

	The reporting period	Same period of last year
Other related parties: Group companies of substantial shareholders (excluding shareholders)	–	–

7.11.3.6 Operation and administrative expenses

In RMB millions

	The reporting period	Same period of last year
Substantial shareholders	17	7
Other related parties: Group companies of substantial shareholders (excluding shareholders)	256	383
Total	273	390

7.11.3.7 Letters of guarantee issued

In RMB millions

	End of the reporting period	End of last year
Other related parties: Group companies of substantial shareholders (excluding shareholders)	2,529	3,766
Total	2,529	3,766

7.11.3.8 Related parties that are controlled by the Bank

Related parties that are controlled by the Bank are the subsidiaries of the Bank. Major transactions with these subsidiaries are eliminated in the consolidated financial statements, and are summarized as follows:

In RMB millions

Year-end balance	End of the reporting period	End of last year
Due from and placements with banks and other financial institutions	257	355
Due to and placements from banks and other financial institutions	8,076	8,025
Deposits from customers	4,580	609
Placements with banks and other financial institutions	5,527	4,045
Loans and advances	1,565	991
Others	26	21

In RMB millions

Transactions for the year	The reporting period	Same period of last year
Interest income from due from and placements with banks and other financial institutions	6	10
Placements with banks and other financial institutions	220	108
Interest expenses on due to and placements from banks and other financial institutions	271	191
Interest expenses on deposits from customers	78	-
Interest income from loans and advances	51	114
Fee and commission income	88	21
Fee and commission expenses	114	41
Other business income	2	-

7.11.4 Related natural persons and transaction balance

Related natural persons of the Bank include its Directors, Supervisors, Senior Management members of both the Head Office and the branches, other persons with authority to decide on or participate in credit extension and asset transfer and their close relatives, as well as directors, supervisors, senior management members and the like of the Bank's related legal entities (substantial shareholders).

As at the end of the reporting period, related-party transactions between the Bank and its related natural persons were as follows:

In RMB millions

	End of the reporting period
Number of related natural persons	23,016
Balance of related-party transactions	2,657

7.11.5 Significant related-party transactions with joint outward investment

In the reporting period, the Bank made no joint outward investments with related parties.

7.12 Disclosure of Undertakings by the Bank or its Shareholders Holding above 5% of Shares on the Designated Newspapers or Websites

In August 2017, the Bank issued non-public shares to Shanghai International Group and Shanghai Guoxin Investment Development Limited. The two companies undertook and agreed that the underlying shares they subscribed were subject to a lock-up period of 36 months, and they wouldn't trade such shares publicly or transfer the underlying shares or the shares derived from the underlying shares by any means within the lock-up period. To date, the related parties have strictly fulfilled the above commitment.

7.13 Punishment and Rectification Imposed on Listed Companies and Their Directors, Supervisors, Senior Management Members, Controlling Shareholders, De Facto Controllers and Buyers

During the reporting period, neither the Bank nor any of its Directors, Supervisors, Senior Management members, shareholders holding more than 5% of the shares, or largest shareholder was subject to any investigation by competent authorities, coercive measures taken by judicial authorities or disciplinary inspection departments, transfer to judicial authorities or investigation for criminal responsibility, investigation or administrative penalty by CSRC, restricted access to market, identification as unqualified, penalty by other administrative authorities or public reprimand by the stock exchanges. During the reporting period, the Bank was not subject to any administrative supervision measures by CSRC or its agencies or request for rectification within a time limit.

7.14 During the reporting period, the Bank has not implemented any stock ownership incentive plan, employee stock ownership plan or other employee incentive plans

7.15 Major Contracts and Their Execution

i. Major custody, contracting and leasing items: during the reporting period, there was no major custody, contracting or leasing item.

ii. Major guarantee: during the reporting period, the Bank had no other major guarantee matters required to be disclosed, other than financial guarantee business within the business range as approved by CBIRC.

iii. Other major contracts (including guarantee, etc.) and the performance: during the reporting period, various business contracts of the Bank were performed normally, without any major contract dispute.

7.16 Major Entrusted Wealth Management Affairs

During the reporting period, the Bank incurred no entrusted wealth management affairs outside the scope of normal business.

7.17 Material Assets Acquisition, Sale or Disposal and Enterprise Merger

During the reporting period, there was no material assets acquisition, sale or disposal or enterprise merger at the Bank.

7.18 Loss Verification Loans of the Bank during the Reporting Period

During the reporting period, based on the Administrative Measures of SPDB on Canceling Asset Loss after Verification, the total amount of loss loan assets as approved by the Bank's Board of Directors and imposed with accounting treatment for verification was RMB64,217 million. According to the principle of "account cancellation, case recording and existence of right", the Bank continued to maintain the right of recourse to minimize the credit fund loss.

7.19 Active Performance of Social Responsibility

7.19.1 Poverty alleviation by the listed company

7.19.1.1 Precision poverty alleviation planning

Spearheaded by the concept of "systematization, innovation and diversification", the Bank has actively performed its responsibilities due to a corporate citizenship and continued to refine the mechanism of poverty alleviation through financial services, while tapping deep into financial services for many years. Following the principles of "pinpointing position accurately, devising differentiated policies for different villages, advancing step by step, and striving for concreted results", it exploits its financial expertise, and proposes innovative poverty alleviation modes with financial services. Upholding the overall strategy of precision poverty alleviation substantially, it proceeds from actual conditions of different places, rolls out multiple measures, and tries to reduce poverty fundamentally by giving skill trainings, expanding the sales of local products and driving the development of industries. In brief, the Bank goes to extraordinary lengths to win the tough battle for precision poverty alleviation.

7.19.1.2 Summary of precision poverty alleviation in 2019

Starting from the poverty alleviation through industry development, the Bank pulled together to fight a tough battle, put in place proper policies, and kept optimizing the long-standing aid mechanism. To help poverty-stricken villages shake off poverty, it enabled them to lead well-off life on their own and consolidated what had been achieved in poverty alleviation. At the same time, the Bank kept pushing forward the regulation of public welfare donations, and organized many charitable activities in a wide range of fields such as supporting the old and raising the young, helping the poor, medical treatment and public health, and cultural education. Specifically, it actively carried out public welfare initiatives like "Dream Chasing Fireflies Initiative" for 1,000 Pediatric Staff Training, "Eyes for the World" Program for Children's Vision Recovery Operation, and "Carefree Plan" for Children's Healthcare Insurance. To sum up, the Bank took the initiative to assume social responsibilities with a sincere heart, and practiced the tenet of improving the people's wellbeing with financial strength.

During the reporting period, the Bank implemented 53 precision poverty alleviation projects, and donated anti-poverty funds totaling RMB33,869,700. To be specific, it conducted 32 poverty alleviation programs at designated sites with an input of RMB19,721,100, so as to help the related provinces and cities accomplish their poverty alleviation tasks. Some examples of these projects included the "100 Enterprises Aiding 100 Villages" program, a twining aid initiative in Wenshan City, Yunnan Province, the comprehensive aid program for villages in Jinshan District, Shanghai, and the industry aid program targeted at Yangjiahe Village, Guzhang County, Hunan Province. Besides, the Bank continued three poverty alleviation programs through healthcare with an input of RMB10,067,400. They were the "Dream Chasing Fireflies Initiative" for 1,000 Pediatric Staff Training, the medical assistance program for the most needed child patients at Xinhua Hospital, Shanghai, and the public-spirited wealth management program in support of hearing-impaired children (sponsored by the Private Banking Department). Furthermore, the Bank carried out six poverty alleviation programs through education, with an input of RMB1,027,000. It supported Shanghai Volunteer Service Foundation in establishing the Young Polar Tree special Xinjiang aiding foundation, donated money to build the "SPDB Dream Center" public-spirited classrooms, the non-profit kindergarten at Maocaoshan Village, Mengla County, Yunnan Province, and financed the poverty-stricken students from Shuozhou City, Shanxi Province through their school. Furthermore, the Bank actively took part in many public-welfare initiatives including "Love under the Blue Sky" and the Hope Project, and rolled out 12 related anti-poverty projects with an input of RMB3,054,200. With its charitable efforts, the Bank contributed to the sustainable development of the Chinese society and economy, and strove to shape itself as a respectable and trustworthy corporate citizen.

7.19.1.3 Precision poverty alleviation projects by the listed company in 2019

Important Matters

In RMB10,000

Indicator	Details
1. Poverty alleviation through education	
Funding for poor students	102.70
2. Poverty alleviation through healthcare	
Input to improve healthcare resources of poverty-stricken areas	1,006.74
3. Social poverty alleviation	
Amount of precision poverty alleviation input	1,972.11
4. Other projects	
Input	305.42
Total	3,386.97

7.19.1.4 Subsequent precision poverty alleviation plan

Firmly implementing the decisions and arrangements of the CPC Central Committee, the Bank will go all out to realize the poverty alleviation targets, and consolidate what has been achieved in the tough battle. It will promote the implementation of rural revitalization drive with concrete endeavors. It will help to remove the stark obstacles and realize that rural poor people have no worry about food and clothing and have access to compulsory education, basic medical services, and safe housing. Meanwhile, it will put in place poverty alleviation programs through industry development, support the enterprises in poverty-stricken regions in growing stronger, and drive the poor households to increase income constantly through more prosperous regional economies. Moreover, the Bank will actively explore how to integrate the anti-poverty battle with the rural revitalization drive, and do its part financially to the completion of building a moderately prosperous society in all respects and the objectives/tasks of the 13th Five-year Plan period.

7.19.2 Social responsibilities

In 2006, the Bank released the first corporate social responsibility report in the Chinese banking industry, which incorporated such responsibilities into the development strategies and plans. Following the tenet, objectives, standards and fields of social responsibilities, it assumed economic responsibilities with innovative thinking, performed social responsibilities with a sincere heart, and undertook environment protection responsibilities in the pursuit of low-carbon development. In brief, the Bank made continuous efforts to get the work related to social responsibilities done properly on all fronts. Sticking to the leading role of Party building and bearing the fundamental purpose of finance, the Bank carried out risk management on a solid footing, safeguarded the economic development, gave back to the society, fulfilled its responsibilities for customers, shareholders, employees and the public, and promoted itself and stakeholders towards sustainable development.

In terms of economic responsibilities, it actively served the implementation of many major national strategies such as the coordination of Beijing-Tianjin-Hebei Region, the integrated development of Yangtze River Delta, and the construction of Guangdong-Hong Kong-Macao Greater Bay Area, boosted the mutual-beneficial cooperation under the Belt and Road Initiative, stepped up the FTZ, cross-border, and other financial innovation, took the initiative to help Shanghai build "five centers" and "four brands", put the strategies related to "three tasks" and "one platform" into operation vigorously, and moved faster to transform towards digital operation, with a view to better serving the real economy and practicing the inclusive finance. As to social responsibilities, the Bank kept coming up with innovative approaches to public welfare practice, managed employee volunteers on a regular, institution-based basis, by conducting the day of volunteer event attended by all employees for 13 consecutive years, fostered a responsibility culture with unique to itself, thus gaining socially responsible competitiveness with its own characteristics. When it came to environmental responsibilities, the Bank vigorously developed low-carbon business, advocated eco-friendly concepts, boosted innovation in green finance, and got itself fully integrated into the construction of experimental areas for the national reform and innovation in green finance. Social contribution value per share of the Group during the reporting period:

Year	2019	2018	2017
Social contribution value per share (in RMB, based on weighted average)	9.22	9.02	8.60

Note: Social contribution value per share = earnings per share + (tax amount + employee expenses + interest expenditure + total amount of public welfare input)/weighted average of ordinary shares issued to the public during the reporting period.

7.20 Efforts the Bank Made to Fight against the COVID-19 Pandemic

Since the coronavirus outbreak, the Bank has attached high importance to the epidemic control and the economic stimulation. On 22 January 2020, the Bank convened a plenary video conference to make arrangements for pandemic control, recruited an epidemic prevention and control steering group, responded to the guiding principles and requirements put forth by the central and local governments swiftly. In addition to making vigorous deployments and taking concrete efforts, it rolled out a host of targeted measures promptly, which produced sound effects.

As at the end of March 2020, the Group made donations totaling RMB27 million.

The Bank saw some results achieved in its transformation towards digital operation over recent years getting fully demonstrated in the fight against the COVID-19 pandemic. In terms of business operation, all personal businesses other than those which have to be handled face to face as required by regulators went online. For customer service, as the first of its kind realizing the full coverage of smart voice services, the Bank rolled out the AI-enabled customer service, a move that saved customer service staff from working together substantially. In terms of marketing, AMA smart marketing robot made its debut. It can launch online marketing activities automatically, thus protecting the delivery of customer service from interruption during the special period of time.

Under this particular circumstance, the Bank adopted special credit policies and service modes to support enterprises in their operation and rendering personal customers with financial services. First, it promptly adjusted some credit policies for corporate customers by optimizing the internal review/approval procedures substantially, and supported enterprises in their development at the bond market vigorously. Second, it provided grace period flexibilities for some personal customers who were short of money or inconvenient to make repayment during the coronavirus outbreak. Third, it made full use of its platform services and functions to fulfill social responsibilities. The SPD Benefit-series reservation registration service went live on the SPD Bank APP, benefiting for more than 150 cities nationwide. The free online diagnosis service was unveiled, and has been used by over 250,000 person-times.

Besides, the Bank participated in constructing all sorts of financial factor markets vigorously. After the coronavirus outbreak, it served as a market maker in precious metal, commodity, bond, interest rate derivative, foreign exchange, and monetary markets, and played an active role in maintaining the steady market order.

8 Changes of Ordinary Shares and the Shareholders

Changes of Ordinary Shares and the Shareholders

8.1 Overview of Equity Capital

8.1.1 Changes of ordinary shares

8.1.1.1 Changes of ordinary shares

As at the end of the reporting period, there was no change to ordinary shares at the Bank. The share structure is as follows:

Number of shares

	Quantity	Percentage (%)
I. Shares with restricted sale conditions		
1. Shares held by the state	–	–
2. Shares held by state-owned legal persons	1,248,316,498	4.25
3. Other domestically held shares	–	–
Incl.: Shares held by domestic legal persons	–	–
Shares held by domestic natural persons	–	–
4. Shares held by foreign shareholders	–	–
Incl.: Shares held by overseas legal persons	–	–
Shares held by overseas natural persons	–	–
II. Floating shares without restricted sale conditions		
1. RMB ordinary shares	28,103,763,899	95.75
2. Foreign shares listed domestically	–	–
3. Foreign shares listed overseas	–	–
4. Others	–	–
III. Total ordinary shares	29,352,080,397	100.00

8.1.2 Changes of restricted shares

As at the end of the reporting period, there was no change to restricted ordinary shares at the Bank. Details are as follows:

Number of shares

Shareholder name	Opening number of restricted shares	Number of new restricted shares in the reporting period	Closing number of restricted shares	Reason for restricted sale	Starting date of restriction
Shanghai International Group Co., Ltd.	842,003,367	–	842,003,367	Getting involved in the additional private placement, and not available for transfer within 36 months	4 September 2017
Shanghai Guoxin Investment Development Limited	406,313,131	–	406,313,131		4 September 2017

8.2 Shareholder Information

8.2.1 Total number of shareholders

Accounts

Total number of ordinary shareholders as at the end of reporting period	167,830
Total number of ordinary shareholders as at the end of the month before the annual report disclosure day	181,626
Total number of preference shareholders with recovered voting rights as at the end of the reporting period	0
Total number of preference shareholders with recovered voting rights as at the end of the month before the annual report disclosure day	0

8.2.2 Overview of shares held by the top ten shareholders and the top ten shareholders of circulating shares (or shareholders without restricted sale conditions) as at the end of the reporting period

Overview of shareholding by top ten shareholders

Shareholder name	Increase/ decrease during the reporting period	Number of shares by the end of the reporting period	Percentage (%)	Number of shares with restricted sale conditions	Number of pledged or frozen shares
Shanghai International Group Co., Ltd.	–	6,331,322,671	21.57	842,003,367	–
China Mobile Communication Group Guangdong Limited	–	5,334,892,824	18.18	–	–
Funde Sino Life Insurance Co., Ltd. – conventional	–	2,779,437,274	9.47	–	–
Funde Sino Life Insurance Co., Ltd. – capital	–	1,763,232,325	6.01	–	–
Shanghai Sitico Assets Management Co., Ltd.	–	1,395,571,025	4.75	–	–
China Securities Finance Corporation Limited	–	1,307,994,759	4.46	–	–
Funde Sino Life Insurance Co., Ltd. – universal H	–	1,270,428,648	4.33	–	–
Shanghai Guoxin Investment Development Limited	–	945,568,990	3.22	406,313,131	–
Buttonwood Investment Platform Ltd.	–	886,131,340	3.02	–	–
Hong Kong Securities Clearing Company Limited	+127,615,070	504,430,091	1.72	–	–

Changes of Ordinary Shares and the Shareholders

Overview of shareholding by top ten shareholders without sale restriction conditions

Shareholder name	Number of circulating shares without sale restriction	Stock class
Shanghai International Group Co., Ltd.	5,489,319,304	RMB ordinary shares
China Mobile Communication Group Guangdong Limited	5,334,892,824	RMB ordinary shares
Funde Sino Life Insurance Co., Ltd. – conventional	2,779,437,274	RMB ordinary shares
Funde Sino Life Insurance Co., Ltd. – capital	1,763,232,325	RMB ordinary shares
Shanghai Sitico Assets Management Co., Ltd.	1,395,571,025	RMB ordinary shares
China Securities Finance Corporation Limited	1,307,994,759	RMB ordinary shares
Funde Sino Life Insurance Co., Ltd. – universal H	1,270,428,648	RMB ordinary shares
Buttonwood Investment Platform Ltd.	886,131,340	RMB ordinary shares
Shanghai Guoxin Investment Development Limited	539,255,859	RMB ordinary shares
Hong Kong Securities Clearing Company Limited	504,430,091	RMB ordinary shares

Statement on the connected relations or concerted action relations of the aforesaid shareholders	1.Shanghai International Group Co., Ltd. is the controlling company of Shanghai Sitico Assets Management Co., Ltd. and Shanghai Guoxin Investment Development Co., Ltd. 2.Funde Sino Life Insurance Co., Ltd. – conventional, Funde Sino Life Insurance Co., Ltd. – capital and Funde Sino Life Insurance Co., Ltd. – universal H are under the name of the same legal person. 3.Connected relations or concerted action relations of the aforesaid shareholders apart from the situations mentioned above are known to the Bank.

Note: Funde Sino Life Insurance Co., Ltd. saw its shareholder qualification subject to the approval of CBIRC.

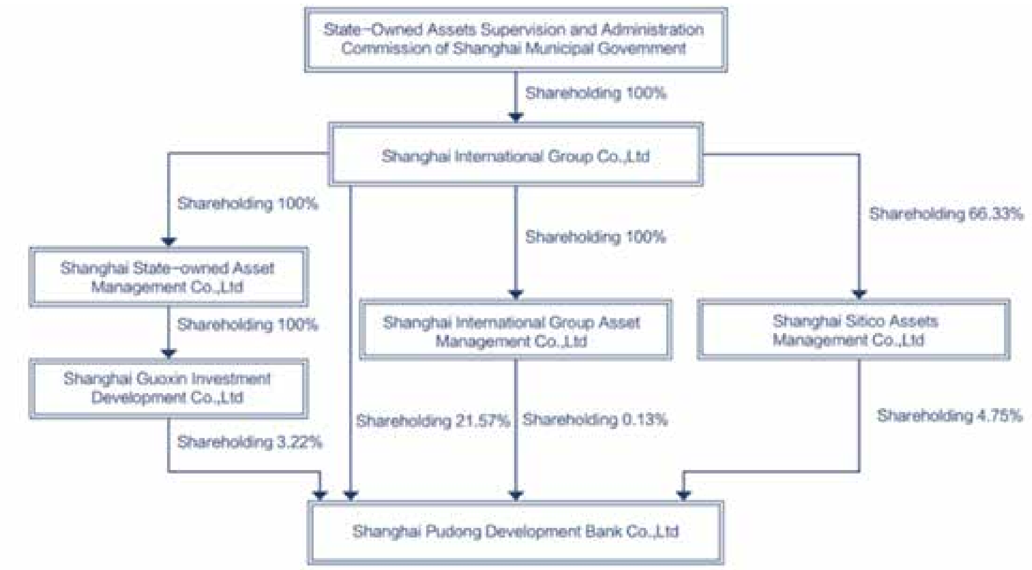
8.2.3 Overview of controlling shareholders and de facto controllers

The Bank had no controlling shareholders or de facto controllers.

The largest consolidated shareholder of the Bank was Shanghai International Group Co., Ltd., which was not changed during the reporting period. As at the end of the reporting period, Shanghai International Group Co., Ltd. and its controlling subsidiaries held 29.67% shares of the Bank on a consolidated basis.

Shanghai International Group Co., Ltd. was founded on April 20, 2000 with a registered capital of RMB10,558.84 million. Its registered address is No. 511 Weihai Road, Jing'an District, Shanghai, and its legal Representative is Yu Beihua. Its uniform social credit number is 91310000631757739E, and its business scope covers investment with finance business as the main direction and non-finance business as the supporting part, capital operation and asset management, financial research, social and economic consulting, etc.

Block diagram for property right and controlling relations between the Bank and its largest consolidated shareholder



8.2.4 Other legal-person shareholders holding more than 10% shares of the Bank as at the end of the reporting period

1. Funde Sino Life Insurance Co., Ltd. was founded on 4 March 2002 with a registered capital of RMB11,752,005,497. Its registered address is 27, 28, 29 and 30/F Life Insurance Tower, No.1001 Fuzhong Road I, Futian District, Shenzhen and its legal representative is Fang Li. Uniform social credit number: 91440300736677639J. Business scope: personal accident insurance, personal fixed-term death insurance, personal mixed life insurance, personal whole life insurance, personal annuity insurance, personal short-term health insurance, personal long-term health insurance, group accident bodily injury insurance, group fixed term life insurance, group whole life insurance, group annuity insurance, group short-term health insurance, group long-term health insurance, other life insurances as approved by CBIRC, reinsurance for the above insurances, concurrent-business insurance agency (by virtue of business license), and funds application businesses as approved by CBIRC.

2. China Mobile Communication Group Guangdong Limited was founded on 13 January 1998 with a registered capital of RMB5,594.84 million. Its registered address was Global building, No.11 Zhujiang West Road, Pearl River New City, Tianhe District, Guangzhou, and its legal representative was Wei Ming. Uniform social credit number: 91440000707653099T. Business scope: mobile communication business in Guangdong (including voice, data and multimedia); IP telephone and internet access; design, investment and construction of mobile communications, IP telephone and internet network; installation, engineering installation and maintenance of facilities of mobile communications, IP telephone and internet; system integration, roaming settlement, technology development, technical services and equipment sales in connection with mobile communications, IP telephone and internet; sale and rent of mobile phone terminal equipment, IP telephone equipment, internet equipment and spare parts, and after-sale services for them; satellite international private line service, internet data transmission service, and international data communication service; domestic communications facility service business; domestic very small-aperture terminal (VSAT) ground station communication service, and network custody business; online data processing and transaction processing business, domestic internet-based virtual private network services, internet data center services; information services (including mobile information services and internet information services; internet information services excluding news, publishing, education, healthcare, pharmaceuticals, medical devices, electronic bulletin services, etc.); fixed networked-based local call service, fixed network-based domestic long-distance call service, fixed network-based international call service, public telegram and user telegraph service, professional wireless access (including 26GHz wireless access service and 3.5GHz wireless access service; 3.5GHz wireless access service not covering Guangzhou); (the above business types involving licensing operation shall be operated with licenses); design, production, release, agency of domestic and foreign advertising of all sorts; collection of water, electricity, and gas fees; ticketing agency service; sale of general merchandize, household appliances, electronic products, computers and accessories, wearable equipment, communication equipment and accessories, etc.; provision of professional trainings (excluding academic education and vocational trainings); provision of conference services; leasing of venues, self-owned houses, and counters; food and beverage services: production and sales of Chinese food, Western food and other ancillary services; and hotel-related services: provision of accommodation and other commercial services.

9 Overview of Preference Shares

Overview of Preference Shares

9.1 Issuance and Listing of Preference Shares in Recent Three Years as at the End of the Reporting Period

In 10,000 shares

Code of preference share	Abbreviation of preference share	Issuance date	Issuance price (RMB)	Nominal dividend rate (%)	Number of issued shares	Listing date	Trade volume of listing	Date of delisting
360003	浦发优 1	2014-11-28	100	5.58	15,000	2014-12-18	15,000	-
360008	浦发优 2	2015-03-06	100	5.50	15,000	2015-03-26	15,000	-

Notes: (1) On 3 December 2019, SPDB P 1's nominal dividend rate was adjusted, and that rate for the second five years is 5.58%, which consists of 3.02% as the yield rate arithmetic mean of five-year government bond issued during the 20 trading days before the repricing date of the second dividend rate adjustment period (excluding the repricing date) and the fixed premium of 2.56%. The nominal dividend rate would be adjusted once every five years according to change of the benchmark interest rate.

(2) SPDB P 2's nominal dividend rate for the first five years is 5.50%, which consists of 3.26% as the yield rate arithmetic mean of five-year government bond issued during the 20 trading days before the repricing date of the second dividend rate adjustment period (excluding the repricing date) and the fixed premium of 2.24%. The nominal dividend rate would be adjusted once every five years according to change of the benchmark interest rate. On 11 March 2020, SPDB P 2's nominal dividend rate was adjusted, and that rate for the second five years is 4.81%.

9.2 Overview of Shareholders of Preference Shares

9.2.1 Total number of shareholders of preference shares

	Code	Abbreviation	Total number of shareholders (accounts)
Total number of shareholders as at the end of the reporting period	360003	浦发优 1	32
	360008	浦发优 2	14
Total number of shareholders of preference shares at the end of the month before the date of annual report disclosure	360003	浦发优 1	32
	360008	浦发优 2	14

9.2.2 Shareholding of the top ten shareholders of preference shares and top ten shareholders without sale restriction conditions as at the end of the reporting period

9.2.2.1 SPDB P 1

Number of shares

Shareholder name	Number of shares held at the end of the period	Percentage (%)
BOCOM Schroder Asset Management Co., Ltd.	11,540,000	7.69
China Ping An Property Insurance Co., Ltd. - conventional	11,470,000	7.65
China Ping An Life Insurance Co., Ltd. - bonus	11,470,000	7.65
China Ping An Life Insurance Co., Ltd. - universal	11,470,000	7.65
Maxwealth Fund	11,470,000	7.65
HWABAO TRUST Co., Ltd. - fund trust in No.2 investment	11,470,000	7.65
E Fund Management	11,470,000	7.65
Single fund trust of Jin Sheng Tian Li No.1 of Bank of Communications International Trust	9,180,000	6.12
Beijing Tiandi Fangzhong Asset Management	8,410,000	5.61
Zhonghai Trust Co., Ltd.	7,645,500	5.10

Statement on whether there is correlation among the top ten shareholders of preference shares and between the above shareholders and the top ten shareholders of ordinary shares, and whether they are persons acting in concert	1. China Ping An Property Insurance Co., Ltd. - conventional, China Ping An Life Insurance Co., Ltd. - bonus and China Ping An Life Insurance Co., Ltd. - universal are under the persons acting in concert. 2. Connected relations or concerted action relations of the aforesaid shareholders apart from the situations mentioned above are known to the Bank.

9.2.2.1 SPDB P 2

Number of shares

Shareholder name	Number of shares held at the end of the period	Percentage (%)
People's Insurance Company of China – conventional	34,880,000	23.25
China Ping An Life Insurance Co., Ltd. – bonus	20,360,000	13.57
China Ping An Life Insurance Co., Ltd. – universal	19,500,000	13.00
China Ping An Life Insurance Co., Ltd. – self-owned fund	19,500,000	13.00
Maxwealth Fund	10,460,000	6.97
Bank of China Limited Shanghai Branch	10,460,000	6.97
BOCOM Schroder Asset Management Co., Ltd.	6,970,000	4.65
Zhonghai Trust Co., Ltd.	6,970,000	4.65
Wisdom Asset Management	6,970,000	4.65
Huashang Fund Management Co., Ltd.	5,580,000	3.72

Statement on whether there is correlation among the top ten shareholders of preference shares and between the above shareholders and the top ten shareholders of ordinary shares, and whether they are persons acting in concert	1. China Ping An Life Insurance Co., Ltd. – bonus, China Ping An Life Insurance Co., Ltd. – universal and China Ping An Life Insurance Co., Ltd. – self-owned fund are under the same legal person. 2. Connected relations or concerted action relations of the aforesaid shareholders apart from the situations mentioned above are known to the Bank.

9.3 Distribution of Dividend of Preference Shares

9.3.1 Distribution of dividend of preference shares during the reporting period

On 28 February 2019, the Bank disclosed the Announcement on Distribution of Dividend for Preference Shares (Tranche II). The equity registration date for distribution in this tranche of preference shares' dividend is 8 March 2019, and the ex dividend date is 9 March 2019. The start date of interest accrual for dividend distribution is 11 March 2018 and the date of dividend distribution is 11 March 2019. Based on the nominal dividend rate 5.50% of SPDB P 2, the cash dividend to be distributed per share would be RMB5.50 (tax inclusive), and the total dividend would be RMB825 million (tax inclusive).

On 21 November 2019, the Bank disclosed the Announcement on Distribution of Dividend for Preference Shares (Tranche I). The equity registration date for distribution in this tranche of preference shares' dividend is 2 December 2019, and the ex dividend date is 2 December 2019. The start date of interest accrual for dividend distribution is 3 December 2018 and the date of dividend distribution is 3 December 2019. Based on the nominal dividend rate 6.00% of SPDB P 1, the cash dividend to be distributed per share would be RMB6 (tax inclusive), and the total dividend would be RMB900 million (tax inclusive).

9.3.2 Distribution of dividend of preference shares in the recent three years

In RMB100 millions

Year	Distribution amount	Remarks
2019	17.25	Dividend distribution of SPDB P 1 and SPDB P 2
2018	17.25	Dividend distribution of SPDB P 1 and SPDB P 2
2017	17.25	Dividend distribution of SPDB P 1 and SPDB P 2

Overview of Preference Shares

9.4 Repurchase and Conversion of Preference Shares of the Bank during the Reporting Period

The Bank had no repurchase and conversion of preference shares during the reporting period.

9.5 Voting Right on Preference Shares Resumed during the Reporting Period

The Bank had no voting right on preference shares resumed during the reporting period.

9.6 Adjustments to Nominal Dividend Rates of Preference Share during the Reporting Period

As per the Prospectus of Shanghai Pudong Development Bank Co., Ltd. for Private Issuance of Preference Shares (hereinafter referred to as "the Prospectus"), the 150 million preference shares the Bank issued privately in the first tranche on 3 December 2014 shall apply a nominal dividend yield subject to phase-specific adjustment, i.e., every five years constitutes a dividend rate adjustment period.

SPDB P 1 saw the repricing date of the second dividend rate adjustment period falling on 3 December 2019. The nominal dividend rate is the benchmark interest rate on the repricing date plus the fixed premium determined on the initial pricing date. The benchmark interest rate is 3.02%, that is, the arithmetic mean (rounded to 0.01%) of the five-year government bonds' yield rates in the yield rate curve of the ChinaBond interbank fixed rate government bonds published by China Central Depository & Clearing Co., Ltd. for 20 trading days before the repricing date (3 December 2019). The fixed premium is 2.56%, as determined on the initial pricing date. Therefore, SPDB P 1 in the second dividend rate adjustment period carries the benchmark interest rate of 3.02%, the fixed premium of 2.56%, and the nominal dividend rate of 5.58%. The interest date fell on 3 December 2019 and the interest shall be paid annually.

9.7 Accounting Policy Adopted by the Bank for Preference Shares and the Reason

The Bank classified the preference shares into financial assets, financial liabilities or equity instruments at the time of initial confirmation, according to the rules of financial instruments, the provisions in contract for issuing preference shares, the economic essence reflected, and based on definitions of financial assets, financial liabilities and equity instruments. If the following conditions are met concurrently, the Bank will classify the financial instruments issued as equity instruments:

(1) Such financial instruments do not involve delivering cash or other financial assets to other parties, or the contract obligations of exchanging financial assets or financial liabilities with other parties in potentially adverse conditions; (2) in case the Bank's own equity instruments are to be used or may be used for settling accounts for such financial instruments in the future, and such instruments are non-derivative instruments, there would be no contract obligation of delivering variable quantity of its own equity instruments for settlement; if the instruments are derivative instruments, only the fixed quantity of equity instruments can be used for exchanging for fixed amount of cash or other financial assets may be used for settling accounts of such financial instruments.

On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with the offering value of RMB30 billion in total to domestic investors. The proceeds were accrued to other equity instruments with issuance expense deducted. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, under the approval by CBIRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on an annual basis at a fixed dividend rate which is adjusted every five years. The Bank has the right to not to declare or distribute the dividends of preference shares in part or in full.

Upon occurrence of any of the following triggering events and subject to the approval from CBIRC, the Bank's outstanding preference shares shall be mandatorily converted in part or in full to the Bank's ordinary shares: (1) when the core tier-one capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preferred share shall be converted into the Bank's ordinary shares in part or in full at a pre-determined mandatory conversion price so as to bring the Bank's core tier-one capital adequacy ratio back to 5.125% and above; (2) when any triggering event of the Bank's tier-two capital instruments occurs, the outstanding preferred shares shall be converted to the Bank's ordinary A shares at the pre-determined mandatory conversion price.

Overview of Preference Shares

Under the approval from the regulator, the outstanding preference shares will be fully or partially converted to ordinary A shares at the price of RMB7.62 per share when meeting the mandatory conversion triggering conditions. Following the date of approving the preference share issuance plan by the Board of Directors, if the Bank subsequently appropriates bonus shares, converts capital reserve to share capital, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible corporate bonds) or issues rights, the conversion price shall be adjusted subject to the set formula based on the order of occurrence of the above conditions.

Pursuant to the relevant laws and regulations as well as the Approval from CBRC on SPD Bank's Non-Public Offering of Preference Shares and Corresponding Revisions to the Articles of Association (Y.J.F. No.564, 2014), the proceeds from the issuance of preference shares shall be used to supplement additional tier-one capital of the Bank. Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

The Bank confirmed the preference shares issued this time as other equity instruments based on the contract terms and economic substance of the issuance.

10 Convertible Corporate Bonds

Convertible Corporate Bonds

10.1 Overview

On 1 November 2019, the Bank finished issuing the A share convertible corporate bonds (hereinafter referred to as "the convertible bonds"). The proceeds amounted to RMB50 billion and the net funds stood at some RMB49,912 million after deducting the issuance expense. On 15 November 2019, the abovementioned A share convertible bonds were listed on SSE (stock name: SPDB Convertible Bond, stock code: 110059).

10.2 Convertible Bondholders and Guarantors during the Reporting Period

Number of convertible bond holders as at the end of reporting period	136,674	
The Bank had no guarantor of convertible bonds.	N/A	
Top ten convertible bond holders	Nominal value of bonds held at the end of reporting period	Percentage of bonds held(%)
China Mobile Communication Group Guangdong Limited	9,085,323,000	18.17
Shanghai International Group Co., Ltd.	5,055,445,000	10.11
Special account for collateralized bond repurchase in the securities depository and clearing system (Industrial and Commercial Bank of China (ICBC))	2,949,286,000	5.90
Shanghai Sitico Assets Management Co., Ltd.	1,776,657,000	3.55
Special account for collateralized bond repurchase in the securities depository and clearing system (Bank of China (BOC))	1,736,264,000	3.47
Special account for collateralized bond repurchase in the securities depository and clearing system (China Merchants Bank Co., Ltd.)	1,154,459,000	2.31
Special account for collateralized bond repurchase in the securities depository and clearing system (China Construction Bank (CCB))	1,078,025,000	2.16
Special account for collateralized bond repurchase in the securities depository and clearing system (China Galaxy Securities Co., Ltd.)	870,279,000	1.74
Special account for collateralized bond repurchase in the securities depository and clearing system (China Minsheng Banking Corporation Ltd.)	741,912,000	1.48
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of Communications (BoCom))	634,295,000	1.27

10.3 Changes in Convertible Bonds during the Reporting Period

Conversion duration of the Bank's A share convertible bonds starts from the first trading day six months after completion of the convertible bond issuance and ends on the maturity date of the convertible bonds (i.e., 6 May 2020 to 27 October 2025). As at the end of reporting period, the A share convertible bonds of the Bank hadn't entered the period of conversion.

10.4. Previous Adjustments of Conversion Price

Pursuant to the Prospectus of Shanghai Pudong Development Bank Co., Ltd for Public Issuance of Convertible Corporate Bonds as well as the pertinent laws and regulations, if the Bank's shares change as it distributes stocks or dividends, increases equity, issues new shares or makes rights issue (excluding the equity increased due to conversion of the convertible bonds to be issued this time) after the issuance, the conversion price shall be adjusted accordingly. During the reporting period, the Bank incurred none of the above circumstances where the conversion price should be adjusted.

10.5 The Bank's Outstanding Debts, Creditworthiness and Availability of Cash for Repayment of Debts in Future Years

In accordance with the applicable provisions in the Administrative Measures for the Issuance of Securities by Listed Companies, the Administrative Measures for the Issuance and Trading of Corporate Bonds, and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Bank entrusted Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (hereinafter referred to as "Shanghai Brilliance" for short) to rate the credit standing of the convertible bonds issued in October 2019. Shanghai Brilliance issued the Credit Rating Report of Shanghai Pudong Development Bank Co., Ltd on A Share Convertible Corporate Bonds, indicating the corporate credit rating at AAA with a stable prospect and the credit rating of the convertible bonds as AAA. The Bank managed to remain stable in all aspects of operation, as exemplified by the reasonable asset structure, the basically steady liabilities, and the robust credit position. In future years, cash inflow brought by the income from normal operations, realization of current assets, and others will constitute the principal cash sources for the Bank's debt service.


浦发银行 SPD


创享新征程


迎行庆·泰州分行

11 Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

11.1 Basic Information on Directors, Supervisors and Senior Management Members

11.1.1 Incumbent Directors, Supervisors, Senior Executives as at the end of the reporting period

Name	Position	Gender	Year of birth	Tenure	Number of shares newly bought in the reporting period	Number of shares held as at the end of the reporting period	Remuneration received from the Bank (before-tax) during the reporting period (in RMB10,000)
Zheng Yang	Party Committee Secretary, Chairman, Executive Director	Male	1966	16 December 2019-the end of tenure			33.27
Pan Weidong	Deputy Party Committee Secretary, Vice Chairman, Executive Director, President	Male	1966	16 December 2019-the end of tenure	65,000	120,000	115.21
Chen Zheng'an	Deputy Party Committee Secretary, Executive Director	Male	1963	16 December 2019-the end of tenure			115.17
Liu Yiyan	Executive Director, Vice President, CRO	Male	1964	16 December 2019-the end of tenure	51,000	103,500	106.20
Liu Xinyi	Non-executive Director	Male	1965	16 December 2019-the end of tenure	80,000	160,000	
Guan Wei	Non-executive Director	Female	1971	16 December 2019-the end of tenure			
Wang Hongmei	Non-executive Director	Female	1961	16 December 2019-the end of tenure			
Zhang Dong	Non-executive Director	Male	1969	16 December 2019-the end of tenure			
Liu Peifeng	Non-executive Director	Male	1969	16 December 2019-the end of tenure			
Wang Zhe	Independent Director	Male	1960	16 December 2019-the end of tenure			32.67
Zhang Ming	Independent Director	Male	1958	16 December 2019-the end of tenure			28.00
Yuan Zhigang	Independent Director	Male	1958	16 December 2019-the end of tenure			34.00
Henry Cai	Independent Director	Male	1954	16 December 2019-the end of tenure			
Wu Hong	Independent Director	Male	1956	16 December 2019-the end of tenure			
Sun Jianping	Chairman of the Board of Supervisors, External Supervisor	Male	1957	16 December 2019-the end of tenure			
Sun Wei	Shareholder Supervisor	Male	1970	16 December 2019-the end of tenure			
Cao Yijian	Shareholder Supervisor	Male	1976	16 December 2019-the end of tenure			
Li Qingfeng	Shareholder Supervisor	Male	1971	16 December 2019-the end of tenure			
Wu Jian	External Supervisor	Male	1968	16 December 2019-the end of tenure			
Wang Yuetang	External Supervisor	Male	1963	16 December 2019-the end of tenure			
Wu Guoyuan	Employee Supervisor	Male	1961	16 December 2019-the end of tenure			367.91
Zhang Yilin	Employee Supervisor	Male	1960	16 December 2019-the end of tenure			473.30
He Weihai	Employee Supervisor	Male	1967	16 December 2019-the end of tenure			445.67
Xu Haiyan	Vice President	Female	1960	16 December 2019-the end of tenure	60,000	108,000	103.07
Jiang Fangping	Head of Discipline Inspection and Supervision Office at SPD Bank	Male	1966	Since August 2019			29.94
Wang Xinhao	Vice President, CFO	Male	1967	16 December 2019-the end of tenure	51,000	111,000	95.85
Cui Bingwen	Vice President	Male	1969	16 December 2019-the end of tenure	48,000	99,700	90.65
Xie Wei	Vice President, Secretary to the Board of Directors	Male	1971	16 December 2019-the end of tenure	53,000	106,000	95.85

Notes:

(1) Senior Management members purchased A-share stocks of the Bank with their own funds from the secondary market on 10 June 2019. They voluntarily undertook that the purchased stocks would be subject to a lock-up period of two years since the date of purchase.

(2) Party Committee Secretary Zheng Yang and Head of the Discipline Inspection and Supervision Office at SPD Bank Jiang Fangping took office in July 2019 and August 2019, respectively. So their remuneration was not calculated by full year during the reporting period.

(3) On 16 December 2019, the Bank on its First Extraordinary Shareholders' Meeting in 2019 elected Zheng Yang, Pan Weidong, Chen Zheng'an, Liu Yiyan, Liu Xinyi, Guan Wei, Wang Hongmei, Zhang Dong, and Liu Peifeng as Directors as well as Wang Zhe, Zhang Ming, Yuan Zhigang, Henry Cai, and Wu Hong as Independent Directors, of whom Chen Zheng'an, Liu Yiyan, Liu Xinyi, Wang Hongmei, Zhang Dong, Liu Peifeng and Wu Hong still saw their qualifications subject to approval of CBIRC. Meanwhile, it selected Sun Wei, Cao Yijian, and Li Qingfeng as Supervisors as well as Sun Jianping, Wu Jian and Wang Yuetang as External Supervisors.

(4) On 16 December 2019, the Bank on its first session of the Seventh Board of Directors elected Director Zheng Yang as its Chairman and Director Pan Weidong as its Vice chairman and President; and hired Xu Haiyan, Liu Yiyan, Wang Xinhao, Cui Bingwen, and Xie Wei as Vice Presidents. Of whom, Wang Xinhao was designated as CFO, Liu Yiyan as CRO, and Xie Wei as Secretary to the Board of Directors concurrently, with the term of office same as that of the Seventh Board of Directors.

(5) The final remunerations of Directors, Supervisors and Senior Management members of the Bank who are on the payroll of the Bank are under confirmation, and the rest will be disclosed separately after being confirmed.

11.1.2 Directors, Supervisors and Senior Management members Leaving Office

Name	Position	Gender	Year of birth	Tenure	Number of shares newly bought in the reporting period	Number of shares held as at the end of the reporting period	Remuneration received from the Bank (before-tax) during the reporting period (in RMB10,000)
Gao Guofu	Former Chairman	Male	1956	May 2017-Dec. 2019			104.77
Liu Xinyi	Former Vice Chairman, Executive Director, President	Male	1965	Apr. 2016-Nov. 2019	80,000	160,000	117.41
Fu Fan	Former Non-executive Director	Male	1964	Jun. 2017-Dec. 2019			
Xia Bing	Former Non-executive Director	Male	1973	Mar. 2019-Dec. 2019			
Gu Jianzhong	Former Non-executive Director	Male	1974	Apr. 2016-Jan. 2019			
Dong Xiuming	Former Non-executive Director	Male	1970	Apr. 2016-Jan. 2019			
Qiao Wenjun	Former Independent Director	Male	1970	Apr. 2016-Nov. 2019			23.83
Chen Bichang	Former Shareholder Supervisor	Male	1959	Apr. 2016-Dec. 2019			
Zhao Jiusu	Former External Supervisor	Male	1954	Apr. 2016-Dec. 2019			28.00
Chen Shimin	Former External Supervisor	Male	1958	Apr. 2016-Dec. 2019			28.00
Geng Guangxin	Former Employee Supervisor	Male	1961	Apr. 2016-Dec. 2019			337.28

Notes:

(1) On 11 January 2019, the Bank received a resignation letter from Director Mr. Gu Jianzhong. Due to job transfer, Mr. Gu Jianzhong submitted his resignation from the positions of Director, member of the Audit Committee, member of the Remuneration and Appraisal Committee, and member of the Capital and Operation Management Committee under the Board of Directors. His resignation took effect on 11 January 2019.

(2) On 16 January 2019, the Bank received a resignation letter from Director Mr. Dong Xiuming. Due to job transfer, Mr. Dong Xiuming submitted his resignation from the positions of Director, member of the Remuneration and Appraisal Committee, and member of the Capital and Operation Management Committee under the Board of Directors. His resignation took effect on 16 January 2019.

(3) On 6 November 2019, the Bank received a resignation letter from Independent Director Mr. Qiao Wenjun. Due to work-related reason, Mr. Qiao Wenjun resigned from the positions of Independent Director, member of the Risk Management and Related-party Transactions Control Committee, and member of the Audit Committee under the Board of Directors. His resignation took effect on 6 November 2019.

(4) On 7 November 2019, the Bank received a resignation letter from Vice Chairman and President Mr. Liu Xinyi. Due to job adjustment, Mr. Liu Xinyi resigned from the positions of Vice Chairman, Executive Director, President, member of the Capital and Operation Management Committee, member of the Strategy Committee, and member of the Nomination Committee under the Board of Directors. His resignation took effect on 7 November 2019.

11.1.3 Remuneration received by Directors, Supervisors and Senior Management members after the assessment and confirmation by competent departments in 2018

Name	Position	Period of remuneration	Remuneration payable (in RMB10,000) (1)	Employer's contribution to social security, enterprise annuity, supplemental medical insurance and housing allowance (2)	Other monetary income (noted with specific items and listed separately) (3)	Total (4)=(1)+(2)+(3)
Gao Guofu	Chairman	1 January 2018 -31 December 2018	166.70	18.04	0.00	184.74
Liu Xinyi	Vice Chairman, President	1 January 2018 -31 December 2018	287.60	18.59	0.00	306.19
Chen Zheng'an	Vice Chairman of the Board of Supervisors	1 January 2018 -31 December 2018	174.85	17.62	0.00	192.47
Pan Weidong	Director, Vice President, CFO	1 January 2018 -31 December 2018	258.84	18.11	0.00	276.95
Xu Haiyan	Vice President	1 January 2018 -31 December 2018	232.84	17.64	0.00	250.48
Liu Yiyan	Vice President	1 January 2018 -31 December 2018	245.84	17.88	0.00	263.72
Wang Xinhao	Vice President	1 January 2018 -31 December 2018	233.42	17.88	0.00	251.30
Cui Bingwen	Vice President	1 January 2018 -31 December 2018	220.42	17.88	0.00	238.30
Xie Wei	Vice President, Secretary to the Board of Directors	1 January 2018 -31 December 2018	233.42	17.88	0.00	251.30
Wu Guoyuan	Employee Supervisor	1 January 2018 -31 December 2018	352.09	17.57	0.00	369.66
Geng Guangxin	Employee Supervisor	1 January 2018 -31 December 2018	352.09	17.79	0.00	369.88

11.1.4 Main work experience and service information of Directors, Supervisors and Senior Management members

11.1.4.1 Directors

Zheng Yang, male, born in 1966, Doctorate degree, and Senior Economist. He previously served as Chief of the Research Division of the Economic Laws and Regulation Department of the State Economic and Trade Committee, Chief of the Development Division and Chief of the Tendering Division VII of China National Tendering Center of Mach. & Elec. Equipment, Deputy Director of Capital Account Management Department, Sate Administration of Foreign Exchange (SAFE), Party Committee Member and Deputy General Manager of PBC Shanghai Branch and Deputy Head of SAFE Shanghai Branch, Party Committee Member and Deputy Head of PBC Shanghai Head Office and Director of the Foreign Exchange Management Department of the PBC Shanghai Head Office (concurrently), Deputy Secretary of the CPC Shanghai Municipal Committee for Financial Work and Director of the Shanghai Financial Service Office, Secretary of CPC Shanghai Municipal Committee for Financial Work and Director of the Shanghai Financial Service Office, and Secretary of CPC Shanghai Municipal Committee for Financial Work and Director of Shanghai Municipal Financial Regulatory Bureau (Shanghai Financial Work Bureau). He currently works as Party Committee Secretary and Chairman of SPD Bank, and Chairman of SPD Silicon Valley Bank Co., Ltd.

Pan Weidong, male, born in 1966, Master's degree and Senior Economist. He previously served as Deputy Manager of Corporate Business Department I of Ningbo Securities Company, General Manager of Asset and Finance Department of SPD Bank Ningbo Branch, Director of SPD Bank Beilun Sub-branch, Deputy General Manager of Ningbo Branch, General Manager of SPD Bank's Product Development Department, General Manager and Party Leadership Group Secretary of SPD Bank Kunming Branch, Chief of the Financial Institutions Service Division of Shanghai Municipal Financial Service Office (temporary post), Party Committee Member, General Manager Assistant and Deputy General Manager of Shanghai International Group, Party Committee Secretary and Chairman of Shanghai International Trust Co., Ltd., and

Party Committee Member, Executive Director, Vice President and CFO of SPD Bank. He currently works as Deputy Party Committee Secretary, Vice Chairman and President of SPD Bank, and Chairman of Shanghai International Trust Co., Ltd.

Chen Zheng'an, male, born in 1963, and Bachelor's degree. He previously served as Party Leadership Group Member, Deputy Procurator General and Member of Procuratorial Committee of Shanghai Jing'an Procuratorate, Deputy Secretary of Party Working Committee, Director of Representative Office and Secretary of Party Working Committee of Shimenerlu Street of Shanghai Jing'an District, Party Leadership Group Secretary and Director of Shanghai Jing'an Real Estate Bureau, Deputy Mayor, Party Committee Standing Member and Head of the Organization Department of Shanghai Jinshan District, Deputy Secretary of CPC Shanghai Municipal Committee for Financial Work, and Discipline Committee Secretary and Vice Chairman of the Board of Supervisors of SPD Bank. He currently works as Deputy Party Secretary and Executive Director of SPD Bank and President of SPDB University.

Liu Yiyan, male, born in 1964, Doctorate degree, and Senior Economist. He previously served as Party Committee Member and Vice President of Bank of Communications Changchun Branch, Party Committee Secretary and Head of SPD Bank Changchun Branch, and General Manager of Personal Banking Headquarters of SPD Bank, General Manager of Human Resources Department of SPD Bank, and CRO at the Head Office of SPD Bank. He currently works as Party Committee Member, Executive Director, Vice President, and CRO of SPD Bank.

Liu Xinyi, male, born in 1965, Master's degree, and Senior Economist. He previously served as Deputy Head (in charge) of the SPD Bank Airport Sub-branch, Party Committee Member and Deputy General Manager of SPD Bank Shanghai Headquarters and Chief of Financial Institutions Service Division and Assistant Director of Shanghai Municipal Financial Service Office (temporary posts), Vice President of SPD Bank and Party Committee Secretary and General Manager of SPD Bank Shanghai Headquarters, Vice President of SPD Bank and Party Committee Secretary and Head of its Shanghai Branch, Vice President and CFO of SPD Bank, Deputy Party Committee Secretary and President of Shanghai Guosheng Group Co., Ltd., Deputy Party Committee Secretary, Vice Chairman and President of SPD Bank, and Chairman of SPD Silicon Valley Bank. He currently serves as Deputy Party Committee Secretary, Director and President of Shanghai International Group Co., Ltd.

Guan Wei, female, born in 1971, Master's degree, and Senior Accountant. She previously served as Assistant Manager of the Financial Management Department at Shanghai Shentong Metro Group Co., Ltd., Deputy Manager and Manager of the Financial Management Department, Discipline Committee Member, Manager of the Auditing and Supervision Department, and Member of the Board of Supervisors at Shanghai Jiushi (Group) Co., Ltd., Party Branch Secretary and General Manager of Shanghai City Tour Card Development Co., Ltd., CFO of Shanghai Land (Group) Co., Ltd., and CFO of Shanghai International Group Co., Ltd. She currently works as Vice President and CFO of Shanghai International Group Co., Ltd.

Wang Hongmei, female, born in 1961, Doctorate degree, and Professor-level Senior Engineer. She previously served as Deputy Director of the Economic and Technological Development Research Center at the former Ministry of Posts and Telecommunications. She currently works as General Manager of the Development Strategy Department and Director of the Reform Office at China Mobile Communications Group Co., Ltd., Director of China Mobile Equity Fund Management Co., Ltd., and Secretary General of China Mobile Charity Foundation.

Zhang Dong, male, born in 1969, MBA, and Economist. He previously served as Deputy General Manager of Xuzhou Branch at China Mobile Group Jiangsu Company Limited (in charge), General Manager and Party Committee Secretary of Lianyungang Branch at China Mobile Group Jiangsu Company Limited, General Manager of the Human Resources Department at China Mobile Group Jiangsu Company Limited, Director, Deputy General Manager and Party Leadership Group Member of China Mobile Group Hainan Company Limited, and Director, Deputy General Manager and Party Leadership Group Member of China Mobile Group Jiangsu Company Limited. He currently works as General Manager of the Market Operation Department at China Mobile Communications Group Co., Ltd.

Liu Peifeng, male, born in 1969, Doctorate degree, and Senior Economist. He previously served as Deputy Manager of Danyang Tobacco Bureau (Company), Party Leadership Group Member and Deputy Manager of Taizhou Tobacco Bureau (Company), Deputy Director of the General Office at Jiangsu Tobacco Bureau (Company) (in charge), Deputy Secretary of Party Leadership Group, Deputy President and Deputy Manager (in charge) of Taizhou Tobacco Bureau (Company), Secretary of Party Leadership Group, President and Manager (in charge) of Taizhou Tobacco Bureau (Company), and Chief of the Comprehensive Planning Division and Chief of the Technology Division at Jiangsu Tobacco Bureau (Company). He currently works as Party Leadership Group Member and Vice President of Jiangsu Tobacco Bureau (Company).

Directors, Supervisors, Senior Management Members, Employees, Branches and Outlets

Wang Zhe, male, born in 1960, MBA, and Economist. He previously served as Deputy Head of PBC General Administration Department, Manager of Shenzhen Center of China Gold Coin Incorporation, Deputy General Manager of China CITIC Bank Shenzhen Branch, Chairman of Dapeng Securities, Deputy General Manager of China Gold Coin Incorporation, General Manager, Party Committee Secretary and Chairman of Shanghai Gold Exchange and Party Committee Secretary of China Foreign Exchange Trade System. He currently works as Secretary-General of Association of Shanghai Internet Financial Industry, Vice President of Shanghai Financial Association, External Supervisor of China Everbright Bank Company Limited, and Independent Director of Boill Healthcare Holdings Limited.

Zhang Ming, male, born in 1958, Doctorate degree, and CPA. He previously served as Deputy Dean of School of Accountancy of Shanghai University of Finance and Economics. He currently works as Professor, Doctorate Supervisor and Senior Researcher of School of Accountancy of Shanghai University of Finance and Economics, Vice President of Shanghai Commercial Accounting Institute, Member of many academic institutions such as Accounting Society of China, Banking Accounting Society of China, Accounting Society of Shanghai, Member of the Academic Council of Accounting Society of China, Independent Director of Haitong Securities Co., Ltd., Independent Director of National Silicon Industry Group Co., Ltd., Independent Director of Wuxi Commercial Mansion Grand Orient Co., Ltd., and Director of Shanghai Shensi Enterprise Development Co., Ltd.

Yuan Zhigang, male, born in 1958, Doctorate degree, and Specially Engaged Professor of "Changjiang Scholars" launched by the Ministry of Education. He previously served as Dean of School of Economics of Fudan University. He currently works as Professor and Doctorate Supervisor of School of Economics of Fudan University, Director of Employment and Social Security Research Center of Fudan University, Director of the Academic Council of the Faculty of Economics and Management at East China Normal University, Expert Member of the Shanghai Advisory Committee on Decision-Making, Advisor to Fujian Provincial People's Government, Expert Member of the Decision-making Advisory Committee of Guangxi Zhuang Autonomous Region Government, Independent Director of JIC Trust Co., Ltd., and External Supervisor of Bank of Shanghai Co., Ltd.

Henry Cai, male, born in 1954, and Bachelor's degree. He previously served as Director of the General Office at Sinopec Shanghai Petrochemical Company Limited, Member of the Chinese Enterprise Going Public Abroad Steering Group under the State Commission for Economic Restructuring of the State Council, Chair of the Joint Conference for Secretaries to the Boards of Directors of Chinese H-share Enterprises, Managing Director of Peregrine Investments Holdings Limited, Asian Chair of Swiss Bank Corporation (SBC), and Asian Chair of Deutsche Bank (DB). He currently works as Chairman of AGIC Capital, Independent Director of China Eastern Airlines Co., Ltd., and Independent Director of China COSCO Shipping Corporation Limited.

Wu Hong, male, born in 1956, and Doctorate degree. He previously served as Dean of the College of Economic Laws at East China University of Political Science and Law, Vice President of China Association of Banking Law, Member of China Commercial Law Society, Head of Financial Law Study Society, Shanghai Law Society, Deputy Head of Shanghai International Commercial Law Institute, Member of the National Judicial Examination Proposition Committee, Advisory Consultant to the Shanghai Municipal People's Congress Standing Committee for Legislation, and Member of Shanghai Consumer Council. He currently works as Professor and Doctorate Supervisor of East China University of Political Science and Law, and Independent Director of Zhejiang Tailong Commercial Bank.

11.1.4.2 Supervisors

Sun Jianping, male, born in 1957, and Doctorate degree in Management Science. He previously served as Director of the Secretariat and Chief of the Communications Division of the General Office of Shanghai Municipal People's Government, Deputy Director and Party Committee Member of Shanghai Municipal Information Office, Deputy Party Committee Secretary and Mayor of Songjiang District Government, Shanghai, Party Committee Secretary of Hongkou District Government, Shanghai and Party Committee Secretary of Jing'an District Government, Shanghai. He currently works as Chairman of SPD Bank Board of Supervisors.

Sun Wei, male, born in 1970, and Master's degree. He previously served as Deputy General Manager of Shanghai Faiveley Transport Vehicle Equipment Co., Ltd., Manager of Industry Development Department of Shanghai Electric Group Company Limited, General Manager Assistant and Deputy General Manager of Shanghai Rail Traffic Equipment Co., Ltd., General Manager of Screen Door Engineering Company under Shanghai Rail Traffic Equipment Co., Ltd., Deputy Head and Head of Strategic Planning Department of Shanghai Electric (Group) Corp., and Head of Industry Development Department of Shanghai Electric Group Company Limited. He currently works as Vice President of Bailian Group Co., Ltd.

Cao Yijian, male, born in 1976, Master's degree, and Economist. He previously served as Manager of the Asset Management Department at Shanghai Huipu Technology Investment Co., Ltd., Assistant Manager, Deputy Manager and Manager of Asset Operation Department of Shanghai Qiangsheng Group Co., Ltd., Manager of the Asset Operation Department at Shanghai Jiushi Real Estate Co., Ltd., Deputy General Manager of the Investment Development Department of Shanghai Jiushi Corporation Co., Ltd., and Deputy General Manager of the Investment Development Department at Shanghai Jiushi (Group) Co., Ltd. He currently works as General Manager of the Investment Development Department at Shanghai Jiushi (Group) Co., Ltd.

Li Qingfeng, male, born in 1971, and Master's degree. He previously served as General Manager of Shanghai Jiuheng Futures Brokerage Limited, and Chief Economist, Deputy General Manager and Deputy Secretary of General Party Branch of Shanghai Jiulian Group Limited. He currently works as Party Committee Secretary and General Manager of Shanghai Jiulian Group Limited and General Manager of Shanghai Petroleum Exchange.

Wu Jian, male, born in 1968, and Master's degree. He previously served as Assistant Economist of Shanghai Price Bureau at Shanghai Planning Committee, and Legal Advisor to Mcdonald's China Development Company. He currently works as Director and Chairman of Joint Conference at Duan & Duan, Member of Council of the Shanghai Lawyers Association, External Supervisor of Shanghai Rural Commercial Bank, Independent Director of Pramerica Fosun Life Insurance Co., Ltd., Independent Director of ORG Technology Co., Ltd., Director of INESA (Group) Co., Ltd., and Director of YEIG (Shanghai) Energy Development Co., Ltd. Besides, he is also a Deputy to the 15th Shanghai Municipal People's Congress.

Wang Yuetang, male, born in 1963, Doctorate degree in Management (Accounting), Chinese CPA, and Specially Engaged Professor of "Changjiang Scholars" launched by the Ministry of Education. He previously served as Instructor of Business School, Yangzhou University, Senior Researcher of Faculty of Business, Lingnan University, and Visiting Scholar to Cornell University. He currently works as Dean, Professor in Accounting and Doctoral Supervisor of Nanjing University Business School, Deputy Head of Jiangsu Association of Accounting, Executive Member of China Empirical Accounting Research Society, External Director of Jiangsu Guoxin Investment Group Limited, Independent Director of Holly Futures Co., Ltd., and Independent Director of Nanjing Central Emporium (Group) Stocks Co., Ltd.

Wu Guoyuan, male, born in 1961, MBA, and Senior Economist. He previously served as Director of Hongqiao Banking Department and Head of the Planning Department of Agricultural Bank of China Jiangyin Sub-branch, Head and Party Committee Secretary of SPD Bank Jiangyin Sub-branch, Head and Party Committee Secretary of SPD Bank Nanjing Branch, Chairman of SPD Liyang Rural Bank, Chairman of SPD Bank Labor Union, Chairman of SPDB International Holdings Limited, Chairman of SPD Bank Labor Union, and Head of the Party Committee Inspection Group at the Head Office of SPD Bank. He currently works as Chairman of SPD Bank Labor Union.

Zhang Yilin, male, born in 1960, Bachelor's degree, and Economist. He previously served as Deputy General Manager and Chief of Education Division of CCB Gansu Branch Leasing Co., Ltd., Party Leadership Group Secretary and General Manager of CCB Jiuquan Regional Center Sub-branch, Party Committee Secretary and Deputy General Manager of CCB Gansu Branch, Party Committee Secretary and General Manager of SPD Bank, Discipline Committee Secretary, Head of the Organization Department and General Manager of the Human Resources Department of SPD Bank, and CRO and General Manager of the Risk Management Department at SPD Bank. He currently works as CRO and General Manager of the Risk Management Department at SPD Bank.

He Weihai, male, born in 1967, Master's degree, Economist, and Certificated Internal Auditor (CIA). He previously served as Deputy General Manager of Beilun District Sub-branch (Bonded Area/Development Area), Deputy General Manager of CMB Ningbo Sub-branch, General Manager of Jiangbei Sub-branch, General Manager of Zhongxing Sub-branch, and General Manager of the Marketing Management Department at SPD Bank Ningbo Branch, Executive Auditor in Public Reserve Business of the Internal Auditing Department and General Manager of the Trade and Cash Management Department at SPD Bank, and Party Committee Secretary and General Manager of SPD Bank Wenzhou Branch. He currently works as Party Committee Secretary and President of SPD Bank Hangzhou Branch.

11.1.4.3 Senior Management members

Pan Weidong, ditto

Xu Haiyan, female, born in 1960, EMBA, and Senior Economist. She previously served as the person in charge of preparation for building of China Investment Bank Ningbo Branch, Chief of the Planning Department of China Construction Bank Ningbo Branch, Party Committee Member and Deputy General Manager of SPD Bank Ningbo Branch, General

Manager of Corporate Banking Department of SPD Bank, General Manager of Corporate and Investment Banking Headquarters of SPD Bank. She currently works as Party Committee Member and Vice President of SPD Bank.

Jiang Fangping, male, born in 1966, Master's degree, Senior Economist, and Procurator Level III. He previously served as Deputy Chief of Investigation Division II and Deputy Chief of Investigation Division I of the Anti-corruption Bureau at the People's Procuratorate of Shanghai Municipality, Deputy Director of Office V to Shanghai Municipal Disciplinary Inspection and Supervision Committee, Director of Office I to Shanghai Municipal Disciplinary Inspection and Supervision Committee, Director of Office II to Shanghai Municipal Disciplinary Inspection and Supervision Committee, Head of the Commercial Affairs Group Dispatched by Shanghai Municipal Disciplinary Inspection and Supervision Committee, Party Leadership Committee Member of Shanghai Municipal Commercial Affairs Committee, Head of the SASAC Group Dispatched by Shanghai Municipal Disciplinary Inspection and Supervision Committee, and Member of CPC Shanghai SASAC Committee. He currently works as Party Committee Member of SPD Bank and Head of the Discipline Inspection and Supervision Office at SPD Bank dispatched by Shanghai Municipal Disciplinary Inspection and Supervision Committee.

Liu Yiyan, ditto

Wang Xinhao, male, born in 1967, and Doctorate degree. He previously served as General Manager of the Asset Management Department, General Manager of the Customer Managers' Department and General Manager of the Corporate Banking Department of China Everbright Bank Dalian Branch, Party Leadership Group Member and Deputy General Manager of SPD Bank Dalia Branch, Party Committee Secretary and General Manager of SPD Bank Dalian Branch, Party Committee Secretary and General Manager of SPD Bank Shanghai Branch, and Party Committee Secretary and General Manager of SPD Bank Shanghai FTZ Branch. He currently works as Party Committee Member, Vice President and CFO of SPD Bank, Chairman of SPDB International Holdings Limited, Party Committee Secretary and Chairman of SPDB Financial Leasing Co., Ltd., and Vice Chairman of SPD Silicon Valley Bank Co., Ltd.

Cui Bingwen, male, born in 1969, Doctorate degree, and Senior Economist. He previously acted as Deputy Head of Jinxi Sub-branch, Deputy Head (in charge) of Dongli sub-branch of ICBC Tianjin Branch, Head of the Human Resources Department, General Manager of the Corporate Banking Department, Party Committee Member, Head Assistant, Deputy Head, Party Committee Secretary and Head of SPD Bank Tianjin Branch, Party Committee Secretary and Head of SPD Bank Beijing Branch and concurrently General Manager of the Group Customer Department and General Manager of the Financial Markets Department (Beijing) of SPD Bank Head Office. He currently works as Party Committee Member and Vice President of SPD Bank.

Xie Wei, male, born in 1971, Master's degree, and Senior Economist. He previously acted as General Manager of Corporate Banking Department of CCB Henan Branch, Party Committee Secretary and General Manager of CCB Xuchang Branch, General Manager of Development Management Department of Corporate and Investment Banking Headquarter of SPD Bank, Deputy General Manager of Corporate and Investment Banking Headquarter of SPD Bank and concurrently General Manager of Investment Banking Department, Development Management Department and Key Client Department, Party Committee Secretary and General Manager of SPD Bank Fuzhou Branch, General Manager of SPD Bank Treasury Headquarters, General Manager of SPD Bank Asset Management Department, and General Manager of SPD Bank Financial Markets Department. He currently works as Party Committee Member, Vice President, Secretary to the Board, and Director of Financial Market Business of SPD Bank, and Chairman of AXA SPDB Investment Managers Co., Ltd.

11.2 Overview of Service in the Shareholders

Name	Name of shareholder	Name of shareholder Current position
Liu Xinyi	Shanghai International Group Co., Ltd.	Deputy Party Committee Secretary, Director, President
Guan Wei	Shanghai International Group Co., Ltd.	Vice President, CFO
Wang Hongmei	China Mobile Communications Group Co., Ltd.	General Manager of Development Strategy Department
Zhang Dong	China Mobile Communications Group Co., Ltd	General Manger of Markets Operation Department
Liu Peifeng	Jiangsu Tobacco Bureau (Company)	Party Leadership Group Member, Vice President
Sun Wei	Bailian Group Co., Ltd.	Vice President
Cao Yijian	Shanghai Jiushi (Group) Co., Ltd. Shanghai Jiushi Investment Co., Ltd.	General Manager of Investment Development Department Executive Director
Li Qingfeng	Shanghai Jiulian Group Limited	Party Committee Secretary, General Manager

11.3 Overview of Service in Other Entities

Name	Name of entity	Current position
Guan Wei	Shanghai Guosheng capital management Co., Ltd.	Director
	Sailing international investment fund (Shanghai) Co., Ltd.	Director
	Sailing Capital International Co., Ltd.	Director
	Beijing Kunlun Hotel Co., Ltd.	Vice Chairman
	Guotaijunan Securities Co., Ltd.	Director
Wang Hongmei	China Mobile Communications Group Co., Ltd	General Manager of the Development Strategy Department
Zhang Dong	China Mobile Communications Group Co., Ltd	General Manager of the Market Operation Department
Wang Zhe	Association of Shanghai Internet Financial Industry	Secretary General
	Shanghai Financial Association	Vice Chairman
	China Everbright Bank Company Limited	External Supervisor
	Boill Healthcare Holdings Limited	Independent Director
Zhang Ming	Shanghai University of Finance and Economics	Professor, Doctorate Supervisor and Senior Researcher of School of Accountancy
	Shanghai Business Accounting Society	Vice President
	Haitong Securities Co., Ltd.	Independent Director
	National Silicon Industry Group Co., Ltd.	Independent Director
	Wuxi Commercial Mansion Corp., Ltd.	Independent Director
	Shanghai Shensi Enterprise Development Co., Ltd.	Director
Yuan Zhigang	Fudan University	Professor, Doctoral Supervisor of School of Economics, Fudan University
	East China Normal University	Director of the Academic Council of the Faculty of Economics and Management
	JIC Trust Co., Ltd.	Independent Director
	Bank of Shanghai Co., Ltd.	External Supervisor
Henry Cai	AGIC Capital	Chairman
	China Eastern Airlines Co., Ltd.	Independent Director
	China COSCO Shipping Corporation Limited	Independent Director
Sun Wei	Shanghai Bailian Li'an Foods Co., Ltd.	Chairman
	Shanghai Baiji Foods Co., Ltd.	Chairman
	Shanghai No.1 Pharmacy Co., Ltd.	Vice Chairman
	Shanghai Industrial Development Co., Ltd.	Vice Chairman
Cao Yijian	Shanghai Qiangsheng Holding Co., Ltd.	Director
	Shenergy Group Limited	Director
	Shanghai Public Transport Card Co., Ltd.	Director
	Haitong Securities Co., Ltd.	Supervisor
Li Qingfeng	Shanghai Petroleum Exchange Ltd.	General Manager
Wu Jian	Duan & Duan	Director, Chairman of Joint Conference
	Shanghai Rural Commercial Bank	External Supervisor
	Pramerica Fosun Life Insurance Co., Ltd.	Independent Director
	ORG Technology Co., Ltd.	Independent Director
	INESA (Group) Co., Ltd.	Director
	YEIG (Shanghai) Energy Development Co., Ltd.	Director
Wang Yuetang	Nanjing University	Dean, Professor in Accounting of Business School
	Jiangsu Guoxin Investment Group Limited	External Supervisor
	Holly Futures Co., Ltd.	Independent Director
	Nanjing Central Emporium (Group) Stocks Co., Ltd.	Independent Director

11.4 Remuneration of Directors, Supervisors and Senior Management Members

Decision-making procedure for remunerations of Directors, Supervisors, and Senior Management members	Remunerations for Directors, Supervisors, and Senior Management members shall be reviewed by the Nomination and Remuneration Appraisal Committee under the Board of Directors, and be submitted to Board of Directors for approval.
Remuneration of Directors, Supervisors and Senior Management members	Directors, Supervisors, Senior Management Members as leaders in state-owned enterprises will be included in the corresponding remuneration management system, and their remunerations will be appraised and decided by the competent department based on the assessment result. Other staff will be subject to the remuneration distribution plan of the Bank as approved by the Board of Directors and its Nomination and Remuneration Appraisal Committee.
Remunerations payable to Directors, Supervisors and Senior Management members	The appraisal for Directors, Supervisors and Senior Management members receiving remuneration has not completed, so the remunerations during the reporting period are not the remunerations to be distributed as approved in the appraisal.
Total remunerations actually received by all Directors, Supervisors and Senior Management members as at the end of the reporting period	The final competent department in charge of remunerations for Directors, Supervisors and Senior Management members is under confirmation, and the total remunerations paid by the Bank at present is RMB26,315.5 thousand (before-tax).

11.5 Changes in Directors, Supervisors and Senior Management Members

Date	Name	Change	Reason
10 January 2019	Gu Jianzhong	Mr. Gu Jianzhong submitted his resignation from the positions of Director, member of the Audit Committee, member of the Remuneration and Appraisal Committee, and member of the Capital and Operation Management Committee under the Board of Directors.	Job transfer
16 January 2019	Dong Xiuming	Mr. Dong Xiuming submitted his resignation from the positions of Director, member of the Remuneration and Appraisal Committee, and member of the Capital and Operation Management Committee under the Board of Directors.	Job transfer
25 March 2019	Xia Bing	The qualifications of Xia Bing as Director got approved by CBIRC.	Qualifications got approved
24 April 2019	Guan Wei	Ms. Guan Wei was elected as Director to the Sixth Board of Directors of the Bank on the 2018 Shareholders' Meeting.	Supplement of Director
	Henry Cai	Mr. Henry Cai was elected as Independent Director to the Sixth Board of Directors of the Bank on the 2018 Shareholders' Meeting.	Supplement of Independent Director
8 July 2019	Guan Wei	The qualifications of Guan Wei as Director got approved by CBIRC.	Qualifications got approved
6 November 2019	Qiao Wenjun	Mr. Qiao Wenjun resigned from the positions of Independent Director, member of the Risk Management and Related-party Transactions Control Committee, and member of the Audit Committee under the Board of Directors.	Work-related reason
7 November 2019	Liu Xinyi	Mr. Liu Xinyi resigned from the positions of Vice Chairman, Executive Director, member of the Capital and Operation Management Committee, member of the Strategy Committee, and member of the Nomination Committee under the Board of Directors, and President.	Job transfer
12 December 2019	Henry Cai	The qualifications of Henry Cai as Director got approved by CBIRC.	Qualifications got approved

Date	Change	Reason
16 December 2019	Zheng Yang, Chen Zheng'an, Liu Yiyan, Liu Xinyi, Wang Hongmei, Zhang Dong, Liu Peifeng, and Wu Hong were elected as Directors of the Bank on the 2019 First Extraordinary Shareholders' Meeting, with their tenure same as that of the Seventh Board of Directors.	Election for a new term of the Board of Directors
16 December 2019	Sun Jianping, Sun Wei, Cao Yijian, Li Qingfeng, Wu Jian, and Wang Yuetang were elected as Supervisors of the Bank on the 2019 First Extraordinary Shareholders' Meeting, with their tenure same as that of the Seventh Board of Supervisors.	Election for a new term of the Board of Supervisors
12 December 2019	Wu Guoyuan, Zhang Yilin, and He Weihai were elected as Employee Supervisors to the Seventh Board of Supervisors by the sixth session of the Second Employee Representatives' Meeting, with their tenure same as that of the Seventh Board of Supervisors.	Election for a new term of the Board of Supervisors

Note:

On November 16, 2019, the Bank convened the First Extraordinary Shareholders' Meeting of 2019 to elect the Seventh Board of Directors. Pan Weidong, Guan Wei, Wang Zhe, Zhang Ming, Yuan Zhigang and Henry Cai, Directors of the Sixth Board of Directors, were re-elected as Directors of the Seventh Board of Directors, all of whom saw their qualifications for Director already approved. Zheng Yang, Chen Zheng'an, Liu Yiyan, Liu Xinyi, Wang Hongmei, Zhang Dong, Liu Peifeng, and Wu Hong were elected as new directors to the Seventh Board of Directors. Gao Guofu, Fu Fan and Xia Bing, Directors of the Sixth Board of Directors, stepped down as their term ended.

On 16 December 2019, the Bank convened the first session of the Seventh Board of Directors to elect: Director Zheng Yang as Chairman and Director Pan Weidong as Vice Chairman.

On 27 December 2019, the Bank received the Reply from China Banking and Insurance Regulatory Commission on the Qualifications of Zheng Yang from Shanghai Pudong Development Bank (Y.B.J.F. No.1189, 2019). CBRIC approved the qualifications of Mr. Zheng Yang as Director and Chairman of the Bank.

On 27 December 2019, the Bank received the Reply from China Banking and Insurance Regulatory Commission on the Qualifications of Pai Weidong from Shanghai Pudong Development Bank (Y.B.J.F. No.1190, 2019). CBRIC approved the qualifications of Mr. Pai Weidong as Vice Chairman and President of the Bank.

11.6 Information of Employees of the Parent Company and Main Subsidiaries

11.6.1 Information of employees

Person

Total in-service employees of the parent company	55,509
Total in-service employees of main subsidiaries	2,744
Total in-service employees	58,253
Retired employees in the parent company and main subsidiaries	1,344
Incl.: Disciplines of employees of the parent company	
Senior Management members	318
Banking staff	51,293
Technical staff	3,898
Incl.: Education level of employees in the parent company	
Junior college and vocational school	11,490
Bachelor's degree	34,723
Master's degree and Doctorate degree	9,296

11.6.2 Remuneration policy

During the reporting period, the Bank actively advanced the building of an internationalized remuneration system and improved the remuneration mechanism for overseas institutions and persons sent to foreign countries. It advanced remuneration management of subsidiaries according to requirements for conglomeration development and continued to improve the incentive mechanism linking performance growth with professional post performance remuneration. The Bank intensified accountability management and effectively exerted the effect of restraining the deferred remuneration payment risks.

11.7 Level-to-level Administration of the Bank, and the Quantity and Regional Distribution of Branches at All Levels

The Bank implements a first-class legal entity system and adopts a mechanism of Head Office and branches. According to principles of economic efficiency and economic divisions and based on the layout of commercial banks across the nation, the Bank established branches and sub-branches in medium and large cities, and important central cities in coastal areas, the northeast, the central and west areas. As at the end of the reporting period, the Bank had a total of 1,606 branches and sub-branches, which are shown in detail in the following table:

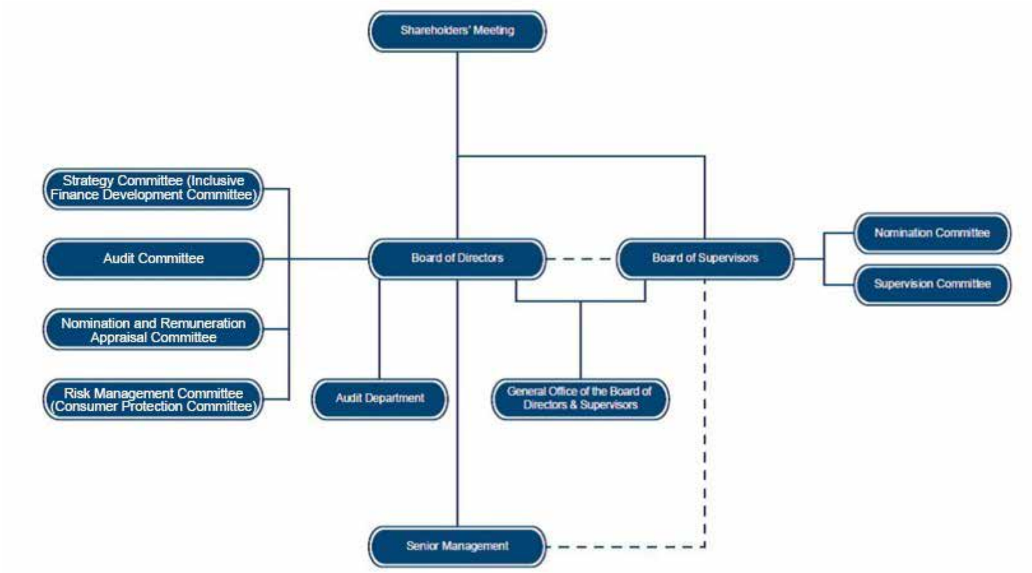
Region	Institution name	Address	Number of employees (Person)	Total assets (RMB million)	Number of organs under its jurisdiction
Head Office	Head Office	No.12, Zhongshan Dongyi Road, Shanghai	6,369	2,872,653	1,605
	Credit Card Center	SPD Bank Building, No.588 Pudong	11,948	411,428	-
	Sub-total		18,317	3,284,081	1,605
Yangtze River Delta Region	Shanghai Branch	No.588 Pudong South Road, Shanghai	4,179	854,023	186
	Hangzhou Branch	No.129 Yan'an Road, Hangzhou	2,702	331,450	100
	Ningbo Branch	No.21 Jiangxia Street, Ningbo	1,316	107,671	39
	Nanjing Branch	No.90, Zhongshan East Road, Nanjing	2,772	345,497	103
	Suzhou Branch	No.718, Zhongyuan Road, Industrial Park, Suzhou	868	110,120	32
	Shanghai Free Trade Zone Branch	Floor 22, SPD Bank Building, No.588 Pudong South Road, Shanghai	35	44,921	-
	Sub-total		11,872	1,793,682	460
Pearl River Delta and West Side of Taiwan Straits	Guangzhou Branch	No.12, Zhujiang West Road, Tianhe District, Guangzhou	1,824	220,205	58
	Shenzhen Branch	No.333, Liyuan Road, Sun'gang Sub-district, Luohu District, Shenzhen	1,366	225,783	37
	Fuzhou Branch	No.222, Hudong Road, Fuzhou	709	57,056	63
	Xiamen Branch	No.666-1 Xiahe Road, Xiamen	267	16,112	15
	Sub-total		4,166	519,156	173
Bohai Rim	Beijing Branch	No.18, Taipingqiao Avenue, Xicheng District, Beijing	1,830	405,202	71
	Tianjin Branch	Block D, No.9+ Binshui Avenue, Hexi District, Tianjin	1,271	189,073	38
	Ji'nan Branch	No.139, Heihuquan West Road, Ji'nan	1,256	75,238	62
	Qingdao Branch	No.188 Haier Road, Laoshan District, Qingdao	761	70,600	30
	Shijiazhuang Branch	101 Fangbei Shopping Mall, No.133 Yuhua East Road, Chang'an District, Shijiazhuang	717	65,612	31
	Sub-total		5,835	805,725	232
Central Region	Zhengzhou Branch	No.299, Jinshui Road, Zhengzhou	1,896	222,512	81
	Wuhan Branch	No.218 Xinhua Road, Jianghan District, Wuhan	875	82,554	40
	Taiyuan Branch	No.5, Qingnian Road, Taiyuan	791	64,850	52
	Changsha Branch	No.102, Chazishan East Road, Binjiang New Town, Changsha	936	86,297	53
	Nanchang Branch	No.1402, Hongguzhong Avenue, Nanchang	652	55,243	33
	Hefei Branch	No.2608 Hangzhou Road, Binhu New Area, Hefei	1,016	103,237	35
	Haikou Branch	No.26, Yusha Road, Haikou	174	12,984	7
	Sub-total		6,340	627,677	301

Region	Institution name	Address	Number of employees (Person)	Total assets (RMB million)	Number of organs under its jurisdiction
Western China	Chongqing Branch	No.78, Star Avenue, High-tech Park, Northern New District, Chongqing	679	81,598	24
	Kunming Branch	No.156, Dongfeng West Road, Kunming	693	53,087	36
	Chengdu Branch	No.22 East II Section, 2nd Ring Road, Chenghua District, Chengdu	712	87,318	22
	Xi'an Branch	No.6 Jinye Road, High-tech Zone, Xi'an	929	92,409	48
	Nanning Branch	No.22, Jinpu Road, Nanning	544	70,091	21
	Urumqi Branch	No.379, Xinhua South Road, Urumqi	425	31,479	20
	Hohhot Branch	Block B Dongfang Junzuo, No.18 Chilechuan Street, Hohhot	578	31,009	27
	Lanzhou Branch	No.101, Guangchang South Road, Lanzhou	472	40,529	29
	Guiyang Branch	East Tower 4, Eastern Zone, Financial Business District, Part B of Zhongtian Exhibition Town, Guanshanhu District, Guiyang	340	35,313	18
	Xining Branch	Yanan Building,1-7 No.1 Weibo Lane, Chengxi District, Xining	211	12,737	7
	Yinchuan Branch	No.51, Xinhua East Street, Xingqing District, Yinchuan	179	7,234	5
	Lhasa Branch	No.1 Commerce Building, Beijingzhong Road No.48, Chengguan District, Lhasa	113	7,109	1
	Sub-total		5,875	549,913	258
North-eastern China	Dalian Branch	No.45, Huizhan Road, Shahekou District, Dalian	927	72,685	57
	Shenyang Branch	No.326 Fengtian Street, Shenhe District, Shenyang	706	47,293	28
	Harbin Branch	No.226, Hongqi Street, Nangang District, Harbin	657	69,551	32
	Changchun Branch	No.3518, Renmin Street, Changchun	465	40,694	23
	Sub-total		2,755	230,223	140
Overseas	Hong Kong Branch	Floor 30, SPD Bank Tower, No.1, Hennessy	246	164,481	-
	Singapore Branch	12 Marina Boulevard, #34-01, MBFC Tower 3, Singapore	70	21,582	-
	London Branch	19th floor, 1 Angel Court London, EC2R 7HJ	33	8,091	-
	Sub-total		349	194,154	-
Aggregate adjustment				-1,112,204	
Total			55,509	6,892,407	1,605

Note: The total number of employees, total assets and total number of institutions under the jurisdiction do not include that of the holding subsidiaries.

12 Corporate Governance

Corporate Governance



12.1 Basic Situation of Corporate Governance

During the reporting period, the Bank further improved the corporate governance structure, learned from mature international corporate governance experience, tried to build a reasonable equity structure, and defined the responsibility boundaries of all subjects of the corporate governance to realize the equalization and maximization of interests of all stakeholders, thus protecting interests of the depositors, winning returns for shareholders, creating values to the society, and striving to build itself into a modern financial service provider with adequate capital, strict internal control, safe operation, good benefits and core competitive edge.

On April 24, 2019, the Shareholders' Meeting adopted the Proposal on Revision of the Articles of Association, which further normalized the corporate governance practice and equity management of the Bank according to the governance standards and requirements for listed companies.

12.1.1 Shareholders and Shareholders' Meeting

The Bank convoked and convened shareholders' meetings according to provisions in the Articles of Association of the Bank and the Rules of Procedures of Shareholders' Meeting. In 2019, the Bank held two shareholders' meetings, passed 14 resolutions, and listened to three reports, ensuring that shareholders had rights to know, participate in and vote for major matters of the Bank, and that all shareholders enjoyed equal status and all shareholders could fully exercise their own rights.

12.1.2 Directors and Board of Directors

As at the end of the reporting period, the Seventh Board of Directors of the Bank had 14 Directors (seven of them saw their qualifications subject to the approval of CBRIC by then), including four Executive Directors, five Shareholder Directors, and five Independent Directors. All the Independent Directors are influential professionals in economics, finance, accounting, IT and other fields. During the reporting period, the Board of Directors held 15 meetings, including 6 onsite meetings and 9 meetings via communication means. On these meetings, 83 resolutions were passed and 28 special reports were reviewed.

The Board of Directors of the Bank has established four special committees, namely, the Strategy Committee (Inclusive Finance Development Committee), the Audit Committee, the Nomination and Remuneration Appraisal Committee, and the Risk Management Committee (Consumer Protection Committee). The four special committees convened 26 meetings. Of these, the Strategy Committee (Inclusive Finance Development Committee) held eight meetings, the Audit Committee held six meetings, the Nomination and Remuneration Appraisal Committee held five meetings, and the Risk Management Committee (Consumer Protection Committee) held seven meetings. A total of 65 resolutions were made and 14 reports were heard on these meetings. The Bank's Directors leveraged on their extensive knowledge, experience and professional ethics to make a lot of efforts in determining the Bank's operation and development strategies, electing a new term of the

Board, appointing Directors, appointing Senior Management members, formulating the Bank's annual financial budget plan, profit distribution plan, improving bank risk management, internal control, capital adequacy management, supervising effective performance of the Senior Management and the completeness and accuracy of financial report of the Bank, thus ensuring that the Bank obeys laws, regulations, rules and effectively protecting the legitimate interests of the shareholders, concerning and maintaining the benefits of depositors and other stakeholders and effectively performing the trusteeship.

12.1.3 Supervisors and the Board of Supervisors

As at the end of the reporting period, the Seventh Board of Supervisors of the Bank had nine supervisors, including three Shareholder Supervisors, three External Supervisors and three Employee Supervisors. The Board of Supervisors has set up the Nomination Committee and the Supervision Committee.

In 2019, under the leadership of the CPC Shanghai Municipal Committee, Shanghai Municipal People' Government, and Shanghai SASAC, as per the uniform arrangements of the Party Committee of the Bank, with the support of the Board of Directors and the Senior Management, the Board of Supervisors performed its supervisory duties diligently as per the pertinent laws and regulations such as the Company Law, regulatory provisions, and the Articles of Association of the Bank. In strict accordance with the division of responsibilities for each entity of corporate governance, it kept keenly aware of its position, prioritized on supervising the duty performance with respect to financial management, major decisions made by the Board of Directors, and key steps conducted by the Senior Management. It refrained from exceeding its authority, neglecting its duties, or intervening with operation and management affairs. While performing its duties diligently according to law, it strove to get more out of its supervisory initiative, and promoted the Bank's executive force and governance capability. During the reporting period, the Board of Supervisors held 15 meetings, including six onsite meetings and nine meetings with voting through communication means. A total of 77 resolutions were passed and 21 reports were reviewed; the special committees under the Board of Supervisors held five meetings, among which the Nomination Committee held three meetings and the Supervision Committee held two meetings. A total of 12 resolutions were passed.

In 2019, the Board of Supervisors produced a total of six supervision and evaluation reports, which were the Report on the Supervision and Inspection of the Completion of Key Annual Tasks in 2018, the Report on the Evaluation of Duty Performance by Directors, Supervisors and Senior Management Members in 2018, the Annual Supervision and Evaluation Report for 2018, the Special Supervision Report on the Correction of Annual Final Financial Accounts as Instructed by the Official Reply in 2018, the Special Inspection Report on the Completion of Goals by the Legal Representative of the Bank for the Tenure, and the Report on the First Inspection of Directors and Supervisors in 2019 (Risk Control and Financial Poverty Alleviation).

12.1.4 Senior Management

As at the end of the reporting period, the Bank's Senior Management had one President and five Vice Presidents (three of which concurrently serving as CFO, CRO, and Secretary to the Board of Directors, respectively). Under the leadership of the Board of Directors, the Senior Management of the Bank observed the principle of good faith and prudently and diligently exercised its duties within its range of authority. In the face of new opportunities and challenges at home and abroad, the Bank carried out the decisions/deployments made by the CPC Central Committee and the State Council as well as the core messages conveyed by Chinese President Xi Jinping in his important speech on an inspection tour to Shanghai, and focused on the main task of "adjusting structure, stabilizing growth; ensuring operational compliance, improving quality; and optimizing management, shoring up capability". With the unremitting, concerted efforts, it achieved the impressive business results and fulfilled the key business objectives and requirements set by the Board of Directors in the beginning of the year. The Bank's Senior Management has established the Asset and Liabilities Management Committee, the Sales Promotion Committee, the Risk Management Committee and the Information-based Development Committee under it.

12.1.5 Information disclosure and transparency

The Bank truly, accurately, completely and timely disclosed relevant information in strict accordance with laws, regulations, Articles of Association of the Bank and information disclosure system of the Bank and ensured that all shareholders have equal opportunity to acquire such information. During the reporting period, the Bank completed four times of disclosure by periodic report, 74 times of disclosure by temporary announcement, and made timely announcements for resolutions passed on "three meetings" of the Bank and major matters such as the implementation of profit distribution. On 4 January 2019, the Bank disclosed 2019 Preliminary Earnings Estimate, which helped shareholders understand the operation and financial status of the Bank in 2019 on a timely basis. This is the 14th consecutive year for the Bank to disclose the Preliminary Earnings Estimate in the first week of a year on both Shanghai and Shenzhen stock markets.

12.2 Brief Introduction to Shareholders'Meeting

During the reporting period, the Bank held one annual shareholders'meeting and one extraordinary shareholders' meeting.

Shareholders'meeting of the Bank for 2018 was held in Shanghai on 24 April 2019. 107 shareholders and authorized proxies (including those participating in online voting) were present, holding 15,756,174,088 voting shares, accounting for 53.68% of total voting shares of the Bank. Based on the joint voting via onsite registered ballot and online voting, the meeting reviewed and approved 10 resolutions, and heard three reports.

First Extraordinary Shareholders'Meeting of 2019 was held in Shanghai on 16 December 2019. 76 shareholders and authorized proxies (including those participating in online voting) were present, holding 15,947,257,565 voting shares, accounting for 54.33% of total voting shares of the Bank. Based on the joint voting via onsite registered ballot and online voting, the meeting reviewed and approved four resolutions.

Number of session	Date	Query index of the website designated for publishing the decision	Disclosure date for publishing the decision
Annual Shareholders' Meeting of 2018	24 April 2019	http://www.sse.com.cn	25 April 2019
First Extraordinary Shareholders' Meeting of 2019	16 December 2019		17 December 2019

12.3 Performance of Duties by Directors

12.3.1 Attendance of Directors at Board meetings

Director name	Independent Director Y/N	Overview of attendance at Board meetings						Number of attendance times at shareholders' meetings
		Number of attendance times at board's meetings	Number of attendance times in person	Number of attendance times via communication means	Number of attendance times by proxy	Number of absence times	No attendance in person for two consecutive times Y/N	
Zheng Yang	No	1	1	1	0	0	No	1
Pan Weidong	No	15	13	9	2	0	No	2
Guan Wei	No	8	8	4	0	0	No	1
Wang Zhe	Yes	15	15	9	0	0	No	0
Zhang Ming	Yes	15	15	9	0	0	No	2
Yuan Zhigang	Yes	15	14	9	1	0	No	1
Henry Cai	Yes	2	2	1	0	0	No	1
Gao Guofu	No	13	13	8	0	0	No	1
Liu Xinyi	No	11	11	7	0	0	No	1
Fu Fan	No	13	12	7	1	0	No	1
Xia Bing	No	9	8	5	1	0	No	0
Dong Xiuming	No	1	1	1	0	0	No	0
Qiao Wenjun	Yes	11	11	7	0	0	No	1

Number of Board meetings held in the year	15
Incl.: Number of onsite meetings	6
Number of meetings held via communication means	9
Number of meetings held onsite with attendance via communication means	0

12.3.2 Objection raised by Independent Directors against relevant matters of the Bank

During the reporting period, the Independent Directors of the Bank did not raise objection against any proposal on Board meetings in the year.

12.3.3 Performance of duties by Independent Directors

As at the end of the reporting period, the Board of Directors of the Bank had five Independent Directors (one of them saw his qualifications subject to the approval of CBRIC by then), which constituted more than one third of the members of the Board of Directors. The Risk Management Committee (Consumer Protection Committee), the Nomination and Remuneration Appraisal Committee, and the Audit Committee were all chaired by Independent Directors. In 2019, the Board of Directors held 15 meetings, and the rate of attendance of Independent Directors in person reached 98%. The special committees of the Board of Directors held 26 meetings, and the number of independent directors accounted for more than half of the members of the special committees, who played a great role; one independent Board meeting was held, with one resolution passed, and the independent directors expressed 14 special independent opinions. With the attitude of being responsible for all shareholders, all these Independent Directors carefully performed their duties of good-faith and diligence, which protected the overall interests of the Bank and the legitimate interests of minority shareholders from being impaired, and exerted positive role for scientific decision making by the Board of Directors.

12.3.4 Independent opinions of the Independent Directors about external guarantees

According to relevant provisions and requirements in the CSRC Zh.J.F. [2003] No.56, and with the attitude of justice, fairness and objectiveness, the independent directors examined the Group's external guarantees. As at 31 December 2019, the Group's all external guarantee businesses were approved by PBC and CBIRC, and the external guarantee business was one of its normal businesses, and the Articles of Association of the Bank clearly defines the approval authority, specific management measures, operating flow and approval procedure based on the risk features of the guarantee business, thus effectively controlling risks of such business.

All external guarantees of the Bank are of normal off-balance sheet business, and the condition of off-balance-sheet liabilities is as follows:

In RMB millions

Item	End of the reporting period	End of last year
Bank's acceptance draft	473,598	419,815
Letters of credit issued	162,473	161,120
Letters of guarantee issued	88,940	101,003
Credit card and loan commitments	457,683	351,725

The Group made no special guarantee to related parties. During the reporting period, the Group prudently implemented regulations of Zh.J.H. [2003] No.56 Document and made no guarantee violating laws or regulations.

12.4 Duty Performance of the Special Committees of the Board of Directors

The Board of Directors of the Bank has established four special committees, namely, the Strategy Committee (Inclusive Finance Development Committee), the Audit Committee, the Nomination and Remuneration Appraisal Committee, and the Risk Management Committee (Consumer Protection Committee). Of which, the Strategy Committee (Inclusive Finance Development Committee) was set up to shoulder the duties assigned to the original Strategy Committee and Capital and Operation Management Committee under the Sixth Board of Directors, and the Nomination and Remuneration Appraisal Committee was set up to assume the duties assigned to the original Nomination Committee and Remuneration and Appraisal Committee under the Sixth Board of Directors.

12.4.1 Strategy Committee (Inclusive Finance Development Committee)

As at the end of the reporting period, the Strategy Committee (Inclusive Finance Development Committee) of the Bank consisted of six Directors, including Mr. Zheng Yang (Chairman), Mr. Pan Weidong, Ms. Guan Wei, Ms. Wang Hongmei, Mr. Liu Peifeng, and Mr. Yuan Zhigang.

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During the reporting period, the Strategy Committee (Inclusive Finance Development Committee) held eight meeting, considered 16 proposals, and reviewed the Report on Analysis of Strategy Implementation in 2018. To be specific, the 16 proposals were the Proposal on the Amendments to the Articles of Association, the Proposal on the Amendments to the 2016-2020 Strategic Development Plan, the Proposal on Issuing the Undated Additional Tier 1 Capital Bonds and Related Authorization, the Proposal on Capital Injection to SPD Silicon Valley Bank, the Proposal on the Branch-level Institution Building Plan for 2020, the Proposal on the Three-year Shareholder Return Plan (2019-2021), the Proposal on the 2019-2021 Capital Management Plan, the Proposal on the Asset and Liability Management Policy for 2019, the Proposal on Dividend Distribution Plan for Preference Shares (Second Tranche), the Proposal on the Capital Management Evaluation Report for 2018, the Proposal on the Use of Funds Previously Raised, the Proposal on the 2018 Corporate Social Responsibility Report, the Proposal on Making Donations to the Hong Kong Magnolia United Charitable Foundation, the Proposal on the Establishment of A Public Welfare Foundation, the Proposal on Offering Aid and Donation to Jinshan District, Shanghai, and the Proposal on Issuing the Write-down Tier-two Capital Bonds and Related Authorization.

12.4.2 Nomination and Remuneration Appraisal Committee

As at the end of the reporting period, the Nomination and Remuneration Appraisal Committee of the Bank consisted of six directors, including Mr. Yuan Zhigang (Chairman), Mr. Zheng Yang, Mr. Chen Zheng'an, Ms. Wang Hongmei, Mr. Wang Zhe, and Mr. Henry Cai.

During the reporting period, the Nomination and Remuneration Appraisal Committee held five meetings and considered a total of 20 proposals, which were listed as below: the Proposal on Nominating Director Candidates, the Proposal on Electing the Vice Chairman of Board of Directors, the Proposal on Electing A New Term of the Board of Directors, the Proposal on the Duty Performance Appraisal Report of Directors in 2018, the 2018 Annual Work Report of Independent Directors, the Proposal on the Appraisal of Duty Performance by Senior Management Members (Professional Managers) in 2018, the Proposal on the Appraisal of Duty Performance by Senior Management Members (Professional Managers) for the Tenure of 2016-2018, the Proposal on Remuneration of Senior Management Members in 2018, the Proposal on the Implementation of the Remuneration Distribution in 2018, the Proposal on the Appointment of President, the Proposal on the Appointment of Vice President, the Proposal on the Appointment of Chief Financial Officer, the Proposal on the Appointment of Chief Risk Officer, the Proposal on the Appointment of Secretary to the Board of Directors, the Proposal on the Appointment of Chief Audit Officer, the Proposal on the Appointment of Listing Affairs Representative, and the Proposal on Appraisal Objective and Responsibility Statement for Senior Management Members (Professional Managers) in 2019.

12.4.3 Risk Management Committee (Consumer Protection Committee)

As at the end of reporting period, the Risk Management Committee (Consumer Protection Committee) consisted of six directors, including Mr. Wang Zhe (Chairman), Mr. Liu Yiyan, Mr. Liu Xinyi, Mr. Zhang Ming, Mr. Henry Cai, and Mr. Wu Hong.

During the reporting period, the Risk Management Committee (Consumer Protection Committee) convened seven meetings, considered 17 proposals which included the Proposal on Write-off of Asset Losses, the Proposal on Annual Credit Scheme for Major Investee Enterprises, the Proposal on Related-party Transactions in 2018, the Proposal on Determining Related Parties in 2019, the Proposal on Risk Appetite of the Group, the Proposal on Authorization for the Write-off of Asset Losses in 2019, the Proposal on the Amendments to the Country Risk Management Measures, the Proposal on the Credit Enterprise Restructuring Plan, the Proposal on the Report on Internal Assessment of Capital Adequacy for 2018, the Proposal on the Comprehensive Credit to Shenergy (Group) Co., Ltd., the Proposal on the Comprehensive Credit to Yangtze Memory Technologies Co., Ltd., the Proposal on Adding More Annual Write-off Authorization to the Senior Management, and the Proposal on the Assessment, Evaluation and Correction of the Consumer Protection Work in 2018. Besides, it also heard eight reports, some of which were the Report on the Write-off of Non-performing Asset Losses in 2018, the Compliance Risk Management Report for 2018, the Comprehensive Risk Management Report for 2018, the Risk Appetite Implementation Report for 2018, and the Report on Consolidated Risk Management for 2018.

12.4.4 Audit Committee

As at the end of the reporting period, the Audit Committee of the Bank consisted of six directors, including Mr. Zhang Ming (Chairman), Ms. Guan Wei, Mr. Zhang Dong, Mr. Wang Zhe, Mr. Yuan Zhigang, and Mr. Wu Hong.

During the reporting period, the Audit Committee convened six meetings, considered 12 proposals which included the Proposal on the 2018 Annual Report and Its Abstract, the Proposal on the 2018 Final Accounts and 2019 Financial Budget, the Proposal on 2018 Profit Distribution, the Proposal on 2019 Q1 Report, the Proposal on 2019 Interim Report and Its Abstract, the Proposal on the Internal Control Evaluation Report for 2018, the Proposal on 2019 Q3 Report, the Proposal on Adding the Budget for External Donations in 2019, the Proposal on Adjusting the Budget Structure of Total Investments to Shanghai Expo Land Plot Project, the Proposal on the Amendments to the Internal Audit Charter, and the Proposal on the 2019 Work Summary and 2020 Work Plan for Internal Audit, and heard five reports including the Report on the Bank Operation in 2018.

12.5 Duty Performance of Supervisors

As at the end of the reporting period, the Seventh Board of Supervisors of the Bank had nine Supervisors, including three Shareholder Supervisors, three Employee Supervisors and three External Supervisors (including Chairman of the Board of Supervisors).

In 2019, the Board of Supervisors acted as per the pertinent laws and regulations such as the Company Law, regulatory provisions, and the Articles of Association of the Bank. In strict accordance with the division of responsibilities for each entity of corporate governance, it performed its supervisory duties with respect to the corporate governance, state-owned asset supervision, financial supervision, major decisions made by the Board of Directors, key steps conducted by the Senior Management, financial activities, internal control, and risk management. It kept keenly aware of its position, fulfilled duties diligently according to law, strove to get more out of its supervisory initiatives, and promoted the Bank's executive force and governance capability. The supervisors diligently performed their responsibilities based on applicable laws and regulations and the Articles of Association of the Bank. No acts that would impair the interests of shareholders were identified during the reporting period.

During the reporting period, the Board of Supervisors held 15 meetings, adopted 77 resolutions of all sorts, and reviewed 21 special reports. Its special committees convened five meetings where 12 proposals were considered and adopted. The rate of attendance of supervisors in person reached 91.11%, a level meeting the regulatory provision that "a supervisor shall attend personally at least two thirds of the meetings of the Board of Supervisors each year". The meetings convened by the Board of Supervisors mainly considered the business decisions and their implementations on the following aspects: strategic plan evaluation, capital management, periodic report, annual financial budget/final accounts, annual profit distribution plan, comprehensive risk management, liquidity risk management, stress test management, asset loss write-off, internal control compliance, and others. All Supervisors considered and reviewed all proposals and reports in earnest, and voiced their opinions and suggestions on these proposals.

During the reporting period, the Board of Supervisors surveyed and inspected nine tier-one branches, six tier-2 branches, one overseas institution and seven Head Office departments; and hold a total of 25 special meetings, including 15 daily monitoring meetings, three special monitoring meeting, one special discussion, two inspections of Directors and Supervisors, and two democratic life meetings on the branch level, and two work exchange meetings. The Chairman of the Board of Supervisors held separate discussions with 35 leadership members from nine tier-one branches. At the same time, the Board of Supervisors, through surveying inspections, learned about how grassroots-level institutions implemented the work requirements of the Head Office, especially for the aspects of risk internal control, compliance and case prevention, and penetrative management. It could promptly discover the challenges, problems and deficiencies from the operation and management of the grassroots-level institutions, and remind/notify the Board of Directors and the Senior Management of the findings.

During the reporting period, the Board of Supervisors organized efforts to evaluate how the Board of Directors/Directors, the Senior Management/its members and Supervisors performed their duties in the year. In accordance with the Implementation Rules for Evaluation of Duty Performance by Directors, the Interim Measures for Evaluation of Duty Performance by Supervisors, and other pertinent policies and rules, it assessed and evaluated how the Board of Directors/ Directors, the Senior Management/its members and Supervisors performed their duties in 2018, and produced the Report of Shanghai Pudong Development Bank on Duty performance by Directors, Supervisors and Senior Management Members in 2018, which was promptly sent to CBRIC and reported to shareholders in the form of Shareholders' Meeting.

During reporting period, the Board of Supervisors carried out the annual corporate supervision evaluation and the special inspection on the implementation of goals by the legal representative during the 2016-2018 tenure. Besides, it organized efforts to evaluate the business results and financial position of the Bank in 2018, and produced the Supervisory Evaluation Report of Shanghai Pudong Development Bank which was submitted to Shanghai SASAC. With reference to the Tenure Objective and Responsibility Statement for the Legal Representative as well as given the self-assessment results of the Bank and the supervisory findings of the Board of Supervisors, the Board of Supervisors evaluated comprehensively the completion of goals by the Legal Representative for the 2016-2018 tenure. As a result, the Special Inspection Report on the Completion of Goals by the Legal Representative for the 2016-2018 Tenure was produced and submitted to Shanghai SASAC.

During the reporting period, the Board of Supervisors oversaw the operating results and financial position of the Bank, organized special inspections and supervisory activities, and focused attention on the major financial decisions, activities incurring financial income and expense, and control of financial risks. At the same time, it earnestly considered the proposals and reports on the periodic reports, annual final accounts and financial budget, and annual profit distribution plan, and issued review opinions. As required by the Catalog of Duty Performance by the Chairman of the Board of Supervisors and Full-time Supervisors Dispatched to the State-owned Enterprises under the Administration of Shanghai (Interim) (a document of Shanghai SASAC), it carried out the special inspection on the development and implementation of major investment management policies of the Bank in 2018 as well as the special inspection on the implementation of reply opinions on the final financial accounts in 2018, and submitted the Special Inspection Report on the Correction of the Financial Final Accounts as Instructed by the Reply Opinions in 2018 to the Shanghai SASAC.

During the reporting period, the Board of Supervisors carried out a special inspection aimed to reduce and control risk (an inspection of Directors and Supervisors). It paid a field inspection to Urumqi Branch and its affiliated Kashgar Branch regarding the implementation of risk reduction and control measures. As part of the inspection, it surveyed the key customers of the branch, and proposed many constructive opinions and suggestions.

During the reporting period, the Board of Supervisors worked harder to oversee the performance of the Board of Directors and the Senior Management in their comprehensive risk management. It considered and adopted many proposals such as the Proposal on Comprehensive Risk Management Guidelines, the Proposal on Risk Appetite of the Group, and the Proposal on the Amendments to the Market Risk Stress Test Program, and reviewed the Comprehensive Risk Management Report for 2018, the Operational Risk Management and Control Report for 2018, and other reports. The Board of Supervisors hosted two special meetings on risk management. One was to conduct a special survey on the progress in risk management with digital means, which was intended to learn about the Bank's risk management and promote the orderly advance of the Sky Eye Plan. The other was a special inspection of how differentiated policies for different branches were implemented, with a view to getting informed of the problems and deficiencies in the implementation of such policies, and providing basis for follow-up supervision and evaluation.

During the reporting period, the Board of Supervisors worked harder to oversee the compliance internal control, AML, and audit work, so as to exploit the supervisory synergy. It organized special meetings on compliance and audit separately to gain a full picture of the annual compliance, internal control, AML work as well as the annual and internal audit work. Meanwhile, it increased the annual regulatory reports to CBIRC, oversaw the correction of auditing findings made by the National Audit Office, and reviewed the Report on the Correction and Accountability of Asset and Liability/Profit and Loss Audit Findings Made by the National Audit Office in 2017 as well as the Report on the Rectification of Problems as Revealed by Regulatory Circulars of CIBRC in 2018. All aspects of rectification were put in place as prescribed. The Board of Supervisors convened a joint meeting on risk internal control information exchange on a regular basis, to intensify the sharing of information on risk internal control and exert a supervisory synergy.

During the reporting period, the Board of Supervisors promptly fed back the problems spotted and suggestions raised at the meetings of the Board of Supervisors, the inspections of Directors and Supervisors, and the special meetings of the Board of Supervisors to the Senior Management in the form of inquiry letter. Its feedback drew the great attention of the Senior Management accordingly. Here are some examples in the feedback results: Opinions raised on the 42nd session of the Sixth Board of Supervisors on further strengthening the guidance and management of many business fields such as high-risk branches, small and micro businesses, and private economy; opinions raised on the 43rd session of the Sixth Board of Supervisors on examining the common issues revealed by the National Audit Office through audits and by CBIRC through credit business inspections as well as intensifying related rectification and supervision; and issues and opinions raised by Urumqi Branch at the inspection of Directors and Supervisors on such domains as employee career planning, assessment and incentive of the Head Office.

12.6 Duty Performance of the Special Committees of the Board of Supervisors

The Board of Supervisors of the Bank has established the Nomination Committee and the Supervision Committee.

12.6.1 The Nomination Committee

As at the end of reporting period, the Nomination Committee consisted of five supervisors, including Mr. Wu Jian (Chairman),

Mr. Sun Jianping, Mr. Sun Wei, Mr. Wang Yuetang, and Mr. Wu Guoyuan.
During the reporting period, the Nomination Committee held three meetings, and considered eight proposals including the Report on the Evaluation of Duty Performance by Directors in 2018, the Report on the Evaluation of Duty Performance by Supervisors in 2018, the Report on the Evaluation of Duty Performance by Senior Management Members in 2018, the Proposal on the Appraisal of Duty Performance by Senior Management Members (Professional Managers) for the Tenure of 2016-2018, the Proposal on Remuneration of Senior Management Members in 2018, the Proposal on the Amendments to the Measures for the Evaluation of Duty Performance by Supervisors, and the Proposal on the Nomination of Shareholder Supervisors and External Supervisors in the Seventh Board of Supervisors.

12.6.2 The Supervision Committee

As at the end of reporting period, the Supervision Committee consisted of five Supervisors, including Mr. Wang Yuetang (Chairman), Mr. Sun Jianping, Mr. Cao Yijian, Mr. Wu Jian, and Mr. Zhang Yilin.

During the reporting period, the Supervision Committee convened two meetings, and considered four proposals including the 2018 Corporate Supervision Evaluation Report, the Proposal Concerning the Report on Analysis of Strategy Implementation in 2018, the Proposal on the Internal Control Evaluation Report for 2018, and the Proposal on the Special Inspection Report on the Completion of Goals by the Legal Representatives for the Tenure.

12.7 Independence of the Bank from the Controlling Shareholders in Terms of Business, Personnel, Assets, Organization and Finance

The Bank has no controlling shareholder. The largest consolidated shareholder of the Bank was Shanghai International Group Co., Ltd. Shanghai International Group Co., Ltd. and its controlling subsidiaries held 29.67% shares of the Bank on a consolidated basis. Shanghai International Group Co., Ltd. and the Bank were totally independent in assets, personnel, finance, organization and business. Important decisions of the Bank were made and implemented by the Bank independently, and large shareholders did not occupy funds of the Bank by any means or require the Bank to provide guarantee for others.

	Independent and integral or not	Description	Influence on the Bank	Improvement measures
Business independence and integrity	Yes	The Bank runs business independently and features a complete business structure.	–	–
Personnel independence and integrity	Yes	The Bank remains independent in terms of labor, personnel, salary management, and other aspects. President, Vice Presidents, Secretary to the Board of Directors, CFO, and other Senior Management members all are paid by the Bank. None of them receives salaries from the largest shareholder unit.	–	–
Asset independence and integrity	Yes	The Bank possesses the independent premise and supporting facilities.	–	–
Institutional independence and integrity	Yes	The Bank sets up the comprehensive organizational structure. The Board of Directors, the Board of Supervisors, functional departments and other bodies can operate independently, none of which is affiliated to any functional departments of the largest shareholder.	–	–
Financial independence and integrity	Yes	The Bank has its independent financial department, and follows the independent accounting system and financial management policies.	–	–

12.8 Establishment and Implementation of Performance Appraisal and Incentive Mechanisms for Senior Management Members during the Reporting Period

In 2019, the Bank proceeded from its actual conditions, and continued to act on the requirements set out in the Work Plan on the Pilot Remuneration System Reform for Professional Managers at State-owned Enterprises of Shanghai Municipal Government. During the reporting period, while implementing the performance assessment and remuneration system for professional managers, the Bank revised and refined its performance assessment and remuneration distribution plan for other managerial personnel, and wrapped up the assessment and evaluation of duty performance by professional managers for the 2016-2018 tenure.

12.9 Internal Control Self-appraisal Report

The Bank prepared the 2019 Internal Control Appraisal Report and disclosed it on SSE's website www.sse.com.cn. Based on the identification of material deficiencies in the internal control over financial reporting of the Bank, the Bank's internal control over financial reporting contained no material deficiencies as at the base date of internal control appraisal report. In the opinions of the Board of Directors, the Bank has maintained effective internal control over financial reporting in all material aspects in accordance with the requirements of Enterprise Internal Control Regulations and relevant regulations. Based on the identification of materials deficiencies in the internal control over non-financial reporting, the Bank's internal control over non-financial reporting contained no material deficiencies as at the base date of internal control appraisal report.

12.10 Relevant Information about Internal Control Audit Report

The Bank prepared and disclosed the Report on the Internal Control Appraisal in 2019. KPMG Huazhen LLP audited the effectiveness of the internal control over financial reporting of the Bank as of 31 December 2019, and issued the Internal Control Audit Report. Full text of the above report has been published on SSE's website www.sse.com.cn.

12.11 Investor Relations Management

During the reporting period, the Bank actively promoted investment value through publicity efforts, adhered to the spirit of "efficiency, precision, collaboration, and compliance", and played the role as a window of capital market to the outside world. It updated market players and shareholders on its strategic plan, operation/management, and social responsibility, other aspects in an objective, comprehensive, timely, and accurate way, and vigorously served as a bridge between the listed company and its shareholders to enhance its information transparency, improve the value transmission mechanism, and protect the rights and interests of investors. In active response to the call of regulatory agencies, the Bank increased the investor education, thus raising the awareness of right protection and the sense of responsibility among investors and shareholders, and helping them develop the concept of rational investment and value-oriented investment.

In 2019, the Bank warmly received the visiting institutional investors and securities analysts. Meanwhile, it proactively went out to participate in strategic meetings and other investor events held at home and abroad. It held in-depth communication with more than 550 institutional investors and securities analysts in total. Throughout the year, it expanded communication channels and intensified communication with medium and small investors, by answering over 400 calls and replying over 80 online messages, thus ensuring the effective and smooth communication between the Bank and these investors. Besides, the Bank also organized the Online Performance Review Meeting for 2018 and the Online Roadshow for Publicly Issued Convertible Corporate Bonds, both of which were designed to further enhance investors' understanding of the Company.

12.12 Index for Information Disclosure

During the reporting period, the Bank disclosed the following information on journals designated by CSRC including China Securities Journal, Shanghai Securities News and Securities Times, and the SSE website (www.sse.com.cn):

Items	Date of publication
Announcement of the qualifications of Chairman, Vice Chairman, and President approved by CBIRC	30-Dec-19
Legal opinions for the 2019 First Extraordinary Shareholders' Meeting	17-Dec-19
Announcement on the resolutions made on the 1st session of the Seventh Board of Supervisors	17-Dec-19
Announcement on the resolutions made on the 1st session of the Seventh Board of Directors	17-Dec-19
Announcement on the resolutions made on the 2019 First Extraordinary Shareholders' Meeting	17-Dec-19
Independent opinions of independent directors	17-Dec-19
Announcement on Employee Supervisors elected for the Seventh Board of Supervisors	14-Dec-19
Announcement on the qualifications of Independent Directors approved by CBIRC	14-Dec-19
Materials for the 2019 First Extraordinary Shareholders' Meeting	11-Dec-19
Announcement on adjusting the nominal dividend rate of preference shares in the first tranche	4-Dec-19
Announcement on the resolutions made on the 51st session of the Sixth Board of Supervisors	30-Nov-19
Declaration of candidate for Independent Director	30-Nov-19
Declaration of candidate for Independent Director	30-Nov-19
Declaration of candidate for Independent Director	30-Nov-19
Declaration of candidate for Independent Director	30-Nov-19
Announcement on the resolutions made in the 52nd session of the Sixth Board of Directors	30-Nov-19
Independent opinions of Independent Directors	30-Nov-19
Notice on convening the 2019 First Extraordinary Shareholders' Meeting	30-Nov-19
Declaration of nominator of Independent Director	30-Nov-19
Declaration of candidate for Independent Director	30-Nov-19
Announcement on the resolutions made in the 51st session of the Sixth Board of Directors	21-Nov-19
Announcement on dividend distribution for preference shares in the first tranche	21-Nov-19
Announcement on unloading convertible corporate bonds of the Bank by the largest shareholder and its persons acting in concert	21-Nov-19
Announcement on the resolutions made on the 50th session of the Sixth Board of Supervisors	21-Nov-19
Announcement on the remuneration of Senior Management members in 2018	16-Nov-19
Announcement on the public issuance of convertible corporate bonds	13-Nov-19
Announcement of the Bank on the resignation of Independent Directors	8-Nov-19
Announcement of the Bank on the resignation of Vice Chairman and President	8-Nov-19
Announcement on signing the supervisory agreement on depositing raised funds into a special account	6-Nov-19

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Items	Date of publication
Announcement on the issuance results of publicly issued convertible corporate bonds	1-Nov-19
Announcement on the online lot winning results of publicly issued convertible corporate bonds	30-Oct-19
Announcement on the resolutions made in the 50th session of the Sixth Board of Directors	30-Oct-19
Announcement on the resolutions made in the 49th Session of the Sixth Board of Supervisors	30-Oct-19
2019 Q3 report	30-Oct-19
Announcement on the online lot winning and offline placement results of publicly issued convertible corporate bonds	29-Oct-19
Suggestive announcement on publicly issued convertible corporate bonds	28-Oct-19
Prospectus for publicly issued convertible corporate bonds	24-Oct-19
Abstract of the prospectus for publicly issued convertible corporate bonds	24-Oct-19
Announcement on the issuance of publicly issued convertible corporate bonds	24-Oct-19
Announcement on the online roadshow of publicly issued convertible corporate bonds	24-Oct-19
Announcement on the reply of CSRC on consent with the application for A-share convertible corporate bonds by SPD Bank	15-Oct-19
Announcement of Shanghai Pudong Development Bank Co., Ltd.	14-Oct-19
Announcement on related-party transactions with some related enterprises	21-Sep-19
Independent opinions of Independent Directors on related-party transactions	21-Sep-19
Announcement on the resolutions made in the 48th session of the Sixth Board of Supervisors	21-Sep-19
Announcement on the resolutions made in the 49th session of the Sixth Board of Directors	21-Sep-19
Prior approval of Independent Directors on the matters of related-party transactions	21-Sep-19
2019 Interim Report	24-Aug-19
Announcement on the resolutions made in the 48th session of the Sixth Board of Directors	24-Aug-19
Independent opinions of Independent Directors on related-party transactions	24-Aug-19
Prior approval of Independent Directors on the matters of related-party transactions	24-Aug-19
Announcement on the resolutions made in the 47th session of the Sixth Board of Supervisors	24-Aug-19
Abstract of 2019 Interim Report	24-Aug-19
Announcement of the Bank on the revised Articles of Association approved by CBIRC	22-Aug-19
The Articles of Association (revised in 2019)	22-Aug-19
Announcement on the reply of CSRC's Stock Issuance Examination and Verification Committee on consent with the application for A-share convertible corporate bonds by SPD Bank	17-Aug-19
Announcement on the resolutions made in the 47th session of the Sixth Board of Directors	24-Jul-19
Independent opinions of Independent Directors on the nomination of director candidates	24-Jul-19
Announcement on the resolutions made in the 46th session of the Sixth Board of Supervisors	24-Jul-19
Reply to the feedback about the application of Shanghai Pudong Development Bank Co., Ltd. for public issuance of convertible corporate bonds (revision)	18-Jul-19

Items	Date of publication
Announcement on the revision to the application for the public issuance of A-share convertible corporate bonds according to the feedback opinions	18-Jul-19
Announcement on the completion of issuance of capital bonds without fixed terms	13-Jul-19
Announcement on the qualifications of Directors approved by CBIRC	13-Jul-19
Announcement on approval of the issuance of undated additional tier 1 capital bonds by the People's Bank of China	3-Jul-19
2018 global systemically important bank appraisal indicators	27-Jun-19
Announcement on the resolutions made in the 46th session of the Sixth Board of Directors	27-Jun-19
Announcement on the resolutions made in the 45th session of the Sixth Board of Supervisors	27-Jun-19
Announcement on the reply of feedback opinions to the application for the public issuance of A-share convertible corporate bonds	26-Jun-19
Reply to the feedback about the application of Shanghai Pudong Development Bank Co., Ltd. for public issuance of convertible corporate bonds	26-Jun-19
Announcement on approval of the issuance of undated additional tier 1 capital bonds by CBIRC	21-Jun-19
Announcement on the resolutions made in the 45th session of the Sixth Board of Directors	15-Jun-19
Announcement on the resolutions made in the 44th session of the Sixth Board of Supervisors	15-Jun-19
Announcement of the Bank on purchase of its stocks by its Senior Management members	11-Jun-19
Announcement on annual dividend distribution for 2018	4-Jun-19
2019 Q1 Report	30-Apr-19
Announcement on the resolutions made in the 43rd session of the Sixth Board of Supervisors	30-Apr-19
Announcement on the resolutions made in the 44th session of the Sixth Board of Directors	30-Apr-19
Announcement of the Bank on the resolutions in 2018 Shareholders' Meeting	25-Apr-19
Legal opinions for the 2018 Shareholders' Meeting	25-Apr-19
Announcement on the application for administrative permission of CSRC about public issuance of A-share convertible corporate bonds by SPD Bank	24-Apr-19
2018 Shareholders' Meeting materials	17-Apr-19
Announcement on the completion of issuance of special financial bonds for small and micro enterprise loans in the first tranche of 2019	28-Mar-19
Announcement on the qualifications of Directors approved by CBIRC	28-Mar-19
Three-year Shareholder Return Plan (2019-2021)	27-Mar-19
Notice on convening the 2018 Annual Shareholders' Meeting	27-Mar-19
Ongoing supervision and sponsor summary report of Haitong Securities Co., Ltd. and Guotai Junan Securities Co., Ltd. on the private issuance of ordinary shares by Shanghai Pudong Development Bank Co., Ltd.	27-Mar-19
Attestation report on the use of funds previously raised	26-Mar-19
2018 Annual Report	26-Mar-19
Abstract of 2018 Annual Report	26-Mar-19

Corporate Governance

Items	Date of publication
Corporate Social Responsibility Report	26-Mar-19
2018 Financial Statements and Audit Report	26-Mar-19
2018 ongoing supervision report of Haitong Securities Co., Ltd. and Guotai Junan Securities Co., Ltd. on the private issuance of ordinary shares by Shanghai Pudong Development Bank Co., Ltd.	26-Mar-19
Announcement on the resolutions made in the 42nd session of the Sixth Board of Supervisors	26-Mar-19
Internal control audit report	26-Mar-19
Independent opinions of Independent Directors	26-Mar-19
Special report about the occupation of funds by controlling shareholders and other related parties in 2018	26-Mar-19
Special report of Shanghai Pudong Development Bank Co., Ltd. on changes in accounting policies in 2018	26-Mar-19
Announcement on the resolutions made in the 43rd session of the Sixth Board of Directors	26-Mar-19
Declaration of nominator of Independent Director	26-Mar-19
2018 duty report of Independent Directors	26-Mar-19
Notice of the Bank on online performance review meeting for 2018	26-Mar-19
Amendments to the Articles of Association	26-Mar-19
Declaration of candidate for Independent Director	26-Mar-19
The Articles of Association (revised in 2019)	26-Mar-19
Prior approval of independent directors on the matters of related-party transactions	26-Mar-19
2018 internal control appraisal report	26-Mar-19
2018 duty performance report of the Audit Committee of the Board of Directors	26-Mar-19
Announcement on the issuance of financial bonds being approved	16-Mar-19
Announcement on the resolutions made in the 42nd session of the Sixth Board of Directors	28-Feb-19
Announcement on the resolutions made in the 41st session of the Sixth Board of Supervisors	28-Feb-19
Announcement on the dividend distribution of preference shares in the second tranche	28-Feb-19
Announcement on the resolutions made in the 41st session of the Sixth Board of Directors	2-Feb-19
Announcement on the resolutions made in the 40th session of the Sixth Board of Supervisors	2-Feb-19
Announcement of the Bank on the resignation of Directors	17-Jan-19
Announcement on the resolutions made in the 40th session of the Sixth Board of Directors	16-Jan-19
Announcement on the resolutions made in the 39th session of the Sixth Board of Supervisors	16-Jan-19
Announcement of the Bank on the resignation of Directors	12-Jan-19
Announcement on the preliminary earnings estimate in 2018	4-Jan-19
Announcement on the resolutions made in the 39th session of the Sixth Board of Directors	3-Jan-19
Announcement on the resolutions made in the 38th session of the Sixth Board of Supervisors	3-Jan-19


智慧投行，助力科创
企业科创板上市投行服务方案
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95528

13 Financial Report

Financial Report

13.1 2019 Financial Statements and Audit Report Prepared Based on ASBE (See the Appendix)

13.2 2019 Financial Statements and Audit Report Prepared Based on IFRS (See the Appendix)

13.3 Supplementary Data

Return on equity and earnings per share calculated based on No.9 Rules for Preparation of Information Disclosure Documents by Companies Offering Securities to the Public published by CSRC:

Profit in the reporting period	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Basic	Fully diluted
Net profit attributable to the Bank's ordinary shareholders	11.58	12.29	1.95	1.92
Net profit attributable to the Bank's ordinary shareholders deducting the non-recurring profit or loss	11.30	12.00	1.90	1.87

Shanghai Pudong Development Bank Co., Ltd.

Financial Statements and Auditor’s Report
For the year ended 31 December 2019

English translation of the Financial Statements

IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION AND ITS ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL

AUDITOR'S REPORT

毕马威华振审字第 2000656 号

The Shareholders of Shanghai Pudong Development Bank Co., Ltd.:

Opinion

We have audited the financial statements of Shanghai Pudong Development Bank Co., Ltd. ("the Bank") and its subsidiaries ("the Group") set out on pages 1 to 146, which comprise the consolidated and the Bank's statement of financial position as at 31 December 2019, the consolidated and the Bank's statement of profit or loss and other comprehensive income, the consolidated and the Bank's statement of changes in equity and the consolidated and the Bank's statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the consolidated and the Bank's financial positionas at 31 December 2019 and of its consolidated and the Bank's financial performance and its consolidated and the Bank's cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises issued by the the Ministry of Finance of the People's Republic of China.

Basis for opinion

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

Key audit matters

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

Key audit matters (continued)

Measurement of expected credit loss ("ECL") for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments	
Refer to Notes III.8.(6), III.33.(1), V.6, V.7(b), V.14, V.23, XII.1(1), XII.1(3), XII.1(4) and XII.1(5) to the financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Measurement of ECL for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments involves significant management judgments. The Group established internal controls for the ECL measurement.	Our audit procedures to assess ECL for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments included the following: • Understanding and evaluating the design and operating effectiveness of the key internal controls over financial reporting related to ECL measurement for loans and advances to customers, financial investment at amortized cost, financial guarantees and loan commitments: - Understanding and evaluating the design and operating effectiveness of the key internal controls of the financial reporting process, including credit approval, recording, monitoring, periodic re-evaluation of credit grading, and the accrual of loss allowance; in particular, we assessed the design and operating effectiveness of the key internal controls over financial reporting related to the classification of loans by credit quality across all stages, financial investment at amortized cost, credit quality of financial guarantees and loan commitments; - Understanding and evaluating the design and operating effectiveness of information system controls, including: general information technology control, completeness of key internal historical data, inter-system data transmission, mapping of parameters of ECL model, and system calculation logic of loss allowance for ECL for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments, based on the works of our Information Technology Risk Management ("IRM") Specialists and Financial Risk Management ("FRM") Specialists;

毕马威华振审字第 2000656 号

Key audit matters (continued)

<table>
<tr><td colspan="2">Measurement of expected credit loss (“ECL”) for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments (continued)</td></tr>
<tr><td colspan="2">Refer to Notes III.8.(6), III.33.(1), V.6, V.7(b), V.14, V.23, XII.1(1), XII.1(3), XII.1(4) and XII.1(5) to the financial statements.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group assesses whether the credit risks of loans and advances to customers, financial investments at amortized cost and financial guarantees and loan commitments have increased significantly since their initial recognition, and applies a three – stage impairment model to measure their ECL. For loans and advances to customers, financial investments at amortized cost and financial guarantees and loan commitments, 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.</td><td>Evaluating the reliability of ECL models and parameters used, including prudently evaluating probability of default, loss given default, exposure at default, discount rate, forwar adjustment and other adjustment factors, and evaluating the reasonableness of key management jugments involved, based on the work of FRM Specialists;
Evaluating the completeness and accuracy of key data used by the ECL models. For key internal data related to the original business files, we compared the respective amount of loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments used by the management to evaluate the loss allowances with the general ledger amounts, in order to assess the completeness of lists. Select samples and compare the information of the loans and advances to customers and financial investment at amortized cost, financial guarantees and loan commitments with relevant agreements and other relevant documents to assess the accuracy of the lists. For key external data, we compared it with public information to check its accuracy;
Evaluating key parameters involving subjective judgments by seeking evidence from external sources and comparing it with internal records including historical loss scenarios and security types. As part of these procedures, we inquired management about the reasons for modifictions of key estimates and parameters input, and assessed the consistency of judgement used by management;</td></tr>
</table>

Key audit matters (continued)

<table>
<tr><td colspan="2">Measurement of expected credit loss ("ECL") for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments (continued)</td></tr>
<tr><td colspan="2">Refer to Notes III.8.(6), III.33.(1), V.6, V.7(b), V.14, V.23, XII.1(1), XII.1(3), XII.1(4) and XII.1(5) to the financial statements.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following:

(1) Division of business operations sharing similar credit risk characteristics into the same group, selection of appropriate models and determination of relevant key parameters;

(2) Criteria for determining a significant increase in credit risk, default and credit impairments;

(3) Application of economic indicators for prospective measurement, economic scenarios and their respective weightings.</td><td>• Comparing the predictive economic indicators used by the management to measure the ECL in the previous year with the actual situation of the current year to assess the rationality of the estimate;

• For key internal data which was generated by the system calculation, we selected samples and compared the input data used in the system with the original business files to evaluate the accuracy of the data input. In addition, based on the work of IRM Specialists, we selected samples and tested the logic of preparing overdue information of loans and advances to customers;

• Selecting samples to assess the reasonableness of management judgement on whether the credit risk has increased significantly since initial recognition and whether credit impairment has occurred. We analysed the loan portfolio by industry sector to select samples in industried sensitive to the current business cycle and regulatory policies. We also focused on loans with perceived higher risk and selected samples from non-performing loans, overdue but performing loans and borrowers with warning signs, adverse press coverage or split ratings. On the basis of sample selection, we reviewed the business documents, checked the overdue information, inquired customer managers about about the operation conditions of borrowers, checked the financial information of the borrower and searched for market information about the borrower's business and operation;</td></tr>
</table>

Key audit matters (continued)

Measurement of expected credit loss ("ECL") for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments (continued)	
Refer to Notes III.8.(6), III.33.(1), V.6, V.7(b), V.14, V.23, XII.1(1), XII.1(3), XII.1(4) and XII.1(5) to the financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Measurement of ECL for loans and advances to customers, financial investment at amortized cost, financial guarantees and loan commitments is subject to inherent uncertainty and involves management judgments, and has an important influence on operation conditions and capital positions of the Group. In view of these reasons, we identified ECL measurement as a key audit matter.	• Performing credit reviews for the selected credit impaired loans and advances to customers and financial investment at amortized cost by assessing the forecast of recoverable cash flows through inquiry, applying professional judgment and performing independent research. We also evaluated the timing and realisation method of collaterals and considered other sources of repayment asserted by the management. We Assessed the consistency of the application of key assumptions made by the management and compared the assumptions with our data sources; • Selecting samples and reviewing the calculation of ECL to assess the application of ECL model by the Group; • Evaluating whether the disclosures relating to ECL meet the disclosure requirements of *CAS 37 - Presentation of Financial Instruments* (revised).

Key audit matters (continued)

<table>
<tr><th colspan="2">Consolidation of structured entities</th></tr>
<tr><td colspan="2">Refer to Notes III.4, III.33(4) and VIII to the financial statements.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.

The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity, through issuing a wealth management product, an asset-backed security, a trust plan, an asset management plan or a securities investment fund.</td><td>Our audit procedures to assess the recognition of interests in and consolidation of structured entities included the following:

• Making enquiries of management and inspecting documents relating to the judgment process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard;

• Selecting significant structured entities of each key product type and performing the following procedures for each structured entity selected:

- Inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;

- Inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to the exposure, or rights, to variable returns from the Group's involvement in such an entity;</td></tr>
</table>

Key audit matters (continued)

<table>
<tr><td colspan="2">Consolidation of structured entities (continued)</td></tr>
<tr><td colspan="2">Refer to Notes III.4, III.33(4) and VIII to the financial statements.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>In determining whether the Group should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions.

We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.</td><td>• Selecting significant structured entities of each key product type and performing the following procedures for each structured entity selected (continued):
- Evaluating management's analysis of the structured entity, including qualitative analysis and the calculation of the magnitude and variability associated with the Group's economic interests in the structured entity, to assess management's judgement over the Group's ability to influence its own returns from the structured entity;
- Assessing management's judgement over whether the structured entity should be consolidated or not;

• Evaluating the disclosures relating to structured entities in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.</td></tr>
</table>

Key audit matters (continued)

Fair value of financial instruments	
Refer to Notes III.8, III.23, III.33(2) and XII.4 to the financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Financial instruments carried at fair value account for a significant part of the Group's assets and liabilities. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income. The valuation of the Group's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where such observable data is not readily available, as in the case of level 3 financial instruments, then estimates need to be developed which can involve significant management judgement. The Group has developed its own models to value certain level 2 and level 3 financial instruments, which also involve significant management judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • Assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments; • Assessing the level 1 fair values, on a sample basis, by comparing the fair values applied by the Group with publicly available market data; • Engaging our Financial Risk Management specialists to assist us in performing independent valuations, on a sample basis, of level 2 and level 3 financial instruments and comparing our valuations with the Group's valuations. Our procedures included comparing the valuation model of the Group with the industry-wide accepted valuation methodology, developing parallel models, obtaining inputs independently and verifying the inputs; • Assessing the appropriate application of fair value adjustment that form an integral part of fair values, inquiring of management about any changes in the fair value adjustment methodologies and assessing the appropriateness of the inputs applied; and • Assessing whether the disclosures in the consolidated financial statements appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

Other Information

Management is responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor’s report thereon.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has 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 Financial Statements

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

Auditor’s Responsibilities for the Audit of the Financial Statements (continued)

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

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.

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

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

(4) Conclude on the appropriateness of management’s 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 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.

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

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

毕马威华振审字第 2000656 号

Auditor’s Responsibilities for the Audit of the Financial Statements (continued)

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 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 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.

KPMG Huazhen LLP

Certified Public Accountants
Registered in the People’s
Republic of China

Beijing, China

Shi Haiyun (Engagement Partner)

Dou Youming

23 April 2020

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Balance Sheets
as at 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Assets					
Cash and balances with central bank	V.1	477,853	443,723	472,824	439,900
Deposits with banks and other financial institutions	V.2	103,755	94,284	96,179	87,274
Placements with banks and other financial institutions	V.3	172,607	142,251	177,854	145,642
Precious metals		30,870	10,475	30,870	10,475
Derivative financial assets	V.4	38,719	43,274	38,719	43,274
Financial assets purchased under resale agreements	V.5	2,873	11,573	2,873	11,573
Loans and advances to customers	V.6	3,878,191	3,455,489	3,857,413	3,434,578
Financial investments:	V.7				
- Trading assets		505,318	395,668	488,178	382,492
- Debt investments		1,074,927	1,144,249	1,072,249	1,133,993
- Other debt investments		497,508	378,860	491,384	374,171
- Other equity investments		5,794	4,038	5,794	4,038
Long-term equity investments	V.8	2,049	1,968	26,148	26,064
Fixed assets	V.9	30,383	26,492	14,852	14,885
Intangible assets	V.10	10,357	9,962	8,067	7,655
Goodwill	V.11	6,981	6,981	-	-
Deferred income tax assets	V.12	45,532	36,877	44,586	36,078
Other assets	V.13	122,212	83,442	64,417	30,776
Total assets		7,005,929	6,289,606	6,892,407	6,182,868

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Balance Sheets (continued)
as at 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Liabilities and equity					
Liabilities					
Borrowing from central bank		233,423	221,003	232,934	220,263
Deposits from banks and other financial institutions	V.15	1,000,828	1,067,769	1,008,810	1,075,607
Placements from banks and other financial institutions	V.16	162,541	148,622	117,719	109,726
Trading liabilities	V.17	23,295	34,912	18,464	24,504
Derivative financial liabilities	V.4	41,503	42,793	41,501	42,793
Financial assets sold under repurchase agreements	V.18	227,583	119,564	227,583	119,564
Deposits from customers	V.19	3,661,842	3,253,315	3,634,003	3,222,589
Employee benefits payable	V.20	12,628	10,487	11,269	9,311
Taxes payable	V.21	28,060	21,595	26,165	20,014
Debt securities issued	V.22	1,003,502	841,440	991,301	832,873
Deferred income tax liabilities	V.12	634	643	-	-
Provisions	V.23	6,698	4,747	6,697	4,742
Other liabilities	V.24	42,341	44,336	32,551	36,742
Total liabilities		6,444,878	5,811,226	6,348,997	5,718,728

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Balance Sheets (continued)
as at 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Liabilities and equity (continued)					
Equity					
Ordinary shares	V.25	29,352	29,352	29,352	29,352
Other equity instruments	V.26	62,698	29,920	62,698	29,920
Capital reserves	V.27	81,760	81,760	81,710	81,710
Other comprehensive income	V.28	7,267	4,659	6,670	4,627
Surplus reserves	V.29	125,805	109,717	125,805	109,717
General risk reserve	V.30	76,249	75,946	74,900	74,900
Retained earnings	V.31	170,730	140,208	162,275	133,914
Equity attributable to the shareholders of the Bank		553,861	471,562	543,410	464,140
Minority interests		7,190	6,818	-	-
Total equity		561,051	478,380	543,410	464,140
Total liabilities and equity		7,005,929	6,289,606	6,892,407	6,182,868

These financial statements were approved for issued by the Board of Directors of the Bank on 23 April 2020.

Chairman of the board of the directors:

President:

Chief Financial Officer:

Head of the finance and accounting department:

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Income Statements
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	2019	2018	2019	2018
Operating income		190,688	170,865	181,536	163,191
Interest income		282,094	267,488	277,824	263,315
Interest expense		(153,244)	(155,644)	(150,955)	(153,198)
Net interest income	V.32	128,850	111,844	126,869	110,117
Fee and commission income		51,196	46,205	47,188	42,247
Fee and commission expense		(10,749)	(7,196)	(10,818)	(7,200)
Net fee and commission income	V.33	40,447	39,009	36,370	35,047
Investment income	V.34	13,571	15,797	12,990	15,607
Including: Income from joint ventures and associates		*171*	*164*	*158*	*176*
Loss from derecognition of financial assets at amortized cost		*(309)*	*(22)*	*(309)*	*(68)*
Other income		485	515	229	183
Gains or losses from change of fair value	V.35	3,765	798	2,934	435
Foreign exchange gains	V.36	312	1,155	328	1,138
Other operating income		1,788	1,696	346	612
Gains or losses on disposal of assets		1,470	51	1,470	52
Operating expense		(120,824)	(105,522)	(115,727)	(101,688)
Taxes and surcharges		(1,946)	(1,852)	(1,868)	(1,755)
General and administrative expenses	V.37	(43,052)	(42,541)	(40,297)	(39,960)
Impairment on credit losses	V.38	(74,708)	(60,417)	(73,182)	(59,820)
Impairment losses on other assets		1	(3)	1	(3)
Other operating expenses		(1,119)	(709)	(381)	(150)

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Income Statements (continued)
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	Note	The Group		The Bank	
		2019	2018	2019	2018
Operating profit		69,864	65,343	65,809	61,503
Add: Non-operating income		106	104	102	101
Less:Non-operating expenses		(153)	(163)	(127)	(153)
Profit before income tax		69,817	65,284	65,784	61,451
Less:Income tax expense	V.39	(10,311)	(8,769)	(9,337)	(7,826)
Net profit for the year		59,506	56,515	56,447	53,625
1. Classification according to the ability of going concern					
-Going concern net profit		59,506	56,515	56,447	53,625
-Discontinued operation net profit		-	-	-	-
2.Classification according to shareholders					
-Shareholders of the Bank		58,911	55,914	56,447	53,625
-Minority interests		595	601	-	-

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Income Statements (continued)
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	Note	The Group 2019	The Group 2018	The Bank 2019	The Bank 2018
Other comprehensive income after tax	V.28	2,609	6,983	2,043	6,888
Other comprehensive income attributes to shareholders of the parent company, after tax		2,608	6,979	2,043	6,888
Items that may be reclassified to profit or loss		2,363	6,648	1,798	6,557
- Changes in fair value of other debt investments		1,760	6,324	1,541	6,518
- Credit impairment allowance of other debt investments		645	63	329	(71)
- Cash flow hedge reserve		(1)	-	-	-
- Exchange differences from the translation of foreign operations		(41)	261	(72)	110
Items that will not be reclassified to profit or loss		245	331	245	331
- Changes in fair value of other equity investments		245	331	245	331
Other comprehensive income attributes to minority interests, after tax		1	4	-	-
Total comprehensive income		62,115	63,498	58,490	60,513
attributable to:					
- Shareholders of the Bank		61,519	62,893	58,490	60,513
- Minority interests		596	605	-	-
Earnings per share (Expressed in RMB)	V.40				
Basic earnings per share attributable to the shareholders of the Bank		1.95	1.85		
Diluted earnings per share attributable to the shareholders of the Bank		1.92	1.85		

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank’s Cash Flow Statements
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	Note	The Group 2019	The Group 2018	The Bank 2019	The Bank 2018
Cash flows from operating activities					
Net increase in deposits from customers and deposits from banks and other financial institutions		335,540	-	338,769	-
Net increase in borrrowig from central bank		12,949	35,353	13,200	35,500
Net increase in placements from banks and other financial institutions		13,907	9,307	8,082	8,408
Net increase in repurchase activities		108,023	-	108,023	-
Net decrease in deposits with banks and central bank		6,577	56,842	5,164	61,031
Net decrease in resale activities		10,718	2,406	10,718	2,406
Net decrease in financial assets held for trading		-	30,565	-	29,741
Cash received from interest		225,724	208,029	221,045	204,219
Cash received from fee and commissions		53,568	47,874	49,450	43,921
Cash received from other operating activities		10,275	41,424	8,467	40,353
Subtotal of cash inflows		777,281	431,800	762,918	425,579
Net increase in loans and advances to customers		(487,607)	(411,136)	(487,500)	(409,983)
Net decrease in deposits from customers, banks and other financial institutions		-	(61,677)	-	(60,933)
Net increase in financial assets held for trading		(26,727)	-	(21,569)	-
Net increase in placements with banks and other financial institutions		(64,918)	(31,518)	(66,615)	(32,860)
Net decrease in repurchase activities		-	(65,014)	-	(65,014)
Cash paid for interest		(116,830)	(122,828)	(115,423)	(120,796)
Cash paid for fee and commission		(11,023)	(7,585)	(11,091)	(7,588)
Cash paid to and on behalf of employees		(25,174)	(22,382)	(23,595)	(20,964)
Cash paid for taxes		(33,010)	(30,105)	(31,342)	(28,362)
Cash paid for other operating activities		(80,620)	(17,915)	(70,061)	(7,791)
Subtotal of cash outflows		(845,909)	(770,160)	(827,196)	(754,291)
Net cash flows used in operating activities	V.42	(68,628)	(338,360)	(64,278)	(328,712)

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Cash Flow Statements (continued)
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	The Group		The Bank	
	2019	2018	2019	2018
Cash flows from investing activities				
Redemption of investment securities	1,280,999	1,673,028	1,270,712	1,667,415
Cash received from investment income	75,082	76,363	74,177	75,570
Cash received from other investing activities	2,477	88	2,468	73
Subtotal of cash inflows	1,358,558	1,749,479	1,347,357	1,743,058
Purchase of investment securities	(1,416,702)	(1,485,656)	(1,415,030)	(1,482,219)
Cash paid to purchase fixed assets, intangible assets and other long-term assets	(8,829)	(5,934)	(3,840)	(3,552)
Subtotal of cash outflows	(1,425,531)	(1,491,590)	(1,418,870)	(1,485,771)
Net cash flows (used in) / generated from investing activities	(66,973)	257,889	(71,513)	257,287

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Cash Flow Statements (continued)
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	2019	2018	2019	2018
Cash flows from financing activities					
Proceeds from interest's capital increase		24	799	-	-
Including:Proceeds from minority interest's capital increase in subsidiary		24	799	-	-
Proceeds from insurance of bonds and deposit certificates		1,239,307	1,288,077	1,235,316	1,283,232
Subtotal of cash inflows		1,239,331	1,288,876	1,235,316	1,283,232
Repayment of debt securities issued		(1,045,263)	(1,137,019)	(1,044,853)	(1,136,399)
Cash paid for dividends and interest of debt securities issued		(42,301)	(33,954)	(41,525)	(33,526)
Subtotal of cash outflows		(1,087,564)	(1,170,973)	(1,086,378)	(1,169,925)
Net cash flows generated from financial activities		151,767	117,903	148,938	113,307
Effect of exchange rate changes on cash and cash equivalents		1,274	2,754	1,236	2,734
Net increase in cash and cash equivalents		17,440	40,186	14,383	44,616
Add: Cash and cash equivalents at the beginning of the year	V.41	187,644	147,458	183,454	138,838
Cash and cash equivalents at the end of the year	V.41	205,084	187,644	197,837	183,454

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated statement of changes in owners' equity
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		Equity attributable to the shareholder of Bank									
	Note	Share capital	Other equity instruments	Capital reserve	Other Comprehensive income	Surplus reserves	General risk reserve	Retained earnings	Subtotal	Minority interests	Total
Balance at 1 January 2019		29,352	29,920	81,760	4,659	109,717	75,946	140,208	471,562	6,818	478,380
Changes in equity during the year											
Net profit		-	-	-	-	-	-	58,911	58,911	595	59,506
Other comprehensive income	V.28	-	-	-	2,608	-	-	-	2,608	1	2,609
Increase in capital	V.26										
- Perpetual bonds		-	29,996	-	-	-	-	-	29,996	-	29,996
- Convertible bonds		-	2,782	-	-	-	-	-	2,782	-	2,782
- Minority interests changes due to subsidiaries' capital increase		-	-	-	-	-	-	-	-	24	24
Profit appropriation											
- Appropriation to surplus reserves	V.29	-	-	-	-	16,088	-	(16,088)	-	-	-
- Appropriation to general risk reserves	V.30	-	-	-	-	-	303	(303)	-	-	-
- Cash dividends to paid to ordinary shareholders	V.31	-	-	-	-	-	-	(10,273)	(10,273)	-	(10,273)
- Cash dividends to paid to preference shareholders	V.31	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	(248)	(248)
Balance at 31 December 2019		29,352	62,698	81,760	7,267	125,805	76,249	170,730	553,861	7,190	561,051

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated statement of changes in owners' equity
For the year ended 31 December 2018
(Expressed in millions of RMB unless otherwise stated)

		Equity attributable to the shareholder of Bank									
	Note	Share capital	Other equity instruments	Capital reserve	Other Comprehensive income	Surplus reserves	General risk reserve	Retained earnings	Subtotal	Minority interests	Total
Balance at 1 January 2018		29,352	29,920	81,760	(2,320)	94,198	75,702	104,717	413,329	5,645	418,974
Changes in equity during the year											
Net profit		-	-	-	-	-	-	55,914	55,914	601	56,515
Other comprehensive income	V.28	-	-	-	6,979	-	-	-	6,979	4	6,983
Increase in capital											
- Minority interests changes due to subsidiaries' capital increase		-	-	-	-	-	-	-	-	799	799
Profit appropriation											
- Appropriation to surplus reserves	V.29	-	-	-	-	15,519	-	(15,519)	-	-	-
- Appropriation to general risk reserves	V.30	-	-	-	-	-	244	(244)	-	-	-
- Cash dividends to paid to ordinary shareholders	V.31	-	-	-	-	-	-	(2,935)	(2,935)	-	(2,935)
- Cash dividends to paid to preference shareholders	V.31	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	(231)	(231)
Balance at 31 December 2018		29,352	29,920	81,760	4,659	109,717	75,946	140,208	471,562	6,818	478,380

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Statement of changes in owners' equity
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	Note	Share Capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserves	General risk reserve	Retained earnings	Total
Balance at 1 January 2019		29,352	29,920	81,710	4,627	109,717	74,900	133,914	464,140
Changes in equity during the year									
Net profit		-	-	-	-	-	-	56,447	56,447
Other comprehensive income	V.28	-	-	-	2,043	-	-	-	2,043
Increase in capital	V.26								
- Perpetual bonds		-	29,996	-	-	-	-	-	29,996
- Convertible bonds		-	2,782	-	-	-	-	-	2,782
Profit appropriation									
- Appropriation to surplus reserves	V.29	-	-	-	-	16,088	-	(16,088)	-
- Cash dividends to paid to ordinary shareholders	V.31	-	-	-	-	-	-	(10,273)	(10,273)
- Cash dividends to paid to preference shareholders	V.31	-	-	-	-	-	-	(1,725)	(1,725)
Balance at 31 December 2019		29,352	62,698	81,710	6,670	125,805	74,900	162,275	543,410

The notes on pages 14 to 146 form part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Statement of changes in owners' equity (continued)
For the year ended 31 December 2018
(Expressed in millions of RMB unless otherwise stated)

	Note	Share Capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserves	General risk reserve	Retained earnings	Total
Balance at 1 January 2018		29,352	29,920	81,710	(2,261)	94,198	74,900	100,468	408,287
Changes in equity during the year									
Net profit		-	-	-	-	-	-	53,625	53,625
Other comprehensive income	V.28	-	-	-	6,888	-	-	-	6,888
Profit appropriation									
- Appropriation to surplus reserves	V.29	-	-	-	-	15,519	-	(15,519)	-
- Cash dividends to paid to ordinary shareholders	V.31	-	-	-	-	-	-	(2,935)	(2,935)
- Cash dividends to paid to preference shareholders	V.31	-	-	-	-	-	-	(1,725)	(1,725)
Balance at 31 December 2018		29,352	29,920	81,710	4,627	109,717	74,900	133,914	464,140

The notes on pages 14 to 146 form part of these financial statements.

I GENERAL INFORMATION

Shanghai Pudong Development Bank Co., Ltd. (the “Bank”) is a joint-stock commercial bank incorporated in Shanghai, the People’s Republic of China (“the PRC”) on 28 August 1992 in accordance with the approval from the People’s Bank of China (“the PBOC” or “Central Bank”) (Yin Fu [1992] No.350). The Address of the head office is 12 First East Zhongshan Road, Shanghai. The Bank obtained its business licence from Shanghai Municipal Administration of Industry and Commerce on 19 October 1992 and commenced its business on 9 January 1993. On 10 November 1999, the Bank’s share capital denominated in RMB were listed and traded on the Shanghai Stock Exchange.

The unified social credit code of the Bank is 9131000013221158XC, and the financial service certificate No. of the Bank is B0015H131000001.

The Bank and its subsidiaries (collectively referred to as “the Group”) are mainly engaged in financial businesses. The scope of business mainly includes commercial banking services, financial leasing businesses and trust services approved by the PBOC and the China Banking and Insurance Regulatory Commission (the “CBIRC”), investment banking and fund management business defined by relevant licenses issued by Securities & Futures Commission of Hong Kong. The Bank’s principal regulator is the CBIRC. The Bank’s overseas branches and subsidiaries are subject to the supervision by local regulators.

The major subsidiaries are consolidated in the Group’s financial statements are disclosure in Note VI.

II BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial statements have been prepared on the going concern basis.

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance (MOF) of the People's Republic of China (PRC). These financial statements present truly and completely the consolidated financial position and financial position of the Bank as at 31 December 2019, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Bank for the year then ended.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission ("CSRC") in 2014.

III SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1 Accounting period

The accounting period is from 1 January to 31 December.

2 Functional Currency

The functional currency of the Group's operations in Mainland China is Renminbi (RMB). Items included in the financial statements of each of the Group's operations oversea are measured using the currency of the primary economic environment in which the entity operates. The Group translates the financial statements of overseas subsidiaries from their respective functional currencies into the Group's functional currency (see Note III.5).

3 Accounting treatments for business combinations involving entities under common control and not under common control

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total par value of shares issued) is adjusted against share premium in the capital reserve, with any excess adjusted against retained earnings. Any costs directly attributable to the combination are recognised in profit or loss when incurred. The combination date is the date on which one combining entity obtains control of other combining entities.

Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Where (1) the aggregate of the acquisition-date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (2) the acquirer's interest in the acquisition-date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill (see Note III.20). If (1) is less than (2), the difference is recognised in profit or loss for the current period. The costs of issuing equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed when incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition-date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

For a business combination involving entities not under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its acquisition-date fair value and recognises any resulting difference between the fair value and the carrying amount as investment income or other comprehensive income for the current period. In addition, any amount recognised in other comprehensive income and other changes in the owners' equity under equity accounting in prior reporting periods relating to the previously-held equity interest that may be reclassified to profit or loss are transferred to investment income at the date of acquisition (see Note III.14(2)(b)); Any previously-held equity interest that is designated as equity investment at fair value through other comprehensive income, the other comprehensive income recognised in prior reporting periods is transferred to retained earnings and surplus reserve at the date of acquisition.

4 Consolidated financial statements

<u>General principles</u>

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Bank and its subsidiaries (including a structured entity). Control exists when the investor has all of following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. The financial position, financial performance and cash flows of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual or relative arrangements.

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' share of the opening owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Bank, the Bank makes necessary adjustments to the financial statements of the subsidiary based on the Bank's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

Subsidiaries acquired through a business combination

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements based on the carrying amounts of the assets and liabilities of the subsidiary in the financial statements of the ultimate controlling party as if the combination had occurred at the date that the ultimate controlling party first obtained control. The opening balances and the comparative figures of the consolidated financial statements are also restated.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities not under common control, the identifiable assets and liabilities of the acquired subsidiaries are included in the scope of consolidation from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

Disposal of subsidiaries

When the Group loses control over a subsidiary, any resulting disposal gains or losses are recognised as investment income for the current period. The remaining equity interests is re-measured at its fair value at the date when control is lost, any resulting gains or losses are also recognised as investment income for the current period.

When the Group loses control of a subsidiary in multiple transactions in which it disposes of its long-term equity investment in the subsidiary in stages, the following are considered to determine whether the Group should account for the multiple transactions as a bundled transaction:

- arrangements are entered into at the same time or in contemplation of each other;
- arrangements work together to achieve an overall commercial effect;
- the occurrence of one arrangement is dependent on the occurrence of at least one other arrangement;
- one arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements.

If each of the multiple transactions does not form part of a bundled transaction, the transactions conducted before the loss of control of the subsidiary are accounted for in accordance with the accounting policy for partial disposal of equity investment in subsidiaries where control is retained.

If each of the multiple transactions forms part of a bundled transaction which eventually results in the loss of control in the subsidiary, these multiple transactions are accounted for as a single transaction. In the consolidated financial statements, the difference between the consideration received and the corresponding proportion of the subsidiary's net assets (calculated continuously from the acquisition date) in each transaction prior to the loss of control shall be recognised in other comprehensive income and transferred to profit or loss when the parent eventually loses control of the subsidiary.

Changes in non-controlling interests

Where the Bank acquires a non-controlling interest from a subsidiary's non-controlling shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the proportion interests of the subsidiary's net assets being acquired or disposed and the amount of the consideration paid or received is adjusted to the capital reserve (share premium) in the consolidated balance sheet, with any excess adjusted to retained earnings.

5 Foreign currency translation

Foreign currency transactions are initially recorded in the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in profit or loss, with the exception that they are taken directly to other comprehensive income when the monetary items are designated as part of the hedge of the Bank's net investment of a foreign entity, and the aggregate exchange differences are not recognised in profit or loss until the disposal of such net investment. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined. The exchange differences are recognised in profit or loss or in other comprehensive income, depending on the nature of non-monetary items.

As at the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Bank at the exchange rates ruling at the end of the reporting period. All items within equity except for retained profits are translated at the exchange rates ruling at the dates of the initial transactions. Income and expenses in the statement of profit or loss are translated at the weighted average exchange rates for the year. The exchange differences arising on the above translation are taken to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily withdraw on demand, and short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

7 Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in the statement of profit or loss.

8 Financial instruments

(1) Recognition and initial measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

A financial assets and financial liabilities is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

(2) Classification and subsequent measurement of financial assets

(a) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The instrument meets the definition of equity from the perspective of the issuer.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(b) Subsequent measurement of financial assets

- Financial assets at FVTPL

  These financial assets are subsequently measured at fair value. Net gains and losses (including any interest or dividend income) are recognised in profit or loss unless the financial assets are part of a hedging relationship.

- Financial assets at amortised cost

  These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

- Debt investments at FVOCI

  These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

- Equity investments at FVOCI

  These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(3) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL and amortised cost.

- Financial liabilities at FVTPL

  A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

  Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

- Financial liabilities at amortised cost

These financial liabilities are subsequently measured at amortised cost using the effective interest method.

(4) Offsetting

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied：

- The Group currently has a legally enforceable right to set off the recognised amounts；
- The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(5) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

- the Group's contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or；
- the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred measured at the date of derecognition;
- the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

<u>Securitisation</u>

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When a securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability; when the securitisation of financial assets partially qualifies for derecognition, the Group continue to recognise the transferred assets to the extent of its continuing involvement, derecognise the remaining. The carrying amount of the transferred assets is apportioned between the derecognised portion and the retained portion based on their respective relative fair values, and the difference between the carrying amount of the derecognised portion and the total consideration paid for the derecognised portion is recorded in profit or loss.

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(6) Impairment

The Group recognises loss allowances for expected credit loss ("ECL") on:

- Financial assets measured at amortised cost;
- Debt instruments measured at FVOCI; and
- Loan commitments and financial guarantee contracts.

Financial assets measured at fair value, including debt investments or equity securities measured at FVTPL, equity securities designated as at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The Group's method of measuring ECL of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECL is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 months).

Refer to Note XII.1(3) for more detailed explanations of measuring ECL.

<u>Presentation of allowance for ECL</u>

ECL are remeasured at the end of each reporting period to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for financial instruments measured at amortised cost with a corresponding adjustment to their carrying amount through a loss allowance account; for debt instruments that are measured at FVOCI, the loss allowance is recognised in other comprehensive income.

<u>Write-off</u>

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(7) Modification of loan contracts

In some cases (such as renegotiating loans), the Group may renegotiate or otherwise modify the financial assets contracts.The Group would assess whether or not the new contractual terms are substantially different to the original terms. If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset under the revised terms. If the renegotiation or modification does not result in derecognition, but lead to changes in contractual cash flows, the Group assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms.

(8) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from shareholders' equity.

When the Bank repurchases its own shares, those shares are treated as treasury shares. All expenditure relating to the repurchase is recorded in the cost of the treasury shares, with the transaction recording in the share register. Treasury shares are excluded from profit distributions and are presented as a deduction under shareholders' equity in the balance sheet.

When treasury shares are cancelled, the share capital should be reduced to the extent of the total par value of the treasury shares cancelled. Where the cost of the treasury shares cancelled exceeds the total par value, the excess is deducted from capital reserve (share premium), surplus reserve and retained earnings sequentially. If the cost of treasury shares cancelled is less than the total par value, the difference is credited to the capital reserve (share premium).

When treasury shares are disposed of, any excess of proceeds above cost is recognised in capital reserve (share premium); otherwise, the shortfall is deducted against capital reserve (share premium), surplus reserve and retained earnings sequentially.

9 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 debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note XII.1(3)); and
- The premium received on initial recognition less the accumulated amount of income.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note XII.1(3)). 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.

The Group's expected credit losses of financial guarantees and loan commitments are presented as “provisions”.

10 Derivatives and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Certain derivatives are embedded in hybrid contracts.If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes (Note III.8(ii)). Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

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

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group’s overseas branch implanted fair value hedge and cash flow hedge, by designated selected derivative instruments to hedge the specific fair value or cash flow related risk of recognized assets.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

A fair value hedge is a hedge of the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or a portion of such an asset, liability or firm commitment.

The gain or loss from remeasuring the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the recognised hedged item not measured at fair value and is recognised in profit or loss.

Any adjustment to the carrying amount of a hedged item is amortised to profit or loss if the hedged item is a financial instrument (or a component thereof) measured at amortised cost. The amortisation is based on a recalculated effective interest rate at the date that amortisation begins.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows. The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income as a cash flow hedge reserve. The amount of the cash flow hedge reserve is adjusted to the lower of the following (in absolute amounts):

- the cumulative gain or loss on the hedging instrument from inception of the hedge;
- the cumulative change in present value of the expected future cash flows on the hedged item from inception of the hedge.

The change in the amount of the cash flow hedge reserve is recognised in other comprehensive income in each period.

The portion of the gain or loss on the hedging instrument that is determined to be ineffectiveness is recognised in profit or loss.

If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group removes that amount from the cash flow hedge reserve and includes it in the initial cost or other carrying amount of the asset or liability.

For cash flow hedges other than those covered above, that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.

When the Group discontinues hedge accounting for a cash flow hedge, the amount of the accumulated cash flow hedge reserve recognised in other comprehensive income is accounted for as follows:

- If the hedged future cash flows are still expected to occur, that amount will remain in the cash flow hedge reserve, and be accounted for in accordance with the above policy.
- If the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

Hedges of a net investment in a foreign operation

A hedge of a net investment in a foreign operation is a hedge of the exposure to foreign exchange risk associated with a net investment in a foreign operation. The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When disposing a foreign operation, in whole or in part, the aforesaid gain or loss on the hedging instrument will be transferred from equity to profit or loss as a reclassification adjustment. The portion of the gain or loss on the hedging instrument that is determined to be ineffective is recognised in profit or loss.

11 Convertible instruments

Convertible instruments containing an equity component

Convertible instruments issued by the Group that can be converted to equity shares, where the number of shares to be issued and the value of consideration to be received at that time do not vary, are accounted for as compound financial instruments containing both liability and equity components.

The initial carrying amount of a compound financial instrument is allocated to its equity and liability components. The amount recognised in the equity is the difference between the fair value of the instrument as a whole and the separately determined fair value of the liability component (including the fair value of any embedded derivatives other than the equity component). Transaction costs that relate to the issuance of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method, unless it is designated upon recognition at fair value through profit or loss. The equity component is not re-measured.

If the convertible instrument is converted, the liability component, together with the equity component, is transferred to equity. If the convertible instrument is redeemed, the consideration paid for the redemption, together with the transaction costs that relate to the redemption, are allocated to the liability and equity components. The method used to allocate the consideration and transaction costs is the same as that used for issuance. After allocating the consideration and transaction costs, the difference between the allocated and carrying amounts is charged to profit and loss if it relates to the liability component or is directly recognised in equity if it relates to the equity component.

Other convertible instruments not containing an equity component

For other convertible instruments issued by the Group which do not contain an equity component, at initial recognition, the derivative component is measured at fair value, and any excess of proceeds over the derivative component is recognised as the liability component.

The derivative component is subsequently measured at fair value, and gains or losses from the changes in the fair value are recognised in profit or loss. The liability component is subsequently carried at amortised cost using the effective interest method.

On conversion, the carrying amounts of the derivative and liability components are transferred to equity. If the instrument is redeemed, any difference between the redemption amount paid and the carrying amounts of both components is recognised in profit or loss.

12 Preference shares and perpetual bonds

At initial recognition, the Group classifies the preference shares, perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Preference shares and perpetual bonds issued containing both equity and liability components are accounted for using the accounting policy for convertible instruments containing an equity component. Preference shares and perpetual bonds issued not containing an equity component are accounted for using the accounting policy for other convertible instruments not containing an equity component.

Preference shares and perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the preference shares and perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

13 Repurchase and reverse repurchase transactions (including securities borrowing and lending)

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing and lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a financial liability held for trading and measured at fair value with any gains or losses included in profit or loss.

14 Long-term equity investments

(1) Investment cost of long-term equity investments

(a) Long-term equity investments acquired through a business combination

- The initial cost of a long-term equity investment acquired through a business combination involving entities under common control is the Company's share of the carrying amount of the subsidiary's equity in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the initial investment cost and the carrying amount of the consideration given is adjusted to the share premium in the capital reserve, with any excess adjusted to retained earnings. For a long-term equity investment in a subsidiary acquired through a business combination achieved in stages which do not form a bundled transaction and involving entities under common control, the Company determines the initial cost of the investment in accordance with the above policies. The difference between this initial cost and the sum of the carrying amount of previously-held investment and the consideration paid for the shares newly acquired is adjusted to capital premium in the capital reserve, with any excess adjusted to retained earnings.

- For a long-term equity investment obtained through a business combination not involving entities under common control, the initial cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Company, in exchange for control of the acquiree. For a long-term equity investment obtained through a business combination not involving entities under common control and achieved through multiple transactions in stages which do not form a bundled transaction, the initial cost comprises the carrying amount of the previously-held equity investment in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date.

(b) Long-term equity investments acquired other than through a business combination

A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

(2) Subsequent measurement of long-term equity investment

(a) Investments in subsidiaries

Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income for the current year.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses.For the impairment of the investments in subsidiaries, refer to Note III.21.

In the Group's consolidated financial statements, subsidiaries are accounted for in accordance with the policies described in Note III.4.

(b) Investment in joint ventures and associates

A joint venture is an arrangement whereby the Group and other parties have joint control (see Note III.14(3)) and rights to the net assets of the arrangement.An associate is an entity over which the Group has significant influence (see Note III.14(3)).An investment in a joint venture or an associate is accounted for using the equity method for subsequent measurement, unless the investment is classified as held for sale.

The accounting treatments under the equity method adopted by the Group are as follows:

- Where the initial cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is recognised in profit or loss.

- After the acquisition of the investment, the Group recognises its share of the investee's profit or loss and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by the amount attributable to the Group. Changes in the Group's share of the investee's owners' equity, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution (referred to as "other changes in owners' equity"), is recognised directly in the Group's equity, and the carrying amount of the investment is adjusted accordingly.

- In calculating its share of the investee's net profits or losses, other comprehensive income and other changes in owners' equity, the Group recognises investment income and other comprehensive income after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses resulting from transactions between the Group and its associates or joint ventures are eliminated in the same way as unrealised gains but only to the extent that there is no impairment.

- The Group discontinues recognising its share of further losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the joint venture or associate is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. If the joint venture or associate subsequently reports net profits, the Group resumes recognising its share of those profits only after its share of the profits has fully covered the share of losses not recognised.

  For the impairment of the investments in joint ventures and associates, refer to Note III.21.

(3) Criteria for determining the existence of joint control or significant influence over an investee

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (activities with significant impact on the returns of the arrangement) require the unanimous consent of the parties sharing control.

The following factors are usually considered when assessing whether the Group can exercise joint control over an investee:

- Whether no single participant party is in a position to control the investee's related activities unilaterally;
- Whether strategic decisions relating to the investee's related activities require the unanimous consent of all participant parties that sharing of control.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies.

15 Fixed assets

(1) Recognition of fixed assets

Fixed assets represent the tangible assets held by the Groupfor use in supply of services、for rental or for administrative purposes with useful lives over one accounting year.

The cost of a purchased fixed asset 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 self-constructed assets is measured in accordance with the policy set out in Note III.16.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Group in a different pattern, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Group, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

(2) Depreciation of fixed assets

The cost of a fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life.The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

Class	Estimate useful life (years)	Residual value rate (%)	Depreciation rate (%)
Plant and buildings	30years	3 - 5%	3.17 -3.23%
Motor vehicles	5years	3 - 5%	19.00 - 19.40%
Electronic computers and other equipments	3 - 5years	3 - 5%	19.00 - 32.33%
Plane and ship equipments	20years	5%	4.75%

Useful lives,estimated residual values and depreciation methods are reviewed at least at each year-end.

(3) For the impairment of the fixed assets, refer to Note III.21.

(4) Disposal of fixed assets

The carrying amount of a fixed asset is derecognised:

- when the fixed asset is holding for disposal; or
- when no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

16 Construction in progress

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs , and any other costs directly attributable to bringing the asset to working condition for its intended use.A self-constructed asset is classified as construction in progress and transferred to fixed asset when it is ready for its intended use. No depreciation is provided against construction in progress. Construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note III.21).

17 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note III.21). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life, unless the intangible asset is classified as held for sale.

- Land use right is amortized since the month of acquisition using straight-line method within its statutory useful life. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

- Software is amortized since month of acquisition using straight-line method over its beneficial life.

- Customer contract relationship is amortized on the straight-line basis over the maximum beneficial life upon the acquisition date.

- Brand and franchise right are intangible assets with no expected useful lives, which are not subject to amortization.

The Group reviews the useful life and amortization method of a finite useful life intangible assets at the end of each year and adjusts it if necessary.
If the useful life of an intangible asset is finite, an enterprise shall assess the length of, or the number.of production or similar units constituting that useful life.An intangible life shall be regarded as having indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the enterprise.

18 Long-term deferred expenses

Long-term deferred expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term deferred expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

19 Repossessed assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

20 Goodwill

The initial cost of goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under a business combination not involving entities under common control.Goodwill is not amortised and is stated in the balance sheet at cost less accumulated impairment losses (see Note III.21). On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

21 Impairment of assets other than inventories and financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- long-term equity investments
- goodwill
- long-term deferred expenses

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of intangible assets not ready for use at least annually and the recoverable amounts of goodwill and intangible assets with indefinite useful lives at each year-end, irrespective of whether there is any indication of impairment. Goodwill is allocated to each asset group or set of asset groups, which is expected to benefit from the synergies of the combination for the purpose of impairment testing.

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value less costs to sell and its present value of expected future cash flows (see Note.III.23).

An asset group is composed of assets directly related to cash generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

22 Provisions

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome.
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

23 Fair value measurement

Unless otherwise specified, the Group measures fair value as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

24 Dividend distribution

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

25 Fiduciary activities

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreement with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

26 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

(i) For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and

(ii) Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

(i) The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as theGroup performs;
- The customer controls the service provided by the Group in the course of performance; or
- The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

(ii) In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

27 Government grants

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Group except for capital contributions from the government in the capacity as an investor in the Group. A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value.

Government grants related to assets are grants whose primary condition is that the Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets. A government grant related to an asset is recognised as deferred income and amortised over the useful life of the related asset on a reasonable and systematic manner as other income or non-operating income. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in other income or non-operating income in the periods in which the expenses or losses are recognised. Or included in other income or non-operating income directly.

28 Employee benefits

(1) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accured at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(2) Post-employment benefits-defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the “Annuity Plan”). The Group and its employees are required to contribute a certain percentage of the employees’ previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

(3) Termination benefits

When the Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;
- When the Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

29 Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax 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, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted at the balance sheet date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;
- they relate to income taxes levied by the same tax authority on the same taxable entity or different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

30 Leases

Leases can divided into financial lease and operating lease. A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

(1) As a lessee under operating leases

Lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term. Initial direct cost is also charged to profit or loss. Contingent rents are recorded into profit or loss of the period in which they actually arise.

(2) As a lessor under operating lease

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognised as the Group’s property and equipment. Rental income from an operating lease is recognised in profit or loss on a straight-line basis over the period of the lease. Large amount initial direct cost is capitalised as incurred, and is recorded into profit or loss for the period over the term of the related lease on the same recognition basis as rental income; other small amount initial direct cost is charged to profit or loss for the period as incurred. Contingent rents are recorded into profit or loss of the period in which they actually arise.

(3) As a lessor under finance leases

At the lease commencement date, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognized as a receivable. The difference between the receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return, as interest income in the comprehensive income statement. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in “other assets”. When making the judgment of de-recognition or impairment measurement, finance lease receivables are considered as loans and receivables.

31 Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition to the related parties stated above, the Company determines related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC.

32 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting. Segment accounting policies are consistent with those for the consolidated financial statements.

33 Significant accounting and judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

(1) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI and with exposure arising from loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses).

The measurement of ECL involves many key assumptions, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining significant increase in credit risk, default and credit-impaired; and
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings.

The detailed measurement method of ECL is described at Note XII.1(3).

(2) Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(3) Taxes

Significant estimates are required in calculating the income tax, value added tax and other taxes. During the ordinary business activities, there is uncertainty in the final tax treatment of some transactions and events. The Group recognizes liabilities for anticipated tax issues arising from new tax regulations or other uncertain tax arrangements based on estimates of whether additional taxes will be due. The deductibility of certain items is subject to tax authority's final approval. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income taxes, deferred tax provisions and taxes and surcharges in the period in which such determination is made.

In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

(4) Consolidation of structured entities

Management applies its judgment to determine whether the Group is acting as an agent or a principle in relation to the structured entities in which the Group acts as an asset manager. In assessing whether the Group is acting as an agent, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to viability of returns by other arrangements (such as direct investments).

(5) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or groups of CGUs to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the CGU or groups of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(6) Derecognition of financial assets

The Group's transfer of financial assets include transfer of loans and advances to customers, securitization and financial assets sold under repurchase agreements. When assess whether the transfer of financial asset meet the derecognition requirement of financial asset, it is required to assess whether the Group has transferred the right to receive cash flows of financial asset, or has transferred the contractual rights to receive cash flows from the financial asset to another party which meet the requirement of "pass-through", whether nearly all the risks and rewards of ownership of the financial asset have been transferred out and whether its control over the transferred financial asset has been given up.

34 Changes in significant accounting policies

In 2019, the Group has adopted the following revised accounting standards issued by the MOF recently:

- CAS No.7 – Exchange of Non-monetary Assets (Revised) ("CAS 7 (2019)")
- CAS No.12 – Debt Restructuring (Revised) ("CAS 12 (2019)")

(a) CAS 7 (2019)

The effective date of CAS 7 (2019) is 10 June 2019. Exchanges of non-monetary assets that occurred between 1 January 2019 and the effective date shall be adjusted according to CAS 7 (2019). Retrospective adjustment is not required for exchanges of non-monetary assets prior to 1 January 2019. The adoption of CAS 7 (2019) has no material effect on the financial position and financial performance of the Group.

(b) CAS 12 (2019)

The effective date of CAS 12 (2019) is 17 June 2019. Debt restructuring that occurred between 1 January 2019 and the effective date shall be adjusted according to CAS 12 (2019). Retrospective adjustment is not required for debt restructuring prior to 1 January 2019. The adoption of CAS 12 (2019) has no material effect on the financial position and financial performance of the Group.

IV TAXATION

The Bank and its domestic subsidiaries' main applicable taxes and tax rates are as follows:

Value-added tax (VAT)	Output VAT is calculated on 6%~16% of the product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period. Part of VAT is calculated on 3% or 5% of the product sales and taxable services revenue.
City maintenance and construction tax	1%-7% of VAT paid
Educational surcharge	3%-5% of VAT paid
Income tax	25% of taxable income. The domestic subsidiarie pay income tax according to local regulations.

Overseas subsidiaries pay income tax according to local regulations.

V Notes to the financial statements

1 Cash and deposits with central bank

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash		6,112	6,036	5,964	5,894
Statutory reserves with central bank	(1)	364,433	364,026	362,304	361,390
Surplus reserves with central bank	(2)	105,063	70,709	102,311	69,687
Fiscal deposits with central bank		2,065	2,733	2,065	2,710
Accrued interest		180	219	180	219
Total		477,853	443,723	472,824	439,900

(1) The Group is required to place statutory reserves with the PBOC and overseas central banks, including RMB and foreign currency deposit reserves and foreign exchange risk reserves for forward foreign exchange sales businesses, which are not allowed to be used in the Group's daily operations. The reserve rates for deposits denominated RMB and foreign currencies of domestic branches and sub-branches are in line with the PBOC's requirements, while the deposit requirements for overseas branches and sub-branches are regulated by local regulators.

(2) The surplus reserves refer to money deposited by the Group with the PBOC and overseas central banks for the purpose of funds liquidation.

2 Deposits with banks and other financial institutions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deposits with domestic banks	56,583	47,965	49,231	41,123
Deposits with overseas banks	46,075	45,635	45,994	45,555
Deposits with domestic non-bank financial institutions	815	399	666	320
Accrued interest	498	401	477	368
Less: impairment allowance	(216)	(116)	(189)	(92)
Total	103,755	94,284	96,179	87,274

3 Placements with banks and other financial institutions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Placements with domestic banks	26,260	14,006	26,260	13,506
Placements with overseas banks	15,864	17,231	15,864	17,231
Placements with domestic non-bank financial institutions	108,621	87,548	109,831	88,408
Placements with overseas non-bank financial institutions	20,468	22,292	24,485	25,320
Accrued interest	1,460	1,264	1,478	1,265
Less: impairment allowance	(66)	(90)	(64)	(88)
Total	172,607	142,251	177,854	145,642

4 Derivative financial instruments

The Group

	31 December 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Interest rate swap contracts	5,032,981	13,221	(13,017)
Currency swap contracts	1,875,203	16,168	(16,688)
Option contracts	667,976	3,013	(2,739)
Precious metal derivative financial instruments	182,064	5,432	(8,110)
Foreign exchange forward contracts	44,615	589	(394)
Commodity contracts	9,903	208	(137)
Derivative financial instruments held as hedging instruments:			
Interest rate swap	20,289	21	(401)
Cross-currency interest rate swap	4,094	67	(17)
Total		38,719	(41,503)

	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	3,745,734	23,836	(22,517)
Interest rate swap contracts	3,178,256	12,882	(14,673)
Option contracts	668,433	3,940	(3,105)
Precious metal derivative financial instruments	135,375	1,814	(1,414)
Foreign exchange forward contracts	92,855	587	(861)
Commodity contracts	2,825	62	(55)
Derivative financial instruments held as hedging instruments:			
Interest rate swap	20,777	146	(141)
Cross-currency interest rate swap	2,134	7	(27)
Total		43,274	(42,793)

The Bank

	31 December 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Interest rate swap contracts	5,032,981	13,221	(13,017)
Currency swap contracts	1,875,203	16,168	(16,688)
Option contracts	667,976	3,013	(2,739)
Precious metal derivative financial instruments	182,064	5,432	(8,110)
Foreign exchange forward contracts	44,615	589	(394)
Commodity contracts	9,903	208	(137)
Derivative financial instruments held as hedging instruments:			
Interest rate swap	20,096	21	(399)
Cross-currency interest rate swap	4,094	67	(17)
Total		38,719	(41,501)

	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	3,745,734	23,836	(22,517)
Interest rate swap contracts	3,178,256	12,882	(14,673)
Option contracts	668,433	3,940	(3,105)
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Foreign exchange forward contracts	92,855	587	(861)
Commodity contracts	2,825	62	(55)
Derivative financial instruments held as hedging instruments:			
Interest rate swap	20,777	146	(141)
Cross-currency interest rate swap	2,134	7	(27)
Total		43,274	(42,793)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

5 Financial assets purchased under resale agreements

The Group and the Bank

	31 December 2019	31 December 2018
Bonds	2,715	11,575
Discounted bills	145	-
Accrued interest	14	5
Less: impairment allowance	(1)	(7)
Total	2,873	11,573

6 Loans and advances to customers

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans and advances to Customers measured at:				
- amortized cost (a)	3,555,971	3,299,570	3,533,088	3,277,027
- FVOCI (b)	412,935	249,153	412,935	249,153
- FVTPL (c)	3,180	482	3,180	482
Subtotal	3,972,086	3,549,205	3,949,203	3,526,662
Accrued interest	14,584	11,705	14,487	11,642
Impairment allowances				
-Loans and advances to customers mearsured at amortized cost	(108,359)	(105,339)	(106,157)	(103,649)
- Accrued interest of loans and advances to customers measured at amortized cost	(120)	(82)	(120)	(77)
Subtotal	(108,479)	(105,421)	(106,277)	(103,726)
Net loans and advances to customers	3,878,191	3,455,489	3,857,413	3,434,578

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
(a) Loans and advances to customers measured at amortized cost				
Corporates loans				
Commercial Loans	1,847,828	1,778,999	1,839,136	1,769,084
Trade finance	32,623	36,875	32,623	36,875
Discounted bills	144	468	120	314
Retail loans				
Mortgage loans	730,260	588,988	724,536	585,007
Credit card and overdraft	421,535	433,470	421,398	433,470
Business loans	274,606	240,404	267,758	233,422
Consumer loans and others	248,975	220,366	247,517	218,855
Subtotal	3,555,971	3,299,570	3,533,088	3,277,027
(b) Loans and advances to customers measured at FVOCI				
Corporates loans				
Trade finance	35	-	35	-
Discounted bills	412,900	249,153	412,900	249,153
Subtotal	412,935	249,153	412,935	249,153
(c) Loans and advances to customers measured at FVTPL				
Corporates loans				
Trade finance	1,100	-	1,100	-
Discounted bills	2,080	482	2,080	482
Subtotal	3,180	482	3,180	482
Total loans andadvances to customers	3,972,086	3,549,205	3,949,203	3,526,662

6.1 Loans and advances to customers analysed by industry

The Group

	31 December 2019		31 December 2018	
	Amount	(%)	Amount	(%)
Corporate loans				
Real estate	334,229	8.41	283,516	7.99
Manufacturing	330,592	8.32	305,290	8.60
Lease and commercial service	264,423	6.66	265,795	7.49
Water, environment and public facilities management	152,055	3.83	165,400	4.66
Transportation, warehouse and postal services	141,266	3.56	125,359	3.53
Construction	139,388	3.51	141,439	3.99
Wholesale and retail	136,718	3.44	207,144	5.84
Financial services	82,438	2.08	56,467	1.59
Mining	79,581	2.00	77,164	2.17
Electricity, heat, gas, water production and supply	67,941	1.71	64,389	1.81
Information transmission, software and IT services	38,852	0.98	25,023	0.71
Agriculture, forestry, farming and fishery	27,785	0.70	27,205	0.77
Research and technology services	24,016	0.60	21,401	0.60
Culture, sports and entertainment	18,301	0.46	10,573	0.30
Healthcare and social welfare	16,936	0.43	11,837	0.33
Education	11,883	0.30	10,302	0.29
Others	15,182	0.38	17,570	0.50
Subtotal	1,881,586	47.37	1,815,874	51.17
Discounted bills	415,124	10.45	250,103	7.04
Retail loans	1,675,376	42.18	1,483,228	41.79
Total	3,972,086	100.00	3,549,205	100.00

The Bank

	31 December 2019		31 December 2018	
	Amount	(%)	Amount	(%)
Corporate loans				
Real estate	334,208	8.46	283,488	8.04
Manufacturing	325,632	8.25	299,984	8.51
Lease and commercial service	264,935	6.71	266,381	7.55
Water, environment and public facilities management	151,988	3.85	165,321	4.69
Transportation, warehouse and postal services	141,134	3.57	125,240	3.55
Construction	138,860	3.52	140,879	3.99
Wholesale and retail	134,976	3.42	205,237	5.82
Financial services	83,134	2.10	56,467	1.60
Mining	79,418	2.01	77,019	2.18
Electricity, heat, gas, water production and supply	67,477	1.71	63,948	1.81
Information transmission, software and IT services	38,779	0.98	24,958	0.71
Agriculture, forestry, farming and fishery	26,418	0.67	25,782	0.73
Research and technology services	23,997	0.61	21,376	0.61
Culture, sports and entertainment	18,263	0.46	10,514	0.30
Healthcare and social welfare	16,899	0.43	11,787	0.33
Education	11,837	0.30	10,257	0.29
Others	14,939	0.38	17,321	0.50
Subtotal	1,872,894	47.43	1,805,959	51.21
Discounted bills	415,100	10.51	249,949	7.09
Retail loans	1,661,209	42.06	1,470,754	41.70
Total	3,949,203	100.00	3,526,662	100.00

6.2 Loans and advances to customers analysed by collateral type

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Unsecured loans	1,621,602	1,325,740	1,621,148	1,324,946
Guaranteed loans	706,838	739,258	697,934	729,446
Collateralized loans	1,422,864	1,284,367	1,410,241	1,273,603
Pledged loans	220,782	199,840	219,880	198,667
Total	3,972,086	3,549,205	3,949,203	3,526,662

6.3 Overdue loans and advances to customers

The Group

	31 December 2019				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	12,649	13,496	3,751	360	30,256
Guaranteed loans	9,759	8,381	6,638	1,221	25,999
Collateralized loans	12,041	9,226	5,744	1,328	28,339
Pledged loans	1,283	1,371	480	68	3,202
Total	35,732	32,474	16,613	2,977	87,796

	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	9,693	9,591	1,610	177	21,071
Guaranteed loans	13,721	14,817	12,744	485	41,767
Collateralized loans	9,602	7,952	5,132	2,473	25,159
Pledged loans	833	1,853	777	47	3,510
Total	33,849	34,213	20,263	3,182	91,507

The Bank

	31 December 2019				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	12,647	13,460	2,803	360	29,270
Guaranteed loans	9,180	8,197	6,428	1,175	24,980
Collateralized loans	11,825	9,152	5,630	1,317	27,924
Pledged loans	1,247	1,371	479	68	3,165
Total	34,899	32,180	15,340	2,920	85,339

	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	9,663	9,551	1,539	177	20,930
Guaranteed loans	13,279	14,295	12,269	451	40,294
Collateralized loans	9,355	7,754	4,996	2,429	24,534
Pledged loans	760	1,853	756	47	3,416
Total	33,057	33,453	19,560	3,104	89,174

The Group classifies the total loans with principal or interest overdue 1 day above (including 1 day) as overdue loans and restates the comparative figures in accordance with this classification.

6.4 Movements of ECL allowance

(a) Movements of ECL allowance of loans and advances to customers at amortized cost

The Group

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019		25,042	26,693	53,604	105,339
Transfers during the year:					
- Transfer to stage 1		3,122	(2,940)	(182)	-
- Transfer to stage 2		(1,602)	2,105	(503)	-
- Transfer to stage 3		(1,147)	(17,022)	18,169	-
Net increase for the year	(1)	3,591	10,461	54,889	68,941
Written-offs and disposals during the year		-	-	(68,004)	(68,004)
Recovery of loans and advances written off in previous years		-	-	3,539	3,539
Others		1	-	(1,457)	(1,456)
Balance at 31 December 2019		29,007	19,297	60,055	108,359

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018		31,168	35,384	38,930	105,482
Transfers during the year:					
- Transfer to stage 1		2,842	(2,720)	(122)	-
- Transfer to stage 2		(2,387)	2,540	(153)	-
- Transfer to stage 3		(550)	(7,642)	8,192	-
Net (decrease) / increase for the year	(1)	(6,172)	(871)	65,604	58,561
Written-offs and disposals during the year		-	-	(61,290)	(61,290)
Recovery of loans and advances written off in previous years		-	-	3,748	3,748
Others		141	2	(1,305)	(1,162)
Balance at 31 December 2018		25,042	26,693	53,604	105,339

The Bank

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019		24,551	26,501	52,597	103,649
Transfers during the year:					
- Transfer to stage 1		3,055	(2,923)	(132)	-
- Transfer to stage 2		(1,589)	2,089	(500)	-
- Transfer to stage 3		(1,122)	(16,998)	18,120	-
Net increase for the year	(1)	3,634	10,329	54,127	68,090
Written-offs and disposals during the year		-	-	(67,683)	(67,683)
Recovery of loans and advances written off in previous years		-	-	3,473	3,473
Others		1	-	(1,373)	(1,372)
Balance at 31 December 2019		28,530	18,998	58,629	106,157

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018		30,587	35,308	37,908	103,803
Transfers during the year:					
- Transfer to stage 1		2,828	(2,718)	(110)	-
- Transfer to stage 2		(2,381)	2,515	(134)	-
- Transfer to stage 3		(540)	(7,607)	8,147	-
Net (decrease) / increase for the year	(1)	(6,084)	(999)	65,333	58,250
Written-offs and disposals during the year		-	-	(60,912)	(60,912)
Recovery of loans and advances written off in previous years		-	-	3,670	3,670
Others		141	2	(1,305)	(1,162)
Balance at 31 December 2018		24,551	26,501	52,597	103,649

(1) This item includes changes of PD, EAD, LGD due to routine updates to model parameters, and the impact of stage changes on the measurement of ECL.

(2) Financial instruments whose credit risks haven't significantly increased since the initial recognition are classified into stage 1, then they will be transferred into stage 2 if their credit risks have significantly increased since the initial recognition with no objective evidence for impairment, and will be further transferred into stage 3 where there is objective impairment evidence on the balance sheet date. Refer to Note XII 1(3) for ECL measurement.

(b) Movements of ECL allowance of loans and advances to customers measured at FVOCI

The Group and the Bank

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	199	4	-	203
Transfers during the year:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net increase for the year	89	4	136	229
Balance at 31 December 2019	288	8	136	432

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	409	1	-	410
Transfers during the year:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net (decrease) / increase for the year	(210)	3	-	(207)
Balance at 31 December 2018	199	4	-	203

7 Financial Investments

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Trading assets	(a)	505,318	395,668	488,178	382,492
Debt investments	(b)	1,074,927	1,144,249	1,072,249	1,133,993
Other debt investments	(c)	497,508	378,860	491,384	374,171
Other equity investments	(d)	5,794	4,038	5,794	4,038
Financial instruments, net		2,083,547	1,922,815	2,057,605	1,894,694

(a) Trading assets

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Fund investments		360,856	263,191	354,530	257,693
Trust and asset management plans	(1)	65,313	71,131	60,531	65,145
Corporate bonds		39,350	12,629	39,129	12,410
Bonds issued by financial institutions		10,313	5,610	10,126	5,610
Bonds issued by policy banks		7,780	5,109	7,780	5,109
Government bonds		5,846	7,859	5,846	7,859
Equity investment		4,306	1,128	114	97
Deposit certificates issued by other financial institutions		4,424	23,056	4,424	23,056
Wealth management products managed by other banks		90	208	-	-
Assets backed securities ("ABS")		6	69	6	69
Other investment	(2)	7,034	5,678	5,692	5,444
Total		505,318	395,668	488,178	382,492

(1) Trust and asset management plans are managed and operated by the third-party trust plan trustee or asset manager, and are ultimately invested in bonds, ABS, equity investments with third-party repurchase arrangement, etc.

(2) Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group.

(b) Debt investments

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Government bonds	481,018	455,516	481,018	455,516
Trust and asset management plans				
- Loans	138,263	177,438	137,120	168,066
- Bill assets	106,200	102,141	106,200	102,141
- ABS	122,905	117,897	122,905	117,897
- Others	11,061	5,997	11,061	5,997
Bonds issued by policy banks	193,020	194,088	193,020	194,088
Corporate bonds	6,805	25,782	6,267	25,374
Bonds issued by financial institutions	3,678	45,167	3,469	45,167
Deposit certificates issued by other financial institutions	1,373	695	1,373	695
ABS	1,346	2,518	1,346	2,518
Other debt instrument	2,155	9,650	2,155	9,650
Subtotal	1,067,824	1,136,889	1,065,934	1,127,109
Accrued interest	15,818	14,863	15,733	14,690
Impairment allowance				
-Principal of debt investments	(8,679)	(7,488)	(9,382)	(7,791)
-Accrued interest of debt investments	(36)	(15)	(36)	(15)
Subtotal of impairment allowance	(8,715)	(7,503)	(9,418)	(7,806)
Financial Investments at amortized cost, net	1,074,927	1,144,249	1,072,249	1,133,993

(i) Movement for ECL allowance of debt investments:

The Group

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	2,909	238	4,341	7,488
Transfers for the year：				
- to stage 1	29	(4)	(25)	-
- to stage 2	(5)	5	-	-
- to stage 3	(196)	(132)	328	-
Net (decrease) / increase for the year	(1,137)	(50)	2,358	1,171
Recovery of loans and advances written off in previous years	-	-	21	21
Others	(1)	-	-	(1)
Balance at 31 December 2019	1,599	57	7,023	8,679

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	2,868	418	3,724	7,010
Transfers for the year：				
- to stage 1	4	(4)	-	-
- to stage 2	(5)	5	-	-
- to stage 3	(7)	(40)	47	-
Net increase / (decrease) for the year	44	(141)	562	465
Others	5	-	8	13
Balance at 31 December 2018	2,909	238	4,341	7,488

The Bank

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	2,932	238	4,621	7,791
Transfers for the year:				
- to stage 1	29	(4)	(25)	-
- to stage 2	(5)	5	-	-
- to stage 3	(5)	(132)	137	-
Net (decrease) / increase for the year	(1,376)	(54)	3,001	1,571
Recovery of loans and advances written off in previous years	-	-	21	21
Others	(1)	-	-	(1)
Balance at 31 December 2019	1,574	53	7,755	9,382

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	2,778	418	4,032	7,228
Transfers for the year:				
- to stage 1	4	(4)	-	-
- to stage 2	(5)	5	-	-
- to stage 3	(7)	(40)	47	-
Net increase / (decrease) for the year	157	(141)	534	550
Others	5	-	8	13
Balance at 31 December 2018	2,932	238	4,621	7,791

(c) Other debt investments

	Note	The Group 31 December 2019	The Group 31 December 2018	The Bank 31 December 2019	The Bank 31 December 2018
Government bonds		192,752	153,340	192,752	153,340
Bonds issued by policy banks		133,893	73,947	133,893	73,947
Bonds issued by financial		80,978	57,177	80,631	57,177
Corporate bonds		59,066	54,251	55,974	50,775
Deposit certificates issued by other financial institutions		11,653	20,804	11,653	20,804
ABS		9,093	11,982	9,093	11,982
Trust and asset management plans	(1)	2,825	2,487	147	1,274
Subtotal		490,260	373,988	484,143	369,299
Accrued interest		7,248	4,872	7,241	4,872
Total		497,508	378,860	491,384	374,171

(1) Trust and asset management plans are managed and operated by the third-party trust plan trustee or asset manager, are ultimately invested in trust financial products, bill assets and bonds, etc.

(i) Movements of ECL allowance of other debt investments:

The Group

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	530	16	169	715
Transfers for the year：				
- to stage 1	1	(1)	-	-
- to stage 2	(50)	50	-	-
- to stage 3	(38)	(34)	72	-
Net (decrease) / increase for the year	(79)	52	600	573
Write-offs	-	-	(95)	(95)
Others	3	-	1	4
Balance at 31 December 2019	367	83	747	1,197

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	200	-	225	425
Transfers for the year：				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net increase for the year	334	16	50	400
Write-offs	-	-	(110)	(110)
Others	(4)	-	4	-
Balance at 31 December 2018	530	16	169	715

The Bank

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	354	14	169	537
Transfer for the year：				
- to stage 1	-	-	-	-
- to stage 2	(3)	3	-	-
- to stage 3	-	(18)	18	-
Net (decrease) / increase for the year	(62)	42	321	301
Write-offs	-	-	(95)	(95)
Others	3	-	1	4
Balance at 31 December 2019	292	41	414	747

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	200	-	225	425
Transfers for the year:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net increase for the year	158	14	50	222
Write-offs	-	-	(110)	(110)
Others	(4)	-	4	-
Balance at 31 December 2018	354	14	169	537

(d) Other equity investments

The Group and the Bank

	31 December 2019	31 December 2018
Equity investments	4,983	4,038
Fund investments	811	-
Total	5,794	4,038

8 Long-term equity investments

	Note	The Group 31 December 2019	The Group 31 December 2018	The Bank 31 December 2019	The Bank 31 December 2018
Investments in joint ventures	VI.2	1,841	1,757	1,841	1,757
Investments in associate	VI.2	208	211	-	-
Investment in subsidiaries	VI.1	-	-	24,307	24,307
Total		2,049	1,968	26,148	26,064

The Group

	1 January 2019	Net income adjusted by equity method	Declared cash dividends	Other change	31 December 2019
AXA SPDB Investment Managers Co., Ltd.	1,247	166	(77)	-	1,336
SPDB Silcon Valley Bank	510	(8)	-	3	505
Others	211	13	-	(16)	208
Total	1,968	171	(77)	(13)	2,049

	1 January 2018	Net income adjusted by equity method	Declared cash dividends	Other change	31 December 2018
AXA SPDB Investment Managers Co., Ltd.	326	154	(64)	831	1,247
SPDB Silcon Valley Bank	478	22	-	10	510
Others	202	(12)	-	21	211
Total	1,006	164	(64)	862	1,968

9 Fixed assets

The Group

	Land and buildings	Motor vehicles	Electronic computers and other equipments	Plane and ship equipments	Construction in progress	Total
Cost						
1 January 2018	12,657	464	7,701	10,295	4,674	35,791
Additions	366	31	844	2,300	6,326	9,867
Transferred from construction in progress	-	-	-	-	(6,501)	(6,501)
Disposals	(7)	(34)	(577)	-	-	(618)
31 December 2018	13,016	461	7,968	12,595	4,499	38,539
Additions	204	34	979	4,684	840	6,741
Transferred from / (to) construction in progress	1,244	-	3	-	(1,366)	(119)
Disposals	(749)	(48)	(644)	-	-	(1,441)
31 December 2019	13,715	447	8,306	17,279	3,973	43,720
Accumulated depreciation						
1 January 2018	(3,793)	(355)	(5,596)	(907)	-	(10,651)
Charge	(424)	(36)	(896)	(608)	-	(1,964)
Disposal	3	31	534	-	-	568
31 December 2018	(4,214)	(360)	(5,958)	(1,515)	-	(12,047)
Charge	(471)	(43)	(942)	(744)	-	(2,200)
Disposal	332	45	533	-	-	910
31 December 2019	(4,353)	(358)	(6,367)	(2,259)	-	(13,337)
Net book value						
31 December 2019	9,362	89	1,939	15,020	3,973	30,383
31 December 2018	8,802	101	2,010	11,080	4,499	26,492

As at 31 December 2019, the net book value of RMB 15.02 billion (31 December 2018: RMB 11.08 billion) of the flight and ship equipment were rent out under operating lease by the Group's subsidiary, Puyin Financial Leasing Co., Ltd..

The Bank

	Land and buildings	Motor vehicles	Electronic computers and other equipments	Construction in progress	Total
Cost					
1 January 2018	12,140	435	7,536	4,674	24,785
Additions	357	26	809	6,326	7,518
Transferred from constructions in progress	-	-	-	(6,501)	(6,501)
Disposals	(7)	(25)	(550)	-	(582)
31 December 2018	12,490	436	7,795	4,499	25,220
Additions	113	24	863	837	1,837
Transferred from / (to) construction in progress	1,244	-	3	(1,366)	(119)
Disposals	(739)	(47)	(630)	-	(1,416)
31 December 2019	13,108	413	8,031	3,970	25,522
Accumulated					
1 January 2018	(3,745)	(336)	(5,514)	-	(9,595)
Charge	(392)	(32)	(861)	-	(1,285)
Disposals	3	23	519	-	545
31 December 2018	(4,134)	(345)	(5,856)	-	(10,335)
Charge	(368)	(28)	(824)	-	(1,220)
Disposals	322	44	519	-	885
31 December 2019	(4,180)	(329)	(6,161)	-	(10,670)
Net book value					
31 December 2019	8,928	84	1,870	3,970	14,852
31 December 2018	8,356	91	1,939	4,499	14,885

As at 31 December 2019, the Land and buildings with original cost of RMB 1,236 million and net book value of RMB 1,078 million were in use by the Group and the Bank while the property right registration were still in progress.

10 Intangible assets

The Group

	Land use rights	Software and others	Contractual customer relationships	Brand and franchise right	Total
Cost					
1 January 2018	408	2,609	688	2,236	5,941
Additions	6,392	1,033	-	-	7,425
31 December 2018	6,800	3,642	688	2,236	13,366
Additions	-	1,336	-	-	1,336
Disposals	-	(4)	-	-	(4)
31 December 2019	6,800	4,974	688	2,236	14,698
Accumulated					
1 January 2018	(67)	(2,016)	(559)	-	(2,642)
Amortization	(210)	(463)	(89)	-	(762)
31 December 2018	(277)	(2,479)	(648)	-	(3,404)
Amortization	(177)	(745)	(19)	-	(941)
Disposals	-	4	-	-	4
31 December 2019	(454)	(3,220)	(667)	-	(4,341)
Net book value					
31 December 2019	6,346	1,754	21	2,236	10,357
31 December 2018	6,523	1,163	40	2,236	9,962

The Bank

	Land use rights	Software and others	Total
Cost			
1 January 2018	405	2,549	2,954
Additions	6,392	1,023	7,415
31 December 2018	6,797	3,572	10,369
Additions	-	1,282	1,282
Disposals	-	(2)	(2)
31 December 2019	6,797	4,852	11,649
Accumulated			
1 January 2018	(67)	(1,988)	(2,055)
Amortization	(210)	(449)	(659)
31 December 2018	(277)	(2,437)	(2,714)
Amortization	(177)	(693)	(870)
Disposals	-	2	2
31 December 2019	(454)	(3,128)	(3,582)
Net book value			
31 December 2019	6,343	1,724	8,067
31 December 2018	6,520	1,135	7,655

11 Goodwill

	31 December 2019	31 December 2018
Goodwill		
-Shanghai International Trust Co., Ltd. (“Shanghai International Trust”)	6,981	6,981
Less：impairment allowances	-	-
Total	6,981	6,981

The goodwill is recognized as a result of the Bank’s issuance of share capital to acquire 97.33% equity of Shanghai International Trust in March 2016.

The goodwill allocated to the CGU or CGUs on transcation date according to operating segments are summarised as follows:

	31 December 2018 and 2019
Shanghai International Trust	4,739
Subsidiaries of Shanghai International Trust	2,242
Total	6,981

In the case of a goodwill impairment test, the Group compares the book value of CGU or CGUs (including goodwill) with its recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss. The Group's goodwill allocation has not changed during the year.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved five year financial forecasts. The Group determines the growth rate based on historical experience and market development forecasts, and uses a pre-tax rate that reflects the specific risk relating to the relevant CGU and CGUs as the discount rate. The stable period growth rate is the weighted average growth rate used for subsequent cash flows after the five-year forecast period.

12 Deferred income tax

12.1 The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts:

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deferred income tax assets	45,532	36,877	44,586	36,078
Deferred income tax liabilities	(634)	(643)	-	-

12.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

The Group

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Impairment allowances for financial assets at amortized cost	178,398	44,599	148,296	37,074
Employee benefits payable	7,496	1,874	684	171
Provisions	6,698	1,674	4,747	1,187
Fair value changes of derivative financial instruments	2,784	696	-	-
Fair value changes of loan measured at FVOCI	532	133	-	-
Fair value changes of other debt investments recognised in other comprehensive income	-	-	394	98
Fair value changes of precious metals and commodities	-	-	357	89
Fair value changes of hedged debt investments	-	-	64	16
Others	58	14	-	-
Subtotal	195,966	48,990	154,542	38,635
Offset amounts		(3,458)		(1,758)
Deferred income tax assets after offsetting		45,532		36,877

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Fair value changes of financial investment measured at FVOCI	(7,517)	(1,879)	(4,545)	(1,136)
Fair value changes of precious metals and commodities	(2,681)	(670)	-	-
Differences between fair value and carrying amount of identifiable net assets arising from business combinations of entities not under common control	(2,529)	(632)	(2,568)	(642)
Fair value changes of assets and liabilities measured at FVTPL	(2,437)	(609)	(1,233)	(308)
Fair value changes of financial investment measured at FVOCI	(905)	(226)	(579)	(145)
Fair value changes of hedged financial investment measured at FVOCI	(296)	(74)	-	-
Fair value changes of derivative financial instruments	-	-	(481)	(120)
Fair value changes of loan measured at FVOCI	-	-	(169)	(42)
Others	(8)	(2)	(33)	(8)
Subtotal	(16,373)	(4,092)	(9,608)	(2,401)
Offset amounts		3,458		1,758
Deferred tax liabilities after offsetting		(634)		(643)

The Bank

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Impairment allowances for financial assets at amortized cost	175,589	43,897	145,976	36,494
Provision	6,697	1,674	4,742	1,186
Employee benefits payable	6,478	1,619	-	-
Fair value changes of derivative financial instruments	2,782	696	-	-
Fair value changes of loan measured at FVOCI	532	133	-	-
Fair value changes of precious metals and commodities	-	-	357	89
Fair value changes of hedged other debt investments	-	-	64	16
Others	58	14	-	-
Subtotal	192,136	48,033	151,139	37,785
Offset amounts		(3,447)		(1,707)
Deferred tax liabilities after offsetting		44,586		36,078

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Fair value changes of financial investment measured at FVOCI	(7,300)	(1,825)	(4,545)	(1,136)
Fair value changes of precious metals and commodities	(2,681)	(670)	-	-
Fair value changes of assets and liabilities measured at FVTPL	(2,609)	(652)	(1,028)	(257)
Fair value changes of other equity instruments recognized in other comprehensive income	(905)	(226)	(579)	(145)
Fair value changes of hedged financial investment measured at FVOCI	(296)	(74)	-	-
Fair value changes of derivative financial instruments	-	-	(481)	(120)
Fair value changes of loan measured at FVOCI	-	-	(169)	(42)
Others	-	-	(29)	(7)
Subtotal	(13,791)	(3,447)	(6,831)	(1,707)
Offset amounts		3,447		1,707
Deferred tax liabilities after offsetting		-		-

12.3 The movement of the deferred income tax account is as follows:

	Note	The Group 2019	The Group 2018	The Bank 2019	The Bank 2018
Balance at beginning of the year		36,234	28,342	36,078	28,381
Impact of new financial instrument standards		-	5,213	-	5,266
Restated beginning balance of the year		36,234	33,555	36,078	33,647
Charged to profit or loss	V.39	9,357	4,918	9,213	4,690
Charged to other comprehensive income	V.28	(693)	(2,239)	(705)	(2,259)
Balance at the end of the year		44,898	36,234	44,586	36,078

13 Other assets

	Note	The Group 31 December 2019	The Group 31 December 2018	The Bank 31 December 2019	The Bank 31 December 2018
Finance lease receivables	(1)	52,259	48,232	-	-
Suspense accounts		41,884	13,543	41,884	13,543
Margin deposits		12,353	9,754	12,353	9,754
Other receivables	(2)	4,930	4,932	2,779	3,316
Repossessed and other assets		3,967	605	3,651	595
Payments to Trust Protection Fund on behalf of investors		3,004	2,745	-	-
Prepayment for land-use rights and constructions		2,204	1,758	2,204	1,758
Long-term deferred expenses		1,123	1,168	1,064	1,110
Interest receivable		488	705	482	700
Total		122,212	83,442	64,417	30,776

(1) Financial lease receivables

The Group

	31 December 2019	31 December 2018
Within 1 year (including 1 year)	18,789	17,424
1 to 2 years (including 2 years)	16,310	12,642
2 to 3 years (including 3 years)	11,279	9,485
Over 3 years	13,617	15,562
Gross amount of minimum finance lease receivables	59,995	55,113
Accrued interest	444	502
Less: unearned financial income	(6,480)	(6,460)
Less: Impairment allowance	(1,700)	(923)
Net finance lease receivables	52,259	48,232

(2) Other receivables

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Analysis by aging				
Within 1 year	6,182	6,155	4,191	4,680
1 to 2 years	399	315	241	161
2 to 3 years	162	61	150	51
Over 3 years	1,345	1,052	1,337	1,048
Subtotal	8,088	7,583	5,919	5,940
Less: Impairment allowance	(3,158)	(2,651)	(3,140)	(2,624)
Net other receivables	4,930	4,932	2,779	3,316

14 Impairment allowances for assets

The Group

	1 January 2019	Charges / (reverse)	Write-off and disposal	Others	31 December 2019
Deposits with banks and other financial institutions	116	100	-	-	216
Placements with banks and other financial institutions	90	(24)	-	-	66
Financial assets purchased under resale agreements	7	(6)	-	-	1
Loans and advances to customers measured at amortized cost	105,339	68,941	(68,004)	2,083	108,359
Loans and advances to customers measured at FVOCI	203	229	-	-	432
Debt investments	7,488	1,171	-	20	8,679
Other debt investments	715	573	(95)	4	1,197
Finance lease receivables	923	777	-	-	1,700
Other receivables	2,651	741	(234)	-	3,158
Accrued interest and interest receivable	812	255	-	9	1,076
Repossessed assets	171	-	-	-	171
Total	118,515	72,757	(68,333)	2,116	125,055

	1 January 2018	(reverse) / charges	Write-off and disposal	Others	31 December 2018
Deposits with banks and other financial institutions	182	(66)	-	-	116
Placements with banks and other financial institutions	66	24	-	-	90
Financial assets purchased under resale agreements	73	(66)	-	-	7
Loans and advances to customers measured at amortized cost	105,525	58,590	(61,290)	2,596	105,421
Loans and advances to customers measured at FVOCI	410	(207)	-	-	203
Debt investments	7,020	470	-	13	7,503
Other debt investments	425	400	(110)	-	715
Finance lease receivables	732	191	-	-	923
Other receivables	2,317	559	(225)	-	2,651
Interest receivable	400	315	-	-	715
Repossessed assets	178	3	-	(10)	171
Total	117,328	60,213	(61,625)	2,599	118,515

The Bank

	1 January 2019	Charges / (reverse)	Write-off and disposal	Others	31 December 2019
Deposits with banks and other financial institutions	92	97	-	-	189
Placements with banks and other financial institutions	88	(24)	-	-	64
Financial assets purchased under resale agreements	7	(6)	-	-	1
Loans and advances to customers measured at amortized cost	103,649	68,090	(67,683)	2,101	106,157
Loans and advances to customers measured at FVOCI	203	229	-	-	432
Debt investments	7,791	1,571	-	20	9,382
Other debt investments	537	301	(95)	4	747
Other receivables	2,624	714	(198)	-	3,140
Interest accrued and receivable	803	255	-	9	1,067
Repossessed assets	171	-	-	-	171
Total	115,965	71,227	(67,976)	2,134	121,350

	1 January 2018	(reverse) / charges	Write-off and disposal	Others	31 December 2018
Deposits with banks and other financial institutions	159	(67)	-	-	92
Placements with banks and other financial institutions	66	22	-	-	88
Financial assets purchased under resale agreements	73	(66)	-	-	7
Loans and advances to customers measured at amortized cost	103,846	58,284	(60,912)	2,508	103,726
Loans and advances to customers measured at FVOCI	410	(207)	-	-	203
Debt investments	7,237	556	-	13	7,806
Other debt investments	425	222	(110)	-	537
Other receivables	2,298	550	(224)	-	2,624
Interest receivable	396	315	-	-	711
Repossessed assets	178	3	-	(10)	171
Total	115,088	59,612	(61,246)	2,511	115,965

15 Deposits from banks and other financial institutions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deposits from domestic banks	263,808	231,926	269,760	238,492
Deposits from overseas banks	15,297	30,180	15,297	30,180
Deposits from domestic non-bank financial institutions	702,051	783,406	703,303	784,655
Deposits from overseas non-bank financial institutions	17,108	18,047	17,861	18,047
Accrued interest	2,564	4,210	2,589	4,233
Total	1,000,828	1,067,769	1,008,810	1,075,607

16 Placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Placements from domestic banks	106,186	96,104	67,872	61,910
Placements from overseas banks	50,159	48,515	46,741	45,571
Placements from domestic non-bank financial institutions	5,300	3,470	2,400	1,800
Placements from overseas non-bank financial institutions	350	-	350	-
Accrued interest	546	533	356	445
Total	162,541	148,622	117,719	109,726

17 Trading liabilities

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial liabilities related to precious metals		18,464	24,504	18,464	24,504
Interest of other unitholders in consolidated structured entities	(1)	4,831	10,408	-	-
Total		23,295	34,912	18,464	24,504

(1) The Group designated interests attributable to other unit holders in consolidated structured entities as financial liabilities at fair value through profit or loss. As at 31 December 2019 and 31 December 2018, no significant fair value changes have occurred due to changes in the Group's own credit risk.

18 Financial assets sold under repurchase agreements

	The Group and the Bank	
	31 December 2019	31 December 2018
Bonds	136,559	85,383
Discounted bills	90,574	34,067
Interbank deposit certificates	340	-
Accrued interest	110	114
Total	227,583	119,564

19 Deposits from customers

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Current deposits				
-corporate	1,312,073	1,244,437	1,308,329	1,235,699
-retail	239,287	219,601	236,633	216,471
Time deposits				
-corporate	1,477,382	1,330,802	1,472,697	1,325,892
-retail	596,673	428,273	580,767	415,068
Other deposits	2,438	3,905	2,414	3,788
Subtotal	3,627,853	3,227,018	3,600,840	3,196,918
Accrued interest	33,989	26,297	33,163	25,671
Total	3,661,842	3,253,315	3,634,003	3,222,589

20 Employee benefits payable

The Group

	Note	1 January 2019	Additions during the year	Decreased during the year	Others	31 December 2019
Short-term employee benefits						
Salaries, bonuses, allowances		3,583	19,435	(17,532)	-	5,486
Staff welfare		-	658	(658)	-	-
Social insurance						
-Medical insurance		47	713	(708)	-	52
-Work-related injury insurance		3	15	(14)	-	4
-Maternity insurance		4	68	(67)	-	5
Housing fund		22	1,144	(1,133)	-	33
Labour union fee, staff and workers' education fee		305	485	(554)	-	236
Others		-	263	(263)	-	-
Basic pension insurance	(1)	159	1,435	(1,404)	-	190
Unemployment insurance	(1)	14	118	(109)	-	23
Annuity	(1)	3	636	(635)	-	4
Other long-term employee benefits	(2)	6,347	2,045	(2,097)	300	6,595
Total		10,487	27,015	(25,174)	300	12,628

	Note	1 January 2018	Additions during the year	Decreased during the year	Others	31 December 2018
Short-term employee benefits						
Salaries, bonuses, allowances		2,123	17,245	(15,785)	-	3,583
Staff welfare		-	592	(592)	-	-
Social insurance						
-Medical insurance		45	677	(675)	-	47
-Work-related injury insurance		2	17	(16)	-	3
-Maternity insurance		4	60	(60)	-	4
Housing fund		25	1,105	(1,108)	-	22
Labour union fee, staff and workers' education fee		340	422	(457)	-	305
Others		-	312	(312)	-	-
Basic pension insurance	(1)	103	1,572	(1,516)	-	159
Unemployment insurance	(1)	12	104	(102)	-	14
Annuity	(1)	3	645	(645)	-	3
Other long-term employee benefits	(2)	5,254	1,892	(1,114)	315	6,347
Total		7,911	24,643	(22,382)	315	10,487

The Bank

	Note	1 January 2019	Additions during the year	Decreased during the year	Others	31 December 2019
Short-term employee benefits						
Salaries, bonuses, allowances		2,513	18,005	(16,270)	-	4,248
Staff welfare		-	603	(603)	-	-
Social insurance						
-Medical insurance		46	680	(675)	-	51
-Work-related injury insurance		3	14	(13)	-	4
-Maternity insurance		4	65	(64)	-	5
Housing fund		21	1,096	(1,085)	-	32
Labour union fee, staff and workers' education fee		300	453	(517)	-	236
Others		-	258	(258)	-	-
Basic pension insurance	(1)	158	1,370	(1,339)	-	189
Unemployment insurance	(1)	14	114	(106)	-	22
Annuity	(1)	3	616	(615)	-	4
Other long-term employee benefits	(2)	6,249	1,989	(2,050)	290	6,478
Total		9,311	25,263	(23,595)	290	11,269

	Note	1 January 2018	Additions during the year	Decreased during the year	Others	31 December 2018
Short-term employee benefits						
Salaries, bonuses, allowances		1,167	15,985	(14,639)	-	2,513
Staff welfare		-	550	(550)	-	-
Social insurance						
-Medical insurance		45	647	(646)	-	46
-Work-related injury insurance		2	16	(15)	-	3
-Maternity insurance		4	55	(55)	-	4
Housing fund		25	1,062	(1,066)	-	21
Labour union fee, staff and workers' education fee		340	396	(436)	-	300
Others		-	312	(312)	-	-
Baic pension insurance	(1)	103	1,505	(1,450)	-	158
Unemployment insurance	(1)	12	102	(100)	-	14
Annuity	(1)	3	630	(630)	-	3
Other long-term employee benefits	(2)	5,179	1,833	(1,065)	302	6,249
Total		6,880	23,093	(20,964)	302	9,311

(1) The post-employment benefits of the Group are basic pension insurance, unemployment insurance and annuity. All of them belong to defined contribution plans.

(2) The other long-term employee benefits of the group are deferred payment which are accrued according to the requirements of regulators and the relevant regulations of the bank. The timeline for the deferred payment is three years.

(3) There were no arrears balance among the Group's employee benefits payable.

21 Tax payable

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Corporate income tax	23,240	16,657	22,651	16,182
VAT	2,982	4,269	2,564	3,209
Withholding tax and others	1,838	669	950	623
Total	28,060	21,595	26,165	20,014

21 Debt securities issued

	Note	The Group 31 December 2019	The Group 31 December 2018	The Bank 31 December 2019	The Bank 31 December 2018
Interbank deposit certificates and deposit certificates issued	(1)	692,491	614,564	692,491	614,564
Bonds issued					
Subordinated bond issued in 2011	(2)	18,400	18,400	18,400	18,400
Subordinated bond issued in 2012	(3)	12,000	12,000	12,000	12,000
Tier II capital bond issued in 2015	(4)	30,000	30,000	30,000	30,000
Green Financial Bond 01		-	20,000	-	20,000
Green Financial Bond 02	(5)	15,000	15,000	15,000	15,000
Green Financial Bond 03	(6)	15,000	15,000	15,000	15,000
2017 First Financial Bond	(7)	15,000	15,000	15,000	15,000
2017 Second Financial Bond	(8)	22,000	22,000	22,000	22,000
2017 Third Financial Bond	(9)	13,000	13,000	13,000	13,000
2018 Tier II First Financial Bond	(10)	20,000	20,000	20,000	20,000
2018 Tier II Second Financial Bond	(11)	20,000	20,000	20,000	20,000
2019 First Special Financial Bond for Small and Micro Enterprise Loans	(12)	50,000	-	50,000	-
Hong Kong USD medium-term note	(13)	12,191	12,015	12,191	12,015
Singapore USD medium-term note	(14)	2,090	2,060	2,090	2,060
London USD medium-term note	(15)	2,090	-	2,090	-
SPDB Convertible corporate bonds	(16)	50,000	-	50,000	-
2017 SPDB Financial Leasing Financial Bond	(17)	3,000	3,000	-	-
2018 SPDB Financial Leasing Financial Bond	(18)	5,000	5,000	-	-
2019 First SPDB Financial Leasing Financial Bond	(19)	2,000	-	-	-
2019 Second SPDB Financial Leasing Financial Bond	(20)	2,000	-	-	-
Subtotal		308,771	222,475	296,771	214,475
Less: Unamortized issue cost		(2,645)	(104)	(2,629)	(97)
Debt securities issued		306,126	222,371	294,142	214,378
ABS					
Puxin 2017 First Leasing ABS		9	419	-	-
Accrued interest		4,876	4,086	4,668	3,931
Total		1,003,502	841,440	991,301	832,873

(1) As at 31 December 2019, the Group issued a total of 266 interbank deposit certificates in the domestic inter-bank market which have not yet expired, with the longest term to maturity being 3 years and interest rates falling within a range from 2.65% to 3.28% (As at 31 December 2018, the Group issued a total of 225 interbank deposit certificates in the domestic inter-bank market which have not yet expired, with the longest term to maturity being 3 years and interest rates falling within a range from 2.80% to 4.94%).

The deposit certificates of the Group were all publicly issued by overseas institutions of the Group. As at 31 December 2019, the number of deposit certificates publicly issued but not yet expired were 50 in total, with the longest term to maturity being 372 days and interest rates falling within a range from 0% to 3.30% (as at 31 December 2018, the number of deposit certificates publicly issued but not yet expired were 58 in total, with the longest term to maturity being 1,826 days and interest rates falling within a range from 0% to 4.40%).

(2) The Bank issued subordinated bond in the amount of RMB 18.4 billion in the domestic inter-bank market on 11 October 2011 which have a term of 15 years through maturity, with a fixed annual coupon rate of 6.15%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

(3) The Bank issued subordinated bond in the amount of RMB 12.0 billion in the domestic inter-bank market on 27 December 2012 which have a term of 15 years through maturity, with a fixed annual coupon rate of 5.20%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

(4) The Bank issued Tier II capital instruments in the amount of RMB 30 billion in the domestic inter-bank market on 7 September 2015 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.50%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain circumstances.

(5) The Bank issued “2016 Second Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 25 March 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.20%.

(6) The Bank issued “2016 Third Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 14 July 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.40%.

(7) The Bank issued “2017 First Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 22 February 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.00%.

(8) The Bank issued “2017 Second Financial Bond” in the amount of RMB 22 billion in the domestic inter-bank market on 26 April 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

(9) The Bank issued “2017 Third Financial Bond” in the amount of RMB 13 billion in the domestic inter-bank market on 10 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

(10) The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 5 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

(11) The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 14 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

(12) The Bank issued “2019 First Special Financial Bond for Small and Micro Enterprise Loans” in the amount of RMB 50 billion in the domestic inter-bank market on 25 March 2019 which have a term of 3 years, with a fixed annual coupon rate of 3.50%.

(13) The Bank issued USD 500 million Medium-term note in Hong Kong Exchange and Clearing Limited on 13 February 2017 which have a term of 3 years through maturity, with a fixed annual coupon rate of 2.375%. The Bank issued USD 400 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July 2017 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+85BPS. The Bank issued USD 350 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 5 years through maturity, with a flexible annual coupon rate of 3ML+95BPS. The Bank issued USD 500 million medium-term note in Hong Kong Exchange and Clearing Limited on 24 September 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+84BPS.

(14) The Bank issued USD 300 million medium-term note in Singapore Exchange Limited on 26 November 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+87BPS.

(15) The Bank issued USD 300 million medium-term note in London Exchange Limited on 30 October 2019 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+70BPS.

(16) As approved by the relevant regulatory authorities in China, the Bank made a public offering of RMB50 billion A-share convertible corporate bonds on 15 November 2019. The convertible corporate bonds have a term of six years from 28 October 2019 to 27 October 2025, at coupon rates of 0.20% for the first year, 0.80% for the second year, 1.50% for the third year, 2.10% for the fourth year, 3.20% for the fifth year and 4.00% for the sixth year. The conversion of these convertible corporate bonds begins from the first trading day after six months upon the completion date of the offering (4 May 2020) to the maturity date (27 October 2025).

In accordance with formulas set out in the prospectus of the convertible corporate bonds, the initial conversion price of the convertible corporate bonds is RMB 15.05 per share, and the price of the convertible corporate bonds will be adjusted to reflect the dilutive impact of cash dividends and increase in paid-in capital under specified circumstances (excluding the conversion of convertible bonds due to this issue). The holder of this bond applies for a conversion within the conversion period. The number of conversions is calculated by dividing the total amount of the bond faced by the bond holder applying for the conversion by the effective conversion price on the day of application for the conversion. Within five trading days after the expiration of the convertible bonds issued by the Bank, the Bank will redeem all unconverted convertible bonds at 110% of the face value of the bonds' convertible bonds (including the interest of the last year). For the specific issuance terms of this bond, please refer to the relevant issuance announcement.

(17) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2017 Financial Bond” in the amount of RMB 3 billion in the domestic inter-bank market on 24 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.96%.

(18) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2018 Financial Bond” in the amount of RMB 5 billion in the domestic inter-bank market on 19 July 2018 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.49%.

(19) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2019 first Financial Bond” in the amount of RMB 2 billion in the domestic inter-bank market on 23 July 2019 which has a term of 3 years through maturity, with a fixed annual coupon rate of 3.62%.

(20) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2019 second Financial Bond” in the amount of RMB 2 billion in the domestic inter-bank market on 20 August 2019 which has a term of 3 years through maturity, with a fixed annual coupon rate of 3.45%.

Convertible bonds are as follows:

	Liability	Equity (Note V.26)	Total
Issued amount of convertible bonds	47,214	2,786	50,000
Direct issuance expenses	(78)	(4)	(82)
Balance at the issuance date	47,136	2,782	49,918
Amortisation in the current year	306	-	306
Balance at 31 December 2019	47,442	2,782	50,224

23 Provisions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Impairment allowance for financial guarantees and loan commitments	6,698	4,747	6,697	4,742

24 Other liabilities

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Suspense accounts	24,656	28,527	24,656	28,527
Advances from and deposits under lease agreements	4,164	4,262	-	-
Contract liabilities	3,290	2,782	2,073	1,156
Accrued expenses	1,380	3,240	1,257	3,240
Due to Trust Protection Fund	1,000	970	-	-
Others	7,851	4,555	4,565	3,819
Total	42,341	44,336	32,551	36,742

25 Share capital

The Group and the Bank

	31 December 2019	31 December 2018
Domestic listed RMB ordinary share (A shares)	29,352	29,352

A shares issued by the Bank are all ordinary share, with par value of RMB 1 per share. All shares rank pari passu in all respects with each other.

26 Other equity instrument

The Group and the Bank

	Note	31 December 2019	31 December 2018
Other equity instruments included in the tier 1 capital of the Bank-Equity of SPDB convertible corporate bonds	(1)	2,782	-
Other equity instruments included in other tier 1 capital of the Bank	(2)	59,916	29,920
Total		62,698	29,920

(1) As at 31 December 2019, the Equity of convertible corporate bonds issued by the Bank was RMB 2,782 million (2018: nil), see Note V.22(16) for specific information.

(2) Other equity instruments included in other tier 1 capital of the Bank

Name of other equityinstruments outstanding	Dividend rate	Issuance Price (Yuan)	Number	Opening amount	Movements during the year	Closing amount	Maturity date or renewals	Conversion (Yes/No)
Pufayou 1(a)	6% for the first five years; 5.58% for the second five years	100	150 million	15,000	-	15,000	No maturity date	No
Pufayou 2(a)	5.5% for the first five years	100	150 million	15,000	-	15,000	No maturity date	No
19 SPDB Perpetual bonds (b)	4.73% for the first five years	100	300 million	-	30,000	30,000	No maturity date	No
Less: Issue expenses				(80)	(4)	(84)		
Carrying amount				29,920	29,996	59,916		

(a) On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with a total par value of RMB 30,000 million. The proceeds after deducting transaction costs amounted to RMB 29,920 million and were recorded as other equity instruments. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, under the approval obtained from the CBIRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on annual basis at a fixed dividend rate which is adjusted every five years. The Bank at its discretion has the right not to declare and distribute the dividends of the preference shares in part or full.

Upon occurrence of any of the following triggering events and subject to the approval from the CBIRC, the Bank's outstanding preference shares shall be mandatorily converted in part or full to the Bank's ordinary shares:

1、 When the core tier 1 capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preference share shall be converted into the Bank's ordinary shares in part or full at a pre-determined mandatory conversion price so as to bring the Bank's core tier 1 capital adequacy ratio back to above 5.125%;

2、When any triggering event of the Bank's tier 2 capital instruments occurs, the outstanding preference shares shall be converted to the Bank's ordinary A shares at the pre-determined mandatory conversion price.

Under the approval from regulatory authority, the outstanding preference shares will be fully or partially converted to ordinary A shares at the price of RMB 7.62 per share when meeting the mandatory conversion triggering conditions. If the Bank subsequently appropriates bonus shares, transfers retained earnings to ordinary shares, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible bonds, etc.) or issue rights, the conversion price shall be adjusted subject to the terms and formula provided by the offering documents to adjust for the dilutive effects of these specified increases in ordinary shares.

Pursuant to the relevant laws and regulations, and the Approval from CBIRC on the Bank's Non-Public Offering of Preference Shares and Corresponding Revisions to the Article of Association (YJF[2014]No.564), the proceeds from the issuance of preference shares shall be used to supplement the other tier 1 capital of the Bank.

Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

(b) The Bank issued RMB 30,000 million capital bonds without fixed terms ("Perpetual bonds") in the inter-bank market on 10 July 2019 and raised funds RMB 29,996 million after deducting issuance expenses were all accounted for as other equity instruments. The duration of this perpetual bonds was consistent with the duration of the Bank's continuing operations. The Bank shall have the right to redeem the Perpetual Bond in whole or in part on the fifth distribution payment date since the issuance, provided that prerequisite for redemption is met and such redemption is approved by the CBIRC, and the bond investors have no right to request the Bank to redeem the perpetual bond. The Bank shall have the right to cancel, in whole or in part, distributions on the Perpetual Bond

The Bank has the right to write down the bonds without obtaining the consent of the perpetual bond investor when the Bank triggers the following trigger events as deemed by the CBIRC or relevant departments and obtains regulatory approval.

1、 Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% or below), with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above Perpetual Bond issued and existing at that time in accordance with the total par value, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%.

2、 When any triggering event of the Bank's tier 2 capital instruments occurs, the Bank has the right to write down all the above Perpetual Bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

Pursuant to applicable laws and regulations and the "China Banking and Insurance Regulatory Commission's Reply on the Issuance of Unfixed-Term Capital Bonds by SPDB" (Yinbao Jianfu [2019] No. 596), the funds raised from perpetual bonds are used to supplement other Tier 1 capital of the Bank.

The compensation order of the perpetual bond is behind of depositors, general creditors and subordinated debts that are prior than the perpetual bond, and ahead of all types of shares held by shareholders of the Bank; the perpetual bond will be compensated in the same order with other Tier 1 capital instruments which have the same compensation order.

27 Capital reserves

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Share premium	81,689	81,689	81,689	81,689
Other capital surplus				
- Capital increase of subsidiaries	50	50	-	-
- Others	21	21	21	21
Total	81,760	81,760	81,710	81,710

28 Other reserves

The Group

	Opening balance of other comprehensive income attributable to the Bank's Shareholders	For the year from 1 January 2019 to 31 December 2019 Transfer in before tax	Less： transfer out	Less： income tax	Attributable to the Bank after tax	Attributable to minority shareholders after tax	Ending balance of other comprehensive income attributable to the Bank's Shareholders
Items that may be reclassified to profit or loss							
Financial investments measured at FVOCI							
- Fair value changes	3,240	4,186	(1,878)	(546)	1,760	2	5,000
- Impairment allowance	689	806	(95)	(66)	645	-	1,334
Exchange differences from the translation of foreign operations	296	(41)	-	-	(41)	-	255
Cash flow hedge reserve	-	(2)	-	-	(1)	(1)	(1)
Item that will not be reclassified to profit or loss							
Changes in fair value of other equity instruments							
- Fair value changes	434	326	-	(81)	245	-	679
	4,659	5,275	(1,973)	(693)	2,608	1	7,267

	Opening balance of other comprehensive income attributable to the Bank's Shareholders	For the year from 1 January 2018 to 31 December 2018 Transfer in before tax	Less： transfer out	Less： income tax	Attributable to the Bank after tax	Attributable to minority shareholders after tax	Ending balance of other comprehensive income attributable to the Bank's Shareholders
Items that may be reclassified to profit or loss							
Financial investments measured at FVOCI							
- Fair value changes	(3,084)	8,793	(361)	(2,108)	6,324	-	3,240
- Impairment allowance	626	193	(110)	(21)	63	(1)	689
Exchange differences from the translation of foreign operations	35	266	-	-	261	5	296
Item that will not be reclassified to profit or loss							
Changes in fair value of other equity instruments							
- Fair value changes	103	441	-	(110)	331	-	434
	(2,320)	9,693	(471)	(2,239)	6,979	4	4,659

The Bank

		For the year from 1 January 2019 to 31 December 2019				
	Opening balance of other comprehensive income	Transfer in before tax	Less： transfer out	Less： income tax	after tax	Ending balance of other comprehensive income
Items that may be reclassified to profit or loss						
Financial investments measured at FVOCI						
- Fair value changes	3,536	3,621	(1,566)	(514)	1,541	5,077
- Impairment allowance	555	534	(95)	(110)	329	884
Exchange differences from the translation of foreign operations	102	(72)	-	-	(72)	30
Item that will not be reclassified to profit or loss						
Changes in fair value of other equity instruments						
- Fair value changes	434	326	-	(81)	245	679
	4,627	4,409	(1,661)	(705)	2,043	6,670

	Opening balance of other comprehensive income	For the year from 1 January 2018 to 31 December 2018				Ending balance of other comprehensive income
		Transfer in before tax	Less： transfer out	Less： income tax	after tax	
Items that may be reclassified to profit or loss						
Financial investments measured at FVOCI						
- Fair value changes	(2,982)	8,841	(150)	(2,173)	6,518	3,536
- Impairment allowance	626	15	(110)	24	(71)	555
Exchange differences from the translation of foreign operations	(8)	110	-	-	110	102
Item that will not be reclassified to profit or loss						
Changes in fair value of other equity instruments						
- Fair value changes	103	441	-	(110)	331	434
	(2,261)	9,407	(260)	(2,259)	6,888	4,627

29 Surplus reserves

The Group and The Bank

	1 January 2019	Addition	31 December 2019
Statutory reserve	22,206	-	22,206
Discretionary reserve	87,511	16,088	103,599
Total	109,717	16,088	125,805

	1 January 2018	Addition	31 December 2018
Statutory reserve	22,206	-	22,206
Discretionary reserve	71,992	15,519	87,511
Total	94,198	15,519	109,717

Pursuant to related PRC regulations, the Bank is required to appropriate 10% of its annual net profit to a statutory reserve until such reserve has reached 50% of ordinary shares. After the appropriation of statutory reserve, the Bank may further appropriate discretionary reserve.

30 General risk reserve

The Group

	1 January 2019	Addition	31 December 2019
General risk reserve	75,946	303	76,249

	1 January 2018	Addition	31 December 2018
General risk reserve	75,702	244	75,946

The Bank

	1 January 2019	Addition	31 December 2019
General risk reserve	74,900	-	74,900

	1 January 2018	Addition	31 December 2018
General risk reserve	74,900	-	74,900

Pursuant to Caijin [2012] No. 20 “Administration Rules on Appropriation to General Risk Reserve for Financial Institutions” issued by MOF, the Bank is required to make appropriation to a general risk reserve.

General risk reserve of the Group also includes appropriation of the Bank’s subsidiaries required by industry or district regulations.

31 Profit appropriations

(1) Profit distribution for the year ended 31 December 2018

Pursuant to the approval at the Shareholders’ meeting on 24 April 2019, the Bank’s profit distribution plan for the year ended 31 December 2018 is as follows:

(i) The Bank appropriated for discretionary surplus reserve at 30% of the profit after tax, amounting to RMB 16,088 million;

(ii) The Bank declared and distributed cash dividends of RMB 3.50 Yuan (tax included) for every 10 shares to all shareholders based on the total share capital of 29,352,080,397 ordinary shares at the end of 2018, amounting to RMB 10,273 million.

(2) Profit distribution for the year ended 31 December 2017

Pursuant to the approval at the Shareholders’ meeting on 28 May 2018, the Bank’s profit distribution plan for the year ended 31 December 2017 is as follows:

(i) The Bank appropriates for discretionary surplus reserve at 30% of the profit after tax, amounting to RMB 15,519 million;

(ii) The Bank declared and distributed cash dividends of RMB 1 Yuan (tax included) for every 10 shares to all shareholders based on the total share capital of 29,352,080,397 ordinary shares at the end of 2017, amounting to RMB 2,935 million;

(3) Dividend distribution for preference shares

On 20 November 2019, the dividend distribution plan for Pufayou 1 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 900 million in total (tax included) on 3 December 2019, which were calculated according to the rate of 6.0%.

On 1 February 2019, the dividend distribution plan for Pufayou 2 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 825 million in total (tax included) on 11 March 2019, which were calculated according to the rate of 5.5%.

On 19 November 2018, the dividend distribution plan for Pufayou 1 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 900 million in total (tax included) on 3 December 2018, which were calculated according to the rate of 6.0%.

On 2 March 2018, the dividend distribution plan for Pufayou 2 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 825 million in total (tax included) on 12 March 2018, which were calculated according to the rate of 5.5%.

32 Net interest income

	The Group		The Bank	
	2019	2018	2019	2018
Interest income				
Loans and advances to customers				
-Corporate loans	89,548	85,927	89,026	85,300
-Retail loans	97,785	85,560	96,975	84,869
-Discounted bills	10,094	7,939	10,091	7,932
Financial investments				
-debt investments	46,505	57,856	46,307	57,537
-other debt investments	15,782	10,150	15,527	9,886
Placements with banks and other financial institutions	8,117	5,775	8,328	5,835
Deposits with central bank	6,198	6,806	6,155	6,759
Deposits with banks and other financial institutions	2,544	2,659	2,382	2,452
Finance lease receivables	2,488	2,071	-	-
Financial assets purchased under resale agreements	1,969	2,141	1,969	2,141
Others	1,064	604	1,064	604
Subtotal	282,094	267,488	277,824	263,315
Interest expense				
Deposits from customers	(75,315)	(59,653)	(74,686)	(59,036)
Deposits from banks and other financial institutions	(29,042)	(49,296)	(29,322)	(49,589)
Debt securities issued	(30,741)	(29,788)	(30,289)	(29,499)
Borrowing from central bank	(6,741)	(6,734)	(6,727)	(6,716)
Placements from banks and other financial institutions	(5,554)	(5,376)	(4,176)	(3,561)
Financial assets sold under repurchase agreements	(4,715)	(3,436)	(4,715)	(3,436)
Others	(1,136)	(1,361)	(1,040)	(1,361)
Subtotal	(153,244)	(155,644)	(150,955)	(153,198)
Net interest income	128,850	111,844	126,869	110,117

33 Net fee and commission income

	The Group		The Bank	
	2019	2018	2019	2018
Fee and commission income				
Fees from bank cards	28,415	23,390	28,415	23,388
Custodian and other fiduciary activities commissions	11,556	12,831	8,091	9,425
Fees from investment banking activities	3,631	3,048	3,512	2,920
Agency commissions	2,723	1,883	2,722	1,882
Credit commitment fees	2,154	2,276	2,152	2,274
Settlement and clearing fees	975	1,020	973	1,019
Others	1,742	1,757	1,323	1,339
Subtotal	51,196	46,205	47,188	42,247
Fee and commission expense	(10,749)	(7,196)	(10,818)	(7,200)
Net fee and commission income	40,447	39,009	36,370	35,047

34 Investment income

	The Group		The Bank	
	2019	2018	2019	2018
Trading assets	11,341	13,253	10,956	13,182
Gain on disposal of bills	2,022	1,032	2,022	1,032
Precious metals	349	(641)	349	(641)
Long-term equity investments accounted for using the equity method	171	164	158	176
Other equity investments	44	40	44	40
Dividends from subsidiaries	-	-	129	126
Other debt investments	(144)	361	(456)	150
Derivative financial instruments	(168)	1,610	(168)	1,610
Debt investments	(309)	(22)	(309)	(68)
Others	265	-	265	-
Total	13,571	15,797	12,990	15,607

35 Gains or losses from change of fair value

	The Group		The Bank	
	2019	2018	2019	2018
Precious metals	3,122	(573)	3,122	(573)
Trading assets	1,843	3,155	1,010	2,792
Hedged bonds	296	103	296	103
Loans and advances to customers measured at FVTPL	(54)	-	(54)	-
Derivative financial instruments	(1,366)	(1,887)	(1,364)	(1,887)
Others	(76)	-	(76)	-
Total	3,765	798	2,934	435

36 Foreign exchange gains

	The Group		The Bank	
	2019	2018	2019	2018
Gains or losses from investment in foreign exchange derivatives Others exchange gains or losses	481	508	481	508
Gains or losses from changes in fair values of foreign exchange derivatives	(1,880)	4,582	(1,880)	4,582
Others	1,711	(3,935)	1,727	(3,952)
Total	312	1,155	328	1,138

37 General and administrative expenses

	The Group		The Bank	
	2019	2018	2019	2018
Staff costs				
- Short-term employee benefits	22,781	20,430	21,174	19,023
- Post-employment benefits	2,189	2,321	2,100	2,237
-Other long-term employement benefits	2,045	1,892	1,989	1,833
Rental expenses	3,140	2,995	2,950	2,826
Depreciation and amortisation	2,869	2,773	2,533	2,516
Electronic equipment operating and maintenance expenses	818	760	768	717
Others	9,210	11,370	8,783	10,808
Total	43,052	42,541	40,297	39,960

38 Impairment on credit losses

	The Group		The Bank	
	2019	2018	2019	2018
Loans and advances to customers measured at amortized cost	68,941	58,590	68,090	58,284
Provisions	1,951	207	1,955	211
Debt investments	1,171	470	1,571	556
Finance lease receivables	777	191	-	-
Other receivables	741	559	714	550
Other debt investments	573	400	301	222
Accrued and interest receivable	255	315	255	315
Loans and advances to customers measured at FVOCI	229	(207)	229	(207)
Deposits with banks and other financial institutions	100	(66)	97	(67)
Financial assets purchased under resale agreements	(6)	(66)	(6)	(66)
Placements with banks and other financial institutions	(24)	24	(24)	22
Total	74,708	60,417	73,182	59,820

39 Income tax expense

	The Group		The Bank	
	2019	2018	2019	2018
Current income tax expense	19,668	13,687	18,550	12,516
Deferred income tax expense	(9,357)	(4,918)	(9,213)	(4,690)
Total	10,311	8,769	9,337	7,826

Reconciliations between the Group's income tax expenses calculated using the statutory tax rate and actual income tax expense are as follows:

	The Group		The Bank	
	2019	2018	2019	2018
Profit before income tax	69,817	65,284	65,784	61,451
Tax calculated at statutory tax rate of the PRC	17,454	16,321	16,446	15,363
Tax effect from other various tax rates adopted by subsidiaries	(46)	(32)	-	-
Tax effect of non-deductible expenses	289	302	214	202
Tax effect of non-taxable income	(7,716)	(7,878)	(7,627)	(7,769)
Income tax adjustments in prior years	330	56	304	30
Income tax expense	10,311	8,769	9,337	7,826

40 Earnings per share

(1) Basic earnings per share

Basic earnings per share (EPS) is calculated by dividing net profit for the year attributable to the holders of the Bank's share capital by the weighted average number of share capital outstanding during the year. The conversion feature of preference shares is considered to fall within the category of contingently issuable share capital. As at 31 December 2019, the triggering events of share conversion did not occur. Therefore, the conversion feature of preference shares has no effect on the calculation of basic and diluted earnings per share in the current period.

The Group

	2019	2018
Profit for the year attributable to shareholders of the Bank	58,911	55,914
Less: Profit for the year attributable to preference shareholders of the Bank	(1,725)	(1,725)
Profit for the year attributable to the holders of the Bank's share capital	57,186	54,189
Weighted average number of outstanding share capital (million)	29,352	29,352
Basic EPS (RMB)	1.95	1.85

The Bank declared cash dividends of RMB 1,725 million for preference share in this year. For the purpose of calculating EPS, dividends on preference shares declared in respect of the year have been deducted from the profit attributable to ordinary shareholders of the Bank.

The issue of perpetual bonds interest has not been announced this year.

(2) Diluted earnings per share

The diluted earnings per share is calculated on the assumption that the RMB 50 billion convertible corporate bonds publicly issued by the Bank deemed to have all been converted to ordinary shares upon issuance and by dividing, after adjustments for the interest expenses of the convertible corporate bonds for the year the net profit of the year attributable to ordinary shareholders of the Bank by the adjusted weighted average number of ordinary shares outstanding during the year.

The Group

	2019	2018
Net profit for the current year attributable to shareholders of the Bank	57,186	54,189
Add: Interest expenses of convertible corporate bonds in the current year (after tax)	243	-
Net profit for the current year attributable to ordinary shareholders of the Bank	57,429	54,189
Weighted average number of outstanding ordinary shares (million)	29,352	29,352
Add: Assume that convertible corporate bonds are entirely converted to weighted average number of ordinary shares from the beginning of the period to the conversion date (million)	554	-
Weighted average number of outstanding ordinary shares of the year for calculating diluted earnings per share (million)	29,906	29,352
Diluted earnings per share (RMB)	1.92	1.85

41 Cash and cash equivalents

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash	6,112	6,036	5,964	5,894
Surplus resrves with central bank	105,063	70,709	102,311	69,687
Deposits with banks and other financial institutions with original maturities no more than three months	62,816	47,026	58,326	44,000
Placements with banks and other financial institutions with original maturities no more than three months	29,090	63,873	29,233	63,873
Financial assets purchased under resale agreements with original maturities no more than three months	2,003	-	2,003	-
Total	205,084	187,644	197,837	183,454

42 Supplementary information of statement of cash flow

(a) Supplementary information of statement of cash flow

Reconciliation of net profit to cash flows from operating activities:

	The Group		The Bank	
	2019	2018	2019	2018
Net profit	59,506	56,515	56,447	53,625
Add：Impairment on credit losses	74,708	60,417	73,182	59,820
Impairment losses on other assets	(1)	3	(1)	3
Depreciations and amortizations	3,613	3,326	2,533	2,516
Net gains from disposal of fixed assets, intangible assets and other long-term assets	(1,470)	(33)	(1,470)	(34)
Net gains from changes in fair value	(3,765)	(798)	(2,934)	(435)
Foreign exchange losses / (gains)	1,880	(4,582)	1,880	(4,582)
Interest expenses on debt securities issued	30,741	29,788	30,289	29,499
Interest income from investment in debt instruments	(62,287)	(68,006)	(61,834)	(67,423)
Net investment gains	(6,892)	(11,521)	(6,444)	(11,332)
Increase in deferred tax assets	(9,348)	(4,881)	(9,213)	(4,690)
Decrease in deferred tax liabilities	(9)	(37)	-	-
Increase in operating receivables	(628,202)	(589,837)	(619,209)	(580,837)
Increase in operating payables	472,898	191,286	472,496	195,158
Net cash flows used in operating activities	(68,628)	(338,360)	(64,278)	(328,712)

(b) Changes in cash and cash equivalents

	The Group		The Bank	
	2019	2018	2019	2018
Cash and cash equivalents at the end of the year	205,084	187,644	197,837	183,454
Cash and cash equivalents at the beginning of the year	(187,644)	(147,458)	(183,454)	(138,838)
Net increase in cash and cash equivalents	17,440	40,186	14,383	44,616

43 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Assets backed securitization transaction

For the year ended 31 December 2019, the Group transferred financial assets amounted to RMB 28,930 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2018, the Group transferred financial assets amounted to RMB 7,893 million through assets backed securitization transactions, all have met the requirement of derecognition).

Transfer of loans assets

For the year ended 31 December 2019, the Group directly transferred and derecognized a total amount of RMB 24,189 million loan assets to third parties, which were all non-performing loans to asset management companies and have met the requirement of derecognition (For the year ended 31 December 2018, the Group directly transferred a total amount of RMB 67,595 million loan assets to third parties. Among them, a total amount of RMB 22,049 million loan assets were transferred to structured entities and a total amount of RMB 45,546 million were non-performing loans to asset management companies. All of the transferred assets have met the requirement of derecognition).

Securities lending transaction

In the securities lending transaction, the counterparty may sell or re-use the above securities in the condition that no default exists, but at the same time bear the obligation to return the above securities on the expiration date specified in the agreement. For the above business, the Group believes that the Group retains most of the risks and rewards of the relevant securities and therefore does not derecognize the relevant securities. As at 31 December 2019, the carrying amount of the assets transferred by the Group in securities lending transactions was RMB 59,540 million (31 December 2018: RMB 44,240 million).

VI Interests in other entities

1 Interests in major subsidiaries

1.1 Major subsidiaries of the Group

Name of subsidiaries	*Place of main business*	*Place of registration*	*Obtaining method*	*Share-holding percentage (direct)*
SPDB Financial Leasing Co., Ltd.	Shanghai	Shanghai	Establishment	61.02%
Shanghai International Trust	Shanghai	Shanghai	Acquisition	97.33%
SPDB International Holding ,Ltd.	Hong Kong	Hong Kong	Acquisition	100.00%
Mianzhu SPD Rural Bank Co., Ltd.	Mianzhu, Sichuan	Mianzhu, Sichuan	Establishment	55.00%
Liyang SPD Rural Bank Co., Ltd.	Liyang, Jiangsu	Liyang, Jiangsu	Establishment	51.00%
Gongyi SPD Rural Bank Co., Ltd.	Gongyi, Henan	Gongyi, Henan	Establishment	51.00%
Fengxian SPD Rural Bank Co., Ltd.	Fengxian, Shanghai	Fengxian, Shanghai	Establishment	51.00%
Zixing SPD Rural Bank Co., Ltd.	Zixing, Hunan	Zixing, Hunan	Establishment	51.00%
Chongqing Banan SPD Rural Bank Co., Ltd.	Banan, Chongqing	Banan, Chongqing	Establishment	51.00%
Zouping SPD Rural Bank Co., Ltd.	Zouping, Shandong	Zouping, Shandong	Establishment	51.00%
Zezhou SPD Rural Bank Co., Ltd.	Jincheng Shanxi	Jincheng Shanxi	Establishment	51.00%
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	Ganjingzi, Liaoning	Ganjingzi, Liaoning	Establishment	51.00%
Hancheng SPD Rural Bank Co., Ltd.	Hancheng Shaanxi	Hancheng Shaanxi	Establishment	51.00%
Jiangyin SPD Rural Bank Co., Ltd.	Jiangyin, Jiangsu	Jiangyin, Jiangsu	Establishment	51.00%
Pingyang SPD Rural Bank Co., Ltd.	Pingyang, Zhejiang	Pingyang, Zhejiang	Establishment	51.00%
Xinchang SPD Rural Bank Co., Ltd.	Xinchang, Zhejiang	Xinchang, Zhejiang	Establishment	51.00%
Yuanjiang SPD Rural Bank Co., Ltd.	Yuanjiang, Hunan	Yuanjiang, Hunan	Establishment	51.00%
Chaling SPD Rural Bank Co., Ltd.	Zhuzhou, Hunan	Zhuzhou, Hunan	Establishment	51.00%
Linchuan SPD Rural Bank Co., Ltd.	Fuzhou, Jiangxi	Fuzhou, Jiangxi	Establishment	51.00%
Linwu SPD Rural Bank Co., Ltd.	Chenzhou, Hunan	Chenzhou, Hunan	Establishment	51.00%
Hengnan SPD Rural Bank Co., Ltd.	Hengyang, Hunan	Hengyang, Hunan	Establishment	51.00%
Haerbin Hulan SPD Rural Bank Co., Ltd.	Haerbin, Heilongjiang	Haerbin, Heilongjiang	Establishment	51.00%
Gongzhuling SPD Rural Bank Co., Ltd.	Siping, Jilin	Siping, Jilin	Establishment	51.00%
Yuzhong SPD Rural Bank Co., Ltd.	Lanzhou, Gansu	Lanzhou, Gansu	Establishment	51.00%
Fumin SPD Rural Bank Co., Ltd.	Fumin, Yunnan	Fumin, Yunnan	Establishment	51.00%
Ningbo Haishu Rural Bank Co., Ltd.	Ningbo, Zhejiang	Ningbo, Zhejiang	Establishment	51.00%
Urumchi Midong SPD Rural Bank Co., Ltd.	Urumchi, Xinjiang	Urumchi, Xinjiang	Establishment	51.00%
Tianjin Baodi SPD Rural Bank Co., Ltd.	Baodi, Tianjin	Baodi, Tianjin	Establishment	49.00%
Chongqing Tongliang SPD Rural Bank Co., Ltd	Tongliang, Chongqing	Tongliang, Chongqing	Establishment	51.00%
Qianxinan yilong SPD Rural Bank Co., Ltd.	Yilong, Guizhou	Yilong, Guizhou	Establishment	51.00%
Fufeng SPD Rural Bank Co., Ltd.	Baoji, Shaanxi	Baoji, Shaanxi	Establishment	51.00%

In accordance with relevant conventions entered into by the Bank and other shareholders of Baodi Tianjin SPD Rural Bank Co., Ltd., the Bank owns 51% voting rights in Baodi Tianjin SPD Rural Bank Co., Ltd, and therefore is able to control Baodi Tianjin SPD Rural Bank Co., Ltd..

All subsidiaries are unlisted and consolidated in the Bank's consolidated financial statements.

1.2 Relevant information of major partly-owned subsidiaries

After individual assessment, the Group concluded that no subsidiary has minority interest that is material to the Group.

2 Interests in joint ventures and associates

2.1 General information of major joint ventures and associates

Name of the investee	***Note***	***Place of main business***	***Place of registration***	***Strategic investment***	***Share-holding percentage (Direct)***	***Business nature***
Joint ventures:						
AXA SPDB Investment Managers Co., ltd.	(a)	Shanghai	Shanghai	Y	51%	Financial industry
SPD Silicon Valley Bank Co., Ltd.		Shanghai	Shanghai	Y	50%	Financial industry

Equity investments above-mentioned are all accounted for by equity method.

(a) According to the Articles of Association of AXA SPDB Investment Managers Co., Ltd., resolutions on certain significant operations and finance decisions shall be approved by shareholders representing more than two-thirds voting shares. These resolutions are involved with the Company’s strategic plans, investment plans, authorization on the Board of Directors for approval of annual financial budget and settlement plans, approval of profit appropriations and plans to cover accumulated losses, and approval of equity transfers and modification of the Articles of Association, etc. Although the Group owns 51% voting shares of AXA SPDB Investment Management Co., Ltd., it has to exercise influences over the company jointly with other major shareholders.

2.2 Key financial information of major joint ventures and associates

The Group’s joint ventures and associates are all unlisted companies. The Group is of the view that these joint ventures and associates are not material to the Group in terms of their aggregated net profit and net assets.

VII Involvement with unconsolidated structured entities

1 Structured entities sponsored by third party institutions in which the Group holds an interest. The Group holds an interest in some structured entities sponsored by third party institutions through investments in the products issued by these structured entities. Such structured entities include fund investment, capital trust and asset management plans, wealth management products, ABS and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of investment products to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in the structured entities sponsored by third party institutions:

	The Group			
	31 December 2019		31 December 2018	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Trading assets				
Fund investments	359,823	359,823	260,512	260,512
Capital trust and asset management plans	60,531	60,531	65,145	65,145
Wealth management products	90	90	208	208
Other investments	7,034	7,034	5,678	5,678
Debt Investments				
Capital trust and asset management plans	368,384	368,384	272,648	272,648
ABS	1,361	1,361	2,536	2,536
Other debt investments				
ABS	9,093	9,093	11,982	11,982
Capital trust and asset management plans	147	147	1,274	1,274
Other equity investments				
Fund investments	811	811	-	-

The maximum exposures to loss in the above fund investment, capital trust and asset management plans, wealth management products, asset-backed securities and other investments are the amortised cost or fair value of the assets held by the Group at the reporting date.

2 Structured entities sponsored by the Group which the Group did not consolidate but held an interest

The types of unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products, trust plan, fund investment and asset-backed securities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes investments in notes issued by these structured entities and fees charged by providing management services. As at 31 December 2019, the carrying amounts of the investments in the notes issued by these structured entities and fee receivables being recognised were not material in the statement of financial positions.

As at 31 December 2019, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, were RMB 1,447,050 million (31 December 2018: RMB 1,375,683 million) respectively.

During the year of 2019, the amount of the average exposure of financing transactions through reverse repurchase agreements from the Group with non-principal guaranteed wealth management products sponsored by the Group was RMB 31 million (2018: RMB 3,490 million). The transactions were conducted in the ordinary course of business under normal terms and conditions and at market rates.

As at 31 December 2019, the amount of assets held by the unconsolidated capital trust and asset management plans, which are sponsored by the Group, were RMB 560,521 million (31 December 2018: RMB 650,384million) respectively.

As at 31 December 2019, the amount of assets held by the unconsolidated fund investments, which are sponsored by the Group, were RMB 390,304million (31 December 2018: RMB 379,178 million) respectively.

As at 31 December 2019, the amount of assets held by the unconsolidated asset-backed securities, which are sponsored by the Group, were RMB 111,019 million (31 December 2018: RMB 100,866 million) respectively.

3 Unconsolidated structured entities sponsored by the Group during the year in which the Group does not have an interest at 31 December 2019

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 was RMB 19,206 million (The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2018 but matured before 31 December 2018 was RMB 44,800 million).

The aggregated amount of the capital trust and asset management plans sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 was RMB 19,162 million (The aggregated amount of the investment funds sponsored and issued by the Group after 1 January 2018 but matured before 31 December 2018 was RMB 5,781 million).

The aggregated amount of the fund investments sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 was RMB 92,036 million (The aggregated amount of the investment funds sponsored and issued by the Group after 1 January 2018 but matured before 31 December 2018 was RMB 95,885 million).

In 2019, the income earned by the Group in the above-mentioned structured entities is not significant (2018: not significant).

VIII SEGMENT REPORTING

Top management of the Group reviews the performance of the Bank's branches and subsidiaries in different economic regions from geographic perspective. The branches and subsidiaries of the Bank mainly provide services to local customers domiciled in respective geographic areas, therefore operating segments are analysed principally based on the location of the assets.

The operating segments' principal income are mainly from various commercial and investment banking services, including deposits and loans, discounted bills, trade finance, inter-bank money market and investments etc.

The Group's operating segments of different regions are set out as follows:

Headquarter:	Headquarters (including the direct institutions under headquarters and the branches)
Yangtze River Delta:	Branches in Shanghai, Jiangsu, Zhejiang
Pearl River Delta and West Side of Taiwan Strait:	Branches in Guangdong and Fujian
Bohai Rim:	Branches in Beijing, Tianjin, Hebei and Shandong
Central China:	Branches in Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan
Western China:	Branches in Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongoli and Tibet
North-east China:	Branches in Liaoning, Jilin and Heilongjiang
Overseas and subsidiaries:	Overseas branches and domestic and overseas Subsidiaries

	For the year from 1 January 2019 to 31 December 2019									
	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
I. Operating income	81,295	39,335	11,266	15,140	16,517	10,939	4,844	11,352	-	190,688
Interest income	246,895	136,501	39,646	52,017	46,764	37,235	15,623	11,864	(304,451)	282,094
Including:										
External Interest income	110,689	61,032	18,385	22,392	26,760	22,942	9,175	10,719	-	282,094
Internal interest income	136,206	75,469	21,261	29,625	20,004	14,293	6,448	1,145	(304,451)	-
Interest expense	(211,799)	(97,489)	(30,540)	(38,910)	(31,586)	(27,415)	(11,447)	(8,509)	304,451	(153,244)
Including:										
External interest expense	(65,241)	(33,307)	(10,710)	(16,045)	(10,000)	(6,343)	(4,093)	(7,505)	-	(153,244)
Internal interest expense	(146,558)	(64,182)	(19,830)	(22,865)	(21,586)	(21,072)	(7,354)	(1,004)	304,451	-
Net fee and commission income	31,200	(476)	1,765	1,238	921	828	484	4,487	-	40,447
Investment income	10,296	1,053	289	551	395	201	119	667	-	13,571
Other income	15	46	42	59	10	52	5	256	-	485
Net gains arising from financial investments	2,578	153	5	-	(23)	7	39	1,006	-	3,765
Foreign exchange income	480	(501)	55	93	24	26	20	115	-	312
Other operating income	154	42	6	96	15	5	4	1,466	-	1,788
Impairment losses	1,476	6	(2)	(4)	(3)	-	(3)	-	-	1,470
II. Operating expense	(50,528)	(11,287)	(7,573)	(17,099)	(9,890)	(14,054)	(4,469)	(5,924)	-	(120,824)
Taxes and surcharges	(508)	(492)	(158)	(193)	(233)	(202)	(81)	(79)	-	(1,946)
General administrative expenses	(14,081)	(8,892)	(3,300)	(4,190)	(3,861)	(3,665)	(1,702)	(3,361)	-	(43,052)
Impairment on credit losses	(35,872)	(1,736)	(4,112)	(12,576)	(5,792)	(10,186)	(2,686)	(1,748)	-	(74,708)
Impairment losses on other assets	-	(6)	2	-	-	3	2	-	-	1
Other operating expense	(67)	(161)	(5)	(140)	(4)	(4)	(2)	(736)	-	(1,119)
III.Operating profit / (losses)	30,767	28,048	3,693	(1,959)	6,627	(3,115)	375	5,428	-	69,864
Add: Non-operating income	25	28	4	12	16	10	7	4	-	106
Less:Non-operating expenses	(13)	(47)	(13)	(23)	(14)	(12)	(5)	(26)	-	(153)
IV. Total segment profit / (losses)	30,779	28,029	3,684	(1,970)	6,629	(3,117)	377	5,406	-	69,817

	31 December 2019									
	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Loans and advances to customers	627,975	1,055,320	399,324	477,637	541,539	490,269	185,552	102,140	(1,565)	3,878,191
Total segment assets	3,284,081	1,793,682	519,156	805,725	627,677	549,913	230,223	325,114	(1,129,642)	7,005,929
Deposits from customers	157,228	1,395,417	426,262	641,551	476,127	304,583	160,601	104,653	(4,580)	3,661,842
Total segment liabilities	2,775,455	1,765,897	515,452	807,559	621,050	553,374	229,568	306,165	(1,129,642)	6,444,878
Net position of assets and liabilities	508,626	27,785	3,704	(1,834)	6,627	(3,461)	655	18,949	-	561,051

	For the year from 1 January 2018 to 31 December 2018									
	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
I. Operating income	67,875	36,362	11,442	14,856	15,621	10,420	4,584	9,705	-	170,865
Interest income	247,422	131,074	48,998	61,916	46,287	37,206	16,894	10,547	(332,856)	267,488
Including:										
External Interest income	111,510	51,678	18,622	22,711	22,865	21,273	8,848	9,981	-	267,488
Internal interest income	135,912	79,396	30,376	39,205	23,422	15,933	8,046	566	(332,856)	-
Interest expense	(222,140)	(96,871)	(39,503)	(48,932)	(32,662)	(28,020)	(12,879)	(7,493)	332,856	(155,644)
Including:										
External interest expense	(47,381)	(35,075)	(18,652)	(23,463)	(11,719)	(6,943)	(5,354)	(7,057)	-	(155,644)
Internal interest expense	(174,759)	(61,796)	(20,851)	(25,469)	(20,943)	(21,077)	(7,525)	(436)	332,856	-
Net fee and commission income	26,699	1,495	1,864	1,571	1,500	1,042	457	4,381	-	39,009
Investment income	14,585	139	12	87	453	100	102	319	-	15,797
Other income	7	49	8	26	12	77	5	331	-	515
Net gains arising from financial investments	565	(51)	(23)	1	(10)	(13)	(21)	350	-	798
Foreign exchange income	363	332	71	122	30	27	25	185	-	1,155
Other operating income	377	130	18	67	13	4	2	1,085	-	1,696
Impairment losses	(3)	65	(3)	(2)	(2)	(3)	(1)	-	-	51
II. Operating expense	(37,322)	(14,327)	(3,641)	(14,631)	(8,138)	(16,151)	(6,861)	(4,451)	-	(105,522)
Taxes and surcharges	(513)	(440)	(145)	(184)	(206)	(188)	(75)	(101)	-	(1,852)
General administrative expenses	(14,311)	(8,251)	(3,088)	(4,418)	(4,009)	(3,635)	(1,759)	(3,070)	-	(42,541)
Impairment on credit losses	(22,491)	(5,586)	(400)	(9,988)	(3,910)	(12,297)	(5,026)	(719)	-	(60,417)
Impairment losses on other assets	-	7	(1)	-	-	(11)	2	-	-	(3)
Other operating expense	(7)	(57)	(7)	(41)	(13)	(20)	(3)	(561)	-	(709)
III.Operating profit / (losses)	30,553	22,035	7,801	225	7,483	(5,731)	(2,277)	5,254	-	65,343
Add: Non-operating income	25	28	5	9	21	4	9	3	-	104
Less:Non-operating expenses	(7)	(44)	(7)	(5)	(50)	(22)	(18)	(10)	-	(163)
IV. Total segment profit / (losses)	30,571	22,019	7,799	229	7,454	(5,749)	(2,286)	5,247	-	65,284

	31 December 2018									
	Headquarter	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Loans and advances to customers	513,222	1,033,524	341,125	433,260	451,586	432,088	172,205	78,479	-	3,455,489
Total segment assets	3,122,456	1,624,513	476,554	715,037	529,596	472,223	192,223	282,312	(1,125,308)	6,289,606
Deposits from customers	140,524	1,220,107	362,570	530,809	460,398	304,694	153,818	80,395	-	3,253,315
Total segment liabilities	2,690,165	1,602,682	468,647	714,754	522,089	478,117	194,470	265,610	(1,125,308)	5,811,226
Net position of assets and liabilities	432,291	21,831	7,907	283	7,507	(5,894)	(2,247)	16,702	-	478,380

IX CONTINGENCIES AND COMMITMENTS

1 Credit commitments

The Group's credit commitments are listed as follows:

	31 December 2019	31 December 2018
Bank acceptance bills	473,598	419,815
Letters of credit issued	162,473	161,120
Letters of guarantee issued	88,940	101,003
Credit cards and loan commitments	457,683	351,725
Total	1,182,694	1,033,663

2 Commitment on redemption of certificate treasury bonds

The Group is entrusted by the MOF to underwrite certificate treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest at the redemption date.

As at 31 December 2019, the outstanding principal value of the treasury bonds sold by the Group amounted to RMB 4,401 million (31 December 2018: RMB 4,355 million).

The MOF will not provide funding for the early redemption of these treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The management expects the amount of the bonds of which redemption is through the Group before the maturity dates will not be material.

3 Operating lease commitments

According to the lease contract terms, the minimum lease payment commitment of the Group is as follows:

	31 December 2019
Within 1 year	2,745
1 to 2 years	2,021
2 to 3 years	1,513
Over 3 years	2,964
Total	9,243

4 Capital commitments

As at 31 December 2019, the major capital commitments the Group had signed but not paid amounted to RMB 3,640 million (31 December 2018: RMB 3,248 million). Additionally, the amount of the procurement plan of financial lease commitments and operating fixed assets that the Bank's subsidiaries had signed but not paid was RMB 3,778 million.

As at 31 December 2019, the major capital commitments the Group had approved but not signed amounted to RMB 292 million (31 December 2018: RMB 175 million). Additionally, the amount of the procurement plan of financial lease commitments and operating fixed assets that the Bank's subsidiaries had approved but not signed was RMB 3,993 million.

5 Legal proceedings

As at 31 December 2019, the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 153 and 92, respectively. The corresponding amount involved was about RMB 2,216 million and RMB 220 million, respectively. The Group assessed the possibility of loss from reparations being not large, so no provision was accrued during the year (As at 31 December 2018, the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 93 and 82, respectively. The corresponding amount involved was about RMB 1,488 million and RMB 2,355 million, respectively. The Group assessed the possibility of loss being not large, so no provision was accrued).

X FIDUCIARY BUSINESSES

The Group provides safe-keeping and entrusted loan businesses to independent third party customers. The assets arising from these businesses are not recorded on the Group's balance sheet. As at 31 December 2019, the balance of entrusted loan business was RMB 137,221 million (As at 31 December 2018: RMB 150,374 million).

XI RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1 Major shareholders holding more than 5% shares of the Bank

As at 31 December 2019 and 31 December 2018, major shareholders holding more than 5% ordinary shares of the Bank are as follows:

	Direct shareholding percentage	Major business
Shanghai International Group Co., Ltd.	21.57%	Investment management
China Mobile Group Guangdong Company Limited	18.18%	Mobile and Communication
Funde Sino Life Insurance Co., Ltd. – Traditional	9.47%	Insurance Business
Funde Sino Life Insurance Co., Ltd. – Capital	6.01%	Insurance Business

As at 31 December 2019, Shanghai International Group Co., Ltd. hold 10.11% of the Bank's convertiable bond, China Mobile Group Guangdong Company Limited hold 18.17% of the Bank's convertiable bond.

2 Subsidiaries

For general information of the Group's subsidiaries, please refer to Note VI.1 "Interests in other entities".

3 Joint ventures and associates

For general information of the joint ventures and associates, please refer to Note VI.(2) "Interests in other entities".

4 Other major related parties

Other related parties mainly include respective group companies of shareholders who hold 5% or more ordinary shares of the Bank, key management personnel of the Bank (including the directors, supervisors and senior executives) and their close family members, and the companies that are controlled or jointly controlled by these key management personnel and their close family members, or the companies in which key management personnel and their close family members serve as directors or senior executives.

Additionally, in accordance with relevant regulations, the Bank has reported to the Shanghai Stock Exchange on the exemption from disclosure of the transactions between the Bank and its independent directors and companies in which its external supervisors have part-time positions.

5 Transactions and balances with related parties

The amounts of material transactions between the Group and its related parties and related balances at the balance sheet date are summarised as follows：

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Amounts of significant transactions from 1 January 2019 to 31 December 2019 are listed below：							
Interest income	-	-	366	43	1	410	0.15%
Interest expense	(349)	(22)	(1,535)	(294)	(1)	(2,201)	1.44%
Net Fee and commission income	-	195	18	20	-	233	0.46%
Investment income	-	262	-	-	-	262	1.93%
Gains or losses from change of fair value	-	916	-	104	-	1,020	27.09%
Foreign exchange gains	-	1	-	(1)	-	-	0.00%
Operating expenses	(17)	-	(256)	-	-	(273)	0.63%
Other comprehensive income	-	-	-	16	-	16	0.61%

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Significant item balances at 31 December 2019：							
Placements with banks and other financial institutions	-	-	1,567	-	-	1,567	0.91%
Loans and advances to customers	-	-	491	877	30	1,398	0.04%
Derivative financial assets	-	1	-	540	-	541	1.40%
Financial investments：							
- Trading assets	-	45,164	-	916	-	46,080	9.12%
- Debt investments	-	-	-	40	-	40	0.00%
- Other debt investments	-	-	-	1,803	-	1,803	0.36%
Long-term equity investments	-	2,049	-	-	-	2,049	100.00%
Deposits from banks and other financial institutions	-	(1,981)	(20,585)	(10,771)	-	(33,337)	3.33%
Derivative financial liabilities	-	-	-	(450)	-	(450)	1.08%
Deposits from customers	(4,421)	(1,747)	(43,542)	(10,084)	(57)	(59,851)	1.63%
Significant off-balance item at 31 December 2019							
Letters of guarantee issued	-	-	2,529	-	-	2,529	2.84%

Note: As at 31 December 2019, key management of the Bank possessed a total number of 968,200 shares of common stock issued by the Bank. During the first half of 2019, key management has obtained relavent cash dividends of their shares.

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Amounts of significant transactions from 1 January 2018 to 31 December 2018 are listed below：							
Interest income	-	-	127	-	1	128	0.05%
Interest expense	(176)	(21)	(1,360)	(50)	-	(1,607)	1.03%
Net Fee and commission income	-	-	22	3	-	25	0.05%
Investment income	-	164	-	-	-	164	1.04%
Operating expenses	(7)	-	(383)	-	-	(390)	0.92%

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Significant item balances at 31 December 2018：							
Placements with banks and other financial institutions	-	-	4,422	-	-	4,422	3.11%
Loans and advances to customers	-	-	239	-	24	263	0.01%
Long-term equity investments	-	1,968	-	-	-	1,968	100.00%
Deposits from banks and other financial institutions	-	(1,058)	(5,113)	-	-	(6,171)	0.58%
Deposits from customers	(5,324)	-	(37,999)	(1,500)	-	(44,823)	1.38%
Significant off-balance item at 31 December 2018：							
Letters of guarantee issued	-	-	3,766	-	-	3,766	3.73%

Note: As at 31 December 2018, key management of the Bank possessed a total number of 400,200 shares of common stock issued by the Bank.

6 Related parties that are controlled by the Bank

Related parties that are controlled by the Bank are the subsidiaries of the Bank. Major transactions with these subsidiaries and their balances are eliminated in the consolidated financial statements, and are summarised as follows:

Balances at the year end：	31 December 2019	31 December 2018
Deposits with banks and other financial institutions	257	355
Placements with banks and other financial institutions	5,527	4,045
Loans and advances to customers	1,565	991
Deposits to and placements from banks and other financial institutions	8,076	8,025
Deposits from customers	4,580	609
Others	26	21

Transactions during the year：	2019	2018
Interest income from deposits from banks and other financial institutions	6	10
Interest income from placements from banks and other financial institutions	220	108
Interest income from loans and advances to customers	51	114
Interest expenses on deposits from banks and other financial institutions	271	191
Interest expenses on deposits from customers	78	-
Fee and commission income	88	21
Fee and commission expense	114	41
Other income	2	-

7 Compensation of key management personnel

Key management personnel are those people having authority and responsibility for planning, directing, and controlling the activities of the Group, either directly or indirectly, including directors, supervisors and senior executives.

Compensation of key management personnel for the respective periods (excluding the social insurance charges paid by the Bank) is as follows:

	2019	2018
Compensation of key management personnel	28	30

The Compensation of key management personnel are remuneration without social insurance paid in 2019 to the directors, supervisor and senior management of the Bank in past 12 months or will do so in the next 12 months according to the relevant contract arrangement.

8 Transactions with the annuity plan

In terms of the enterprise annuity funds established by the Group, in addition to the normal contribution, there has been no other related party transactions during the reporting period.

XII FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks in its operating activities. The Group analyses, evaluates, accepts and manages certain degree of risks or risk portfolios. Managing financial risk is critical to the financial industry, and the inherent risks is an inevitable consequence of business operation. The Group's aim is therefore to strike an appropriate balance between risk and return and minimise potential adverse impact on the Group's financial performance.

The Group has designed a series of risk management policies to identify and analyse these risks, so as to set appropriate risk limits and formulate control procedures. It has also monitored the risks and their limits through reliable information systems.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk mainly consists of foreign currency risk, interest rate risk and commodity price risk.

The Board of Directors of the Bank is responsible for determining the Group's overall risk appetite. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, relevant departments of the headquarters are responsible for the implementation.

1 Credit risk

Credit risk is the risk that a customer or counterparty may fail or be unwilling to fulfil an obligation or commitment to the Group resulting in a financial loss. Credit risk is higher when counterparties are concentrated in single industry or geographic region, because various counterparties in the same industry or geographic region could be adversely affected by the same economic factors, which ultimately affect their repayment ability.

(1) Credit risk management

(i) Loans

The Group manages, restricts and controls the concentration of credit risk identified, especially with regards to concentration on singular counterparty, group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent review where necessary.

The Group manages the exposure to credit risk through regular analysis of borrowers' ability to repay principal and interest payments and amends the credit facilities where appropriate.

The Group has established relevant policies and various measures to mitigate credit risk. Obtaining collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals has been one of the main strategies to control credit risk. The Group provides guidelines on the specific types of acceptable collateral or pledged assets, mainly include the following:

- Residential property and land tenure;
- Commercial assets, such as commercial property, inventory and accounts receivable;
- Financial instruments, such as bonds and equity shares.

Fair value of collaterals or pledged assets is generally assessed by professional evaluation agencies designated by the Group. When there are indications of impairment, the value of collaterals or pledged assets will be re-examined by the Group to assess whether the collaterals or pledged assets could adequately cover the credit risks associated with loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collaterals or pledged assets. The main types of collaterals or pledged assets for corporate loans and retail loans and their corresponding maximum loan-to-value ratio are as follows:

Collaterals or pledged assets	Maximum loan-to-value ratio
Time deposits	92% - 100%
Government bonds	90% - 100%
Financial bonds	95%
Corporate bonds (including financial institutions)	80%
Right to collect fees	60% - 70%
Franchise right	50%
Commercial property and standard plant	60%
Residential property	70%
Land tenure	50% - 60%

Management assesses fair value of collaterals or pledged assets based on the latest available external valuation results, and adjusts the fair value with reference to experience, current market conditions and disposal expenses to be incurred.

For loans guaranteed by third parties, the Group evaluates the financial condition and credit record of guarantors and guarantor's ability to meet obligations.

(ii) Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through mechanisms include controlling the investment scale, setting access list of issuers, rating access, establishing post-investment management, etc. Generally, external credit rating of the issuer of foreign currency bonds at the time of purchase (by Standard & Poor's or equivalent rating agencies) should be at BBB- or above. Overseas investments in RMB bonds are limited to those issuers with external credit rating at BBB+ or above (by rating agencies identified by the PBOC). Rating of domestic middle to long term RMB bonds should be at AA or above and rating of short term RMB bonds, their credit ratings should be at A-1 (by rating agencies identified by the PBOC).

(iii) Other financial assets measured at amortized cost

Other financial assets measured at amortized cost mainly include fund trust and asset management plans. The Group has rating access system on the trust companies, security companies and fund companies with the set credit facility for ultimate investors of trust plans and asset management plans, and performs post-lending management periodically.

(iv) Inter-bank transactions

The Group reviews and manages the credit risk of individual financial institution on regularly basis and sets credit limit for individual bank or non-banking financial institution which has transactions with the Group.

(v) Derivative financial instruments

The Group strictly restricts transactions in derivative financial instruments. For corporate customers, the Group mitigates credit risk associated with derivative financial instruments by acquiring margin deposits.

(vi) Credit commitments

The primary purpose of credit commitments is to ensure that funds are available to customers as required. Letters to guarantee, bill acceptance and letters of credit are irrevocable commitment from the Group. The Group undertakes credit risks similar to loans and commits to pay third parties on behalf on customers or make payments in the event that customers cannot meet obligations to third parties. When the requested amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's potential credit exposure is equivalent to the total amount of credit commitments. In addition, cash outflows may occur when customers spend credit card and loan commitment granted by the Group in the future.

(vii) Trust plan

The main credit risk of the trust plan is the potential loss of fiduciary estate or inherent property when the counterparties fail, cannot or be unwilling to fulfil the contract commitments in the course of transactions. The Group strictly enforces the policy “pre-loan investigation, in-process review, post-lending inspection” over trust plan. In the design of the product trade structure, the Group introduces guarantee mechanism including financial institution credit, property mortgage, rights pledge to comprehensively manages risks through avoidance, prevention, dispersion, transfer and compensation, and disperses and transfers credit risks of financing entities to reduce risk exposure.

(2) Credit risk measurement

The Group has established a five-tier grading system of credit assets to measure and manage the quality of loans and advances to corporate and retail customers according to the “Guidelines for Risk-based Loan Classification” (the “Guideline”) (Yin Jian Fa [2007] No. 54). The Group’s five-tier grading system and the Guideline classify on-balance sheet credit assets into five categories: pass, special-mention, substandard, doubtful and loss, among which loans with the grading of substandard, doubtful and loss are regarded as non-performing loans.

The core definitions of the credit assets classification are as follows:

Pass: The borrower could fulfil the contractual obligation and there is not enough reason to suspect that the principal and interest cannot be repaid in full and on time.

Special Mention: The repayment might be adversely affected by some factors although the borrower currently has the capability to repay the principal and interest.

Substandard: The borrower’s capability to repay is apparently in question and cannot repay the principal and interest in full depending on its operating income. Certain losses might occur even when guarantees are executed.

Doubtful: Cannot repay principal and interest in full and significant losses will occur even when guarantees are executed.

Loss: Principal and interest cannot be recovered or only a very small portion of them can be recovered after taking all possible measures or necessary legal procedures.

(3) ECL measurement

Pursuant to the new accounting standards, the Group divides the loss allowance for expected credit losses on financial assets into three stages:

Stage 1 (no significant increase in credit risk since initial recognition): measure the loss at an amount equal to 12-month ECL;

Stage 2 (significant increase in credit risk since initial recognition): measure the loss allowance at an amount equal to the lifetime ECL; and

Stage 3 (credit- impaired assets): measure the loss allowance at an amount equal to the lifetime ECL.

The Group has developed the impairment model to calculate ECL in accordance with the new accounting standards. A top-down development method was adopted to establish a logistic regression model of risk parameters and macroeconomic indicators such as gross domestic product “GDP” and consumer price index “CPI”. The Group periodically forecasts three kind of macroeconomic scenarios (optimistic, basic and pessimistic) and measures ECL based on different scenarios.

<u>Credit risk grading</u>

The Group uses internal credit risk gradings to reflect assessment of default probability for individual counterparties and applies different internal rating models for different categories of counterparties. Borrowers’ and specific loan related information collected during loan application (such as disposable income, guarantee level for retail exposures; and corporate customers’ revenue and industry) is incorporated into rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models also include expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure to compensate considerations that may not be captured as part of the other data inputs into the model.

The Group does not have financial assets identified as "low risk" and corresponding credit risk management in accordance with new financial instruments standards.

<u>Stage division</u>

Significant *increase in credit risk (“SICR”)*

The Group assesses on each balance sheet date whether the credit risk of the relevant financial assets has increased significantly since initial recognition. When considering the ECL stage of financial assets, the Group considering all reasonable and supportable information, including that which is forward-looking. The main factors to be considered are regulatory and operational environment, internal and external credit rating, solvency, operational capability, loan contract terms, repayment behaviour, etc.

The Group considers that there has been a significant increase in credit risk of financial instrument when one or more of the following quantitative, qualitative or upper limits criteria have been met:

Quantitative criteria:

The Group determines whether there has been a significant increase in credit risk since initial recognition by considering whether the credit risk rating has downgraded to a certain level, i.e. credit risk rating of counterparty for corporate loans and financial investments has downgraded to B or below since initial recognition as at the reporting date, or whether the probability of default (“PD”) has increased significantly since initial recognition, i.e. for retail loans, the counterparty’s PD is 8-10 times of initial PD as at the reporting date.

Qualitative criteria:

For corporate loans and financial investments, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operational results of the borrower
- Early signs of cashflow / liquidity problems such as delay in repayment of payables / loans

Upper limit:

If the borrower fails to make payment for more than 30 days after contractual payment date.

Default and credit-impaired

When a financial asset is impaired, the Group defines it as in default. The Group defines a financial asset as credit impaired when it meets one or more of the following criteria:

Qualitative criteria:

The borrower meets "capability to repay is apparently in question" criteria, which indicates the borrower is in significant financial difficulty and examples include:

The issuer or borrower is in significant financial difficulties

- The borrower has breached financial contract(s), such as past due of interest or principal repayments
- Concessions have been made by the lender relating to the borrower's financial difficulty with consideration of economy and contract
- The borrower is likely to head towards bankruptcy or other debts restructuring
- Issuer or borrower's financial difficulties lead to disappearance of active market for financial assets
- Financial assets are purchased or originated at substantial discount that reflects the incurred credit losses

Upper limit:

If the borrower fails to make payment for more than 90 days after contractual payment date.

The criteria above have been applied to all financial instruments held by the Group and are consistent with internal credit risk management purposes. The default definition has been consistently applied to establish models for the PD, Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's ECL measurement.

Explanation of parameters, assumptions and estimation techniques of ECL model

The ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the product of the PD, EAD and LGD, and the relevant definitions are as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD) or the remaining lifetime (Lifetime PD) of the obligation.
- The EAD is the amounts the Group expects to be repaid at the time of default.
- LGD is expressed as a percentage loss per unit of exposure at the time of default.

The ECL is determined by projecting the PD, LGD and EAD for individual future exposure, which effectively calculates the ECL for each future month.

The Lifetime PD is based on expiry information derived from 12M PD. Maturity analysis covers the change of loan default situation from initial recognition to maturity. Maturity portfolio is based on historical observed data with the assumption of same portfolio and identical credit rating assets. The above analysis is supported by historical data.

The Group determines LGD based on factors affecting recovery after default, which vary by product type.

Forward-looking economic information should be considered in determining the 12M and lifetime ECL.

There have been no significant changes in estimation techniques or significant assumptions during the reporting period.

Forward-looking information incorporated in the ECL models

Both the assessment of SICR and the calculation of ECL incorporate forward-looking information. The Group identifies the key economic indicators impacting credit risk and ECL for each portfolio through historical data analysis.

The Group has selected a series of macroeconomic indicators based on industry best practices and the Group's internal experts' judgement, which includes GDP, industrial added value growth rate and CPI growth rate, etc. to establish statistical relationship between actual PD and macro indicators for each model exposure, and calculate forward-looking PD by using forecasted economic indicators.

In addition to the base economic scenario, the Group has also set up other scenarios based on analysis of each major product type. The number and attributes of scenarios are reassessed at each reporting date. As at 31 December 2019 and 31 December 2018, the scenario weightings are determined by combination of statistical analysis and expert judgement, taking into account of the range of possible outcomes represented by scenarios. The Group adopts the base and lifetime PD with scenario weightings, along with qualitative and upper limit criteria to determine whether the credit risk has increased significantly. The determination of financial instrument stage indicates the measurement of the loss allowance at an amount equal to the 12-month or lifetime ECL accordingly. The Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3).

The Group considers these projections have represented the best estimate of the possible outcomes and analyses the non-linearities and asymmetries within the Group's different portfolios to determine that selected scenarios adequately represent scenarios that might occur. Similar to other economic projections, there are inherent uncertainties regarding estimates of projected values and likelihood of occurrence, thus substantial differences may occur between actual results and projections.

Combination method for evaluation of expected credit risk

When analysing the relevance of ECL with macroeconomic indicators, the Group has classified the assets with similar credit risk characteristics into the same portfolio. The Group has obtained sufficient information to ensure the statistical reliability for the portfolio classification. Where sufficient information is not available internally, the Group establishes the model with reference to internal or external supplementary data. The characteristics and any supplementary data used to determine portfolio classification are outlined below:

Corporate loans and financial investments

- Industry
- Collateral type
- Retail loans
- Product type (i.e. mortgage loans, consumer loan and credit card)
- Repayment type
- Utilisation percentage range
- Loan to value ratio range

(4) Maximum exposure to credit risk

Financial assets and guarantee commitment subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The book value of financial assets below represents the Group's maximum exposure to credit risk on these assets.

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central bank	471,741	-	-	471,741
Deposits with banks and other financial institutions	103,725	30	-	103,755
Placements with banks and other financial institutions	172,607	-	-	172,607
Financial assets purchased under resale agreements	2,873	-	-	2,873
Loans and advances to Customers measured at:				
- Amortized cost	3,324,258	114,164	23,654	3,462,076
- FVOCI	412,457	188	290	412,935
Financial investment				
- Debt investments	1,071,351	1,052	2,524	1,074,927
- Other debt investments	495,853	879	776	497,508
Other financial assets	109,713	3,963	1,242	114,918
Total	6,164,578	120,276	28,486	6,313,340

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central bank	437,687	-	-	437,687
Deposits with banks and other financial institutions	94,284	-	-	94,284
Placements with banks and other financial institutions	142,251	-	-	142,251
Financial assets purchased under resale agreements	11,573	-	-	11,573
Loans and advances to Customers measured at:				
- Amortized cost	3,056,361	130,846	18,647	3,205,854
- FVOCI	249,105	48	-	249,153
Financial investment				
- Debt investments	1,137,024	5,337	1,888	1,144,249
- Other debt investments	378,414	446	-	378,860
Other financial assets	67,402	2,425	330	70,157
Total	5,574,101	139,102	20,865	5,734,068

	31 December 2019 Maximum exposure to credit risk	31 December 2018 Maximum exposure to credit risk
Commitment and guarantee		
Bank acceptance notes	471,274	418,035
Letters of credit issued	162,001	160,819
Letters of guarantee issued	87,542	100,206
Credit cards and other commitments	455,179	349,929
Total	1,175,996	1,028,989

(5) Credit-impaired loans and advances to customers

The Group closely monitors collateral held for financial assets considered to be credit-impaired, because the Group is more likely to confiscate these collateral to reduce potential credit losses comparing to other collaterals. As at 31 December 2019, carrying amount of the Group's loans and advances to customers that are credit-impaired is RMB 83,999 million (31 December 2018: RMB 72,251 million), in which the loans covered by collaterals are amounting to RMB 30,551 million (31 December 2018: RMB 21,880 million).

When the Group is unable to cover the whole or part of the financial assets after implementation of necessary procedures, and the financial assets meet the write-off conditions defined by the Ministry of Finance, the Group writes off the financial assets.

(6) Bonds and other investments

The table below analyses the Group's investment securities by external rating agencies, including S&P or equivalent credit agencies identified by the PBOC.

	31 December 2019			
Investments denominated in RMB	Trading assets	Debt investments	Other debt investments	Total
Medium or long term				
AAA	14,096	398,495	146,716	559,307
AA+ to AA-	442	23,730	5,135	29,307
A+ to A-	-	-	187	187
Short term				
A-1	2,126	-	966	3,092
Unrated-Bonds	111,284	651,488	274,233	1,037,005
	127,948	1,073,713	427,237	1,628,898

Investments denominated in foreign currencies	31 December 2019 Trading assets	Debt investments	Other debt investments	Total
AAA	1,819	31	324	2,174
AA	7	-	477	484
A and below A	2,540	324	18,873	21,737
Unrated-Bonds	494	859	50,597	51,950
	4,860	1,214	70,271	76,345

Investments denominated in RMB	31 December 2018 Trading assets	Debt investments	Other debt investments	Total
Medium or long term				
AAA	5,459	96,685	78,567	180,711
AA+ to AA-	3,491	48,954	6,751	59,196
A+ to A-	-	108	210	318
Short term				
A-1	9,705	219	2,889	12,813
Unrated-Bonds	105,088	995,305	235,386	1,335,779
	123,743	1,141,271	323,803	1,588,817

Investments denominated in foreign currencies	31 December 2018 Trading assets	Debt investments	Other debt investments	Total
AAA	62	31	2,050	2,143
AA	83	1,138	2,368	3,589
A and below A	929	1,401	3,380	5,710
Unrated-Bonds	646	408	47,259	48,313
	1,720	2,978	55,057	59,755

2 Market risk

Market risk is the risk of losses of on and off-balance sheet businesses arising from adverse movements in market prices, such as interest rates, exchange rates, equity and commodities. Both the Group's trading book and banking book is exposed to market risk, which mainly consists of interest rate risk, currency risk and commodity price risk. The Group considers the exposure to the commodity price risk to be insignificant.

The Board of Directors of the Bank is ultimately responsible for monitoring the market risk management and ensuring the Group can effectively identify, measure, monitor and control the market risk associated with the Group's business activities. Under the authorisation of the Board of Directors, the senior management of the Group is responsible for establishing the group-wide market risk management system, organisational structure with well-defined roles and responsibilities, authorisation structures and accountability mechanism. Relevant departments of headquarters are responsible for carrying out detailed market risk management activities including policies and procedures, measurement approaches and models, analyses and reporting and monitoring of various limits in order to timely and accurately identify, measure, monitor and control the market risk exposures in respective business areas and reporting to the senior management and Board of Directors on timely basis.

Meanwhile, the established internal controls and independent inspections are integrated in the group-wide market risk management system. Relevant business units are responsible for executing the daily control activities. A three-line defence system includes the business units as the first line defence, the market risk management and compliance department as the second line defence and the review department as the third line defence.

The Group measures market risk based on predetermined benchmarks. The major measurement approaches include stress testing, analysis on value at risk, back testing, gap analysis and sensitivity analysis etc. The market risk of new products and businesses should be identified before these new products and businesses are launched according to relevant policies.

(1) Currency risk

The Group mainly operates in the PRC and its main business activities are conducted in RMB. Majority of its foreign currency business are conducted in USD. The table below summarises the Group's exposure to currency risk. Included in the table are the Group's financial assets and liabilities at carrying amounts in RMB, categorised by original currency.

	31 December 2019				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and deposits with central bank	460,186	12,480	4,873	314	477,853
Deposits with banks and other financial institutions	48,914	47,585	1,378	5,878	103,755
Placements with banks and other financial institutions	117,756	44,961	9,512	378	172,607
Derivative financial assets	37,897	251	556	15	38,719
Financial assets purchased under resale agreements	2,873	-	-	-	2,873
Loans and advances to customers	3,734,284	107,188	25,685	11,034	3,878,191
Financial investments:					
- Trading assets	496,006	9,091	221	-	505,318
- Debt investments	1,073,713	577	606	31	1,074,927
- Other debt investments	427,237	64,544	2,498	3,229	497,508
- Other equity investments	5,794	-	-	-	5,794
Other financial assets	74,871	35,094	2,665	2,288	114,918
Total financial assets	6,479,531	321,771	47,994	23,167	6,872,463
Borrowing from central bank	233,423	-	-	-	233,423
Deposits from banks and other financial institutions	953,874	28,715	15,227	3,012	1,000,828
Placements from banks and other financial institutions	81,887	72,587	4,697	3,370	162,541
Financial liabilities at profit or loss	8,327	14,968	-	-	23,295
Derivative financial liabilities	40,378	560	558	7	41,503
Financial assets sold under repurchase agreement	213,340	14,243	-	-	227,583
Deposits from customers	3,425,104	204,740	25,181	6,817	3,661,842
Debt securities issued	968,868	33,937	697	-	1,003,502
Other financial liabilities	33,957	1,843	266	396	36,462
Total financial liabilities	5,959,158	371,593	46,626	13,602	6,390,979
Net position of financial instruments	520,373	(49,822)	1,368	9,565	481,484
Currency derivatives	(53,342)	56,955	1,222	(3,978)	857
Credit commitments	1,102,487	58,105	8,164	7,240	1,175,996

	31 December 2018				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and deposits with central bank	436,007	7,237	185	294	443,723
Deposits with banks and other financial institutions	48,717	34,071	5,982	5,514	94,284
Placements with banks and other financial institutions	90,282	38,520	12,189	1,260	142,251
Derivative financial assets	37,153	5,927	40	154	43,274
Financial assets purchased under resale agreements	11,573	-	-	-	11,573
Loans and advances to customers	3,324,428	100,600	19,957	10,504	3,455,489
Financial investments:					
- Trading assets	386,144	9,450	74	-	395,668
- Debt investments	1,141,271	1,795	207	976	1,144,249
- Other debt investments	323,803	45,891	6,838	2,328	378,860
- Other equity investments	4,038	-	-	-	4,038
Other financial assets	20,302	49,563	227	65	70,157
Total financial assets	5,823,718	293,054	45,699	21,095	6,183,566
Borrowing from central bank	221,003	-	-	-	221,003
Deposits from banks and other financial institutions	1,008,545	45,341	11,965	1,918	1,067,769
Placements from banks and other financial institutions	63,337	75,743	6,588	2,954	148,622
Financial liabilities at profit or loss	18,435	16,477	-	-	34,912
Derivative financial liabilities	37,411	4,976	83	323	42,793
Financial assets sold under repurchase agreement	109,984	9,580	-	-	119,564
Deposits from customers	3,039,761	183,701	23,323	6,530	3,253,315
Debt securities issued	812,380	23,455	4,856	749	841,440
Other financial liabilities	29,600	1,018	3	329	30,950
Total financial liabilities	5,340,456	360,291	46,818	12,803	5,760,368
Net position of financial instruments	483,262	(67,237)	(1,119)	8,292	423,198
Currency derivatives	(133,326)	126,067	3,770	(11,914)	(15,403)
Credit commitments	957,962	61,623	1,158	8,246	1,028,989

The Group measures the possible effect on net profit arising from foreign exchange rate fluctuation using sensitivity analysis. The table below shows the result of sensitivity analysis of the balance sheet date.

Net profit	31 December 2019		31 December 2018	
	Exchange rate fluctuation %		Exchange rate fluctuation %	
(Decrease) / Increase	-1%	1%	-1%	1%
USD against RMB	(54)	54	(296)	296
Other currencies against RMB	(61)	61	30	(30)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities, and calculated the impact on the net profit from changes in exchange rates of other foreign currencies against RMB. The assumptions are shown as below:

- Exchange rate sensitivity represents the exchange gain or loss resulting from the 1% change in daily closing exchange rates (middle) on the financial reporting date;
- Changes in exchange rates of other foreign currencies means the exchange rates of other foreign currencies against RMB are fluctuating simultaneously and in the same direction;
- Foreign currency exposure contains spot exchange exposure and forward exchange exposure. Based on the above assumption, the actual exchange gains or losses may differ from the sensitivity analysis results.

(2) Interest rate risk

Interest rate risk is the risk of losses in overall earnings and economic value arising from adverse movements in factors such as interest rates, term structure, etc., including interest rate risk from bank book and trading book respectively.

The Group determines the loan interest rate in accordance with the relevant provisions of the PBOC.

The Group's interest rate risk mainly results from re-pricing risk of bank book. The Group considers its exposure to the interest rate risk of trading book to be insignificant. The Group has established an internal transfer pricing system, which enables the Group to manage the interest rate risk of bank book centrally. The Group measures and monitors interest rate risk in trading accounts using value-at-risk and sensitivity analysis etc.

The table below summarises the Group’s exposures to interest rate risk. The table presents the Group’s assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	31 December 2019						
	Within a month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and deposits with central bank	457,557	-	-	-	-	20,296	477,853
Deposits with banks and other financial institutions	64,729	10,998	27,530	-	-	498	103,755
Placements with banks and other financial institutions	40,821	37,215	72,818	20,293	-	1,460	172,607
Derivative financial assets	-	-	-	-	-	38,719	38,719
Financial assets purchased under resale agreements	2,433	426	-	-	-	14	2,873
Loans and advances to customers	1,944,856	471,346	1,261,633	155,516	30,376	14,464	3,878,191
Financial investments:							
Trading assets	8,513	4,632	39,650	39,121	21,594	391,808	505,318
Debt investments	48,083	36,282	191,243	510,980	272,557	15,782	1,074,927
Other debt investments	4,144	10,748	57,516	277,470	140,382	7,248	497,508
Other equity investments	-	-	-	-	-	5,794	5,794
Other financial assets	46,030	1,337	16,065	-	-	51,486	114,918
Total financial assets	2,617,166	572,984	1,666,455	1,003,380	464,909	547,569	6,872,463
Liabilities							
Borrowing from central bank	6,880	10	223,799	-	-	2,734	233,423
Deposits from banks and other financial institutions	546,133	211,843	240,288	-	-	2,564	1,000,828
Placements from banks and other financial institutions	83,907	30,630	40,909	6,171	378	546	162,541
Financial liabilities at profit or loss	-	-	-	-	-	23,295	23,295
Derivative financial liabilities	-	-	-	-	-	41,503	41,503
Financial assets sold under repurchase agreements	182,515	24,038	20,920	-	-	110	227,583
Deposits from customers	2,188,505	422,188	492,649	524,303	208	33,989	3,661,842
Debt securities issued	87,959	221,984	451,899	88,965	147,819	4,876	1,003,502
Other financial liabilities	1,495	-	728	-	-	34,239	36,462
Total financial liabilities	3,097,394	910,693	1,471,192	619,439	148,405	143,856	6,390,979
Total interest repricing gap	(480,228)	(337,709)	195,263	383,941	316,504	403,713	481,484

	31 December 2018						
	Within a month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and deposits with central bank	428,273	-	-	-	-	15,450	443,723
Deposits with banks and other financial institutions	62,828	10,530	20,525	-	-	401	94,284
Placements with banks and other financial institutions	28,429	15,254	79,517	17,787	-	1,264	142,251
Derivative financial assets	-	-	-	-	-	43,274	43,274
Financial assets purchased under resale agreements	11,568	-	-	-	-	5	11,573
Loans and advances to customers	2,030,010	357,903	882,466	127,754	45,733	11,623	3,455,489
Financial investments:							
Trading assets	4,199	6,745	35,445	37,082	25,924	286,273	395,668
Debt investments	64,785	92,905	149,392	533,626	288,693	14,848	1,144,249
Other debt investments	22,561	8,912	51,610	179,288	111,617	4,872	378,860
Other equity investments	-	-	-	-	-	4,038	4,038
Other financial assets	44,677	1,067	1,985	-	-	22,428	70,157
Total financial assets	2,697,330	493,316	1,220,940	895,537	471,967	404,476	6,183,566
Liabilities							
Borrowing from central bank	9,020	30,090	178,630	-	-	3,263	221,003
Deposits from banks and other financial institutions	819,520	108,817	135,176	-	-	4,256	1,067,769
Placements from banks and other financial institutions	75,330	33,977	32,852	5,431	499	533	148,622
Financial liabilities measured at profit or loss	-	-	10	8,688	603	25,611	34,912
Derivative financial liabilities	-	-	-	-	-	42,793	42,793
Financial assets sold under repurchase agreements	87,767	11,747	19,936	-	-	114	119,564
Deposits from customers	1,945,923	383,651	659,481	232,916	5,047	26,297	3,253,315
Debt securities issued	49,817	249,836	320,170	117,176	100,355	4,086	841,440
Other financial liabilities	729	970	724	-	-	28,527	30,950
Total financial liabilities	2,988,106	819,088	1,346,979	364,211	106,504	135,480	5,760,368
Total interest repricing gap	(290,776)	(325,772)	(126,039)	531,326	365,463	268,996	423,198

The Group performs sensitivity analysis to measure the potential impact of changes in interest rate on net profit and equity. The table below shows the results of the sensitivity analysis on the balance sheet date.

	31 December 2019		31 December 2018	
	Interest rate fluctuation (Basis points)		Interest rate fluctuation (Basis points)	
	-100	+100	-100	+100
(decrease) / increase in net profit	(2,112)	2,112	(2,964)	2,964
Increase / (decrease) in other comprehensive income under equity	14,327	(13,392)	10,637	(10,407)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis only measures the impact of changes in the interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period.

- Except for current deposits, assets and liabilities, whose maturity dates are within three months or more than three months but will be repricing within one year, are assumed to be re-priced in the middle of each specified period;
- The interest rates of current deposits and statutory deposit reserves with central bank remain unchanged;
- The yield curve moves in parallel with interest rate;
- There are no changes in assets and liabilities at year end. Based on the assumptions, the actual change in net profit may be different from the sensitivity analysis results.

Based on the assumption of the parallel movement of the yield curve along with interest rate change, the sensitivity analysis of the equity is derived by remeasuring the fair value of debt instruments at fair value through other comprehensive income as a result of changes in interest rate with a certain percentage.

3 Liquidity risk

The Group’s liquidity risk management is intended to meet the obligations to serve customers for withdrawal and payment, to achieve the balance between the total amount and structure of assets and liabilities; to reduce the liquidity cost, avoid liquidity crisis of the Group, and to effectively respond to systematic liquidity risk by active management.

The Group’s liquidity risk management system comprises mainly regular and contingent management system which includes 10 components, such as policies and strategies, management framework, regulations, management tools, daily operation, stress tests, system construction, risk monitoring, risk report, and emergency management and drilling.

Daily management of liquidity risk. During the reporting period, the Group kept layered beforehand balanced management of liquidity risk in line with the principle of aggregate balance and structural equilibrium; it carries out real-time monitoring on daily position accounts in local and foreign currencies, and made centralised allocation of positions in local and foreign currencies; it established a beforehand declaration system for large-amount positions, and established a monitoring mechanism for total liquidity level; it prepared a cash flow gap table on a daily basis, used the gap management method to predit cash flow gap changes in future assets and liabilities’s on and off-balance sheet items, and regularly (irregularly in case of major events) conducted liquidity risk assessment for assets and liabilities’ on and off-balance sheet items; the Group also considered its own liquidity risk policies and risk limit requirements to make active financing arrangement and make adjustments to asset and liability portfolios, enabling the business development to effectively meet the requirements for appropriate liquidty management goals.

The table below presents the undiscounted cash flows of the Group under contracts of non-derivative financial assets and liabilities by remaining contractual maturities.

	31 December 2019						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and deposits with central bank	-	477,853	-	-	-	-	477,853
Deposits with banks and other financial institutions	-	58,646	17,501	31,675	-	-	107,822
Placements with banks and other financial institutions	-	-	68,596	84,066	23,319	-	175,981
Financial assets purchased under resale agreements	-	-	2,878	-	-	-	2,878
Loans and advances to customers	62,353	-	923,781	1,526,946	1,123,540	1,196,731	4,833,351
Financial investments:							
Trading assets	630	391,808	12,383	41,829	82,327	26,497	555,474
Debt investments	7,270	-	88,640	220,592	604,506	313,863	1,234,871
Other debt investments	244	-	40,423	70,902	318,657	160,972	591,198
Other equity investments	-	5,794	-	-	-	-	5,794
Other financial assets	2,611	46,515	4,666	26,399	36,721	4,485	121,397
Total financial assets	73,108	980,616	1,158,868	2,002,409	2,189,070	1,702,548	8,106,619
Liabilities							
Borrowing from central bank	-	-	7,109	231,185	-	-	238,294
Deposits from banks and other financial institutions	-	328,115	432,812	244,886	-	-	1,005,813
Placements from banks and other financial institutions	-	-	114,019	43,090	6,399	477	163,985
Financial liabilities at profit or loss	-	3,258	16,429	1,820	1,214	574	23,295
Financial assets sold under repurchase agreements	-	-	206,788	21,120	-	-	227,908
Deposits from customers	-	1,552,581	1,073,724	566,834	547,530	247	3,740,916
Debt securities issued	-	-	300,735	472,658	126,479	165,821	1,065,693
Other financial liabilities	-	31,284	297	1,269	3,206	446	36,502
Total financial liabilities	-	1,915,238	2,151,913	1,582,862	684,828	167,565	6,502,406
Net liquidity	73,108	(934,622)	(993,045)	419,547	1,504,242	1,534,983	1,604,213
Derivative financial instruments							
-Inflow	-	-	163,350	209,554	50,990	27	423,921
-Outflow	-	-	164,686	211,447	50,829	82	427,044
Net value of derivative financial instruments	-	-	(1,336)	(1,893)	161	(55)	(3,123)
Credit commitments	-	432,004	277,360	424,134	48,272	924	1,182,694

	31 December 2018						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and deposits with central bank	-	443,723	-	-	-	-	443,723
Deposits with banks and other financial institutions	-	60,315	13,738	21,932	-	-	95,985
Placements with banks and other financial institutions	-	-	43,367	83,786	17,069	-	144,222
Financial assets purchased under resale agreements	-	-	11,575	-	-	-	11,575
Loans and advances to customers	71,057	-	869,961	1,054,759	1,022,783	1,386,969	4,405,529
Financial investments:							
Trading assets	1,583	286,273	10,816	38,598	44,340	29,469	411,079
Debt investments	4,351	-	159,543	197,612	640,567	326,329	1,328,402
Other debt investments	130	-	20,063	62,378	241,825	130,684	455,080
Other equity investments	-	4,038	-	-	-	-	4,038
Other financial assets	291	25,826	3,539	11,402	32,703	4,985	78,746
Total financial assets	77,412	820,175	1,132,602	1,470,467	1,999,287	1,878,436	7,378,379
Liabilities							
Borrowing from central bank	-	-	40,400	184,602	-	-	225,002
Deposits from banks and other financial institutions	-	719,855	212,466	139,684	-	-	1,072,005
Placements from banks and other financial institutions	-	-	110,154	33,773	6,374	704	151,005
Financial liabilities at profit or loss	194	25,611	-	10	8,495	603	34,913
Financial assets sold under repurchase agreements	-	-	99,606	20,194	-	-	119,800
Deposits from customers	-	1,487,391	1,119,643	681,214	246,550	6,241	3,541,039
Debt securities issued	-	-	283,043	333,567	156,216	124,000	896,826
Other financial liabilities	-	28,649	1,594	-	731	-	30,974
Total financial liabilities	194	2,261,506	1,866,906	1,393,044	418,366	131,548	6,071,564
Net liquidity	77,218	(1,441,331)	(734,304)	77,423	1,580,921	1,746,888	1,306,815
Derivative financial instruments							
-Inflow	-	-	559,678	278,921	43,570	-	882,169
-Outflow	-	-	558,572	278,411	44,045	29	881,057
Net value of derivative financial instruments	-	-	1,106	510	(475)	(29)	1,112
Credit commitments	-	358,270	287,927	342,327	42,651	2,488	1,033,663

4 Fair value of financial instruments

(1) Fair value hierarchy

According to the the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement, the levels are defined as follows:

- Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities. The financial instruments of this level include listed equity securities, debt instruments and open-end fund investments;

- Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities. The financial instruments of this level include most OTC derivatives and bonds. The sources of the yield curve or counterparty credit risk input value parameters are Thomson Reuters, Bloomberg and ChinaBond.com.

- Level 3 inputs: inputs that are unobservable for underlying assets or liabilities. The financial instruments of this level include equity instruments and debt instruments with significant non-observable components.

(2) Financial instruments not measured at fair value

Financial assets and financial liabilities not measured at fair value in the statement of financial position mainly include: deposits with central banks, deposits and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers (measured at amortized cost), financial investment measured at amortized cost, borrowing from central bank, deposits and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, lease liabilities and bonds issued.

The book value and corresponding fair value of financial investment not measured at fair value (financial investment measured at amortized cost) and bonds issued as at 31 December 2019 and 31 December 2018 are listed in the following table.

	31 December , 2019				
	Book Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets：					
Debt investments	1,074,927	-	804,624	282,208	1,086,832
Financial liabilities：					
Debt securities issued	1,003,502	-	1,012,359	-	1,012,359

	31 December 2018				
	Book Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets：					
Debt investments	1,144,249	-	856,521	292,683	1,149,204
Financial liabilities：					
Debt securities issued	841,440	-	844,012	-	844,012

(i) Debt investments

The fair value of debt investments is based on market quotes, and therefore belongs to the first level. If the relevant market information of debt investments cannot be obtained, then the discounted cash flow model is used for the valuation of fair value, which belongs to Level 3. Where applicable, the fair value of financial investments measured at amortized cost are determined with reference to the valuation results of China Central Depository & Clearing Co., Ltd., China Securities Index Co., Ltd. or Bloomberg, which belongs to Level 2.

(ii) Debt securities issued

The fair value of bonds issued is based on public quotes on the market. For bonds that cannot be quoted in the market, the fair value is determined by the discounted cash flow method and is based on the actual return rate matching the remaining maturity of the bond.

In addition to the above financial assets and financial liabilities, the fair value of other financial assets and financial liabilities that are not measured at fair value in the statement of financial position are deteremined with the discounted future cash flow method. There is no significant difference between their book value and fair value because these financial instruments have a shorter duration, or their interest rates fluctuate with market interest rates.

(3) Assests and liabilities measured at fair value a recurring basis

The following table presents the fair value information and the fair value hierarchy of the Group's assets and liabilities which are measured at fair value a recurring basis.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial investments:				
Trading assets				
- Fund	358,371	-	2,485	360,856
- Fund trust and asset management plan	-	17,273	48,040	65,313
- Bonds	2,310	60,572	407	63,289
- Equity	2,687	-	1,619	4,306
- Interbank Certificates of Deposit	-	4,424	-	4,424
- Wealth management products	-	-	90	90
- ABS	-	6	-	6
- Other	-	-	7,034	7,034
Other debt investments				
- Bonds	52,676	421,261	-	473,937
- Interbank Certificates of Deposit	-	11,653	-	11,653
- ABS	-	9,093	-	9,093
- Fund trust and asset management plan	-	344	2,481	2,825
Other equity investments				
- Equity	397	-	4,586	4,983
- Fund	-	-	811	811
Loans and advances to customers:				
FVOCI				
- Discounted bills	-	412,900	-	412,900
- Trade financing	-	35	-	35
FVTPL				
- Discounted bills	-	2,080	-	2,080
- Trade financing	-	1,100	-	1,100
Derivative financial assets	-	38,719	-	38,719
Total financial assets	416,441	979,460	67,553	1,463,454
Derivative financial liabilities	-	41,503	-	41,503
Trading liabilities				
- Financial liabilities related to precious metals	18,464	-	-	18,464
- Interest of other unitholders in consolidated structured entities	2,929	45	1,857	4,831
Total financial liabilities	21,393	41,548	1,857	64,798

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial investments:				
Trading assets				
- Fund	260,117	-	3,074	263,191
- Fund trust and asset management plan	-	18,531	52,600	71,131
- Bonds	174	54,158	-	54,332
- Equity	345	-	783	1,128
- Wealth management products	-	-	208	208
- Other	-	-	5,678	5,678
Other debt investments				
- Bonds and other debt instruments	35	376,338	-	376,373
- Fund trust and asset management plan	-	1,274	1,213	2,487
Other equity investments	398	-	3,640	4,038
Loans and advances to customers:				
FVOCI				
- Discounted bills	-	249,153	-	249,153
FVTPL				
- Discounted bills	-	482	-	482
Derivative financial assets	-	43,274	-	43,274
Total financial assets	261,069	743,210	67,196	1,071,475
Derivative financial liabilities	-	42,793	-	42,793
Trading liabilities				
- Financial liabilities related to precious metals	23,563	941	-	24,504
- Interest of other unitholders in consolidated structured entities	1,107	19	9,282	10,408
Total financial liabilities	24,670	43,753	9,282	77,705

The Group takes the date of the event that caused the transfer between levels as the date of the transfer. There is no transfer between the first and second levels this year.

(i) Level 2 Financial Instruments

The fair value of financial instruments that are not traded in an active market (such as OTC derivatives) is determined using valuation techniques. Valuation techniques use observable market data (if any) as much as possible, and rely as little as possible on the entity's specific estimates. If all significant inputs required to calculate the fair value of a financial instrument are observable data, the financial instrument is included in level 2. If one or more significant inputs are not based on observable market data, the financial instrument is included in level 3.

The financial instruments classified by the Group as level 2 mainly include bonds, foreign exchange forwards and swaps, interest rate swaps and foreign exchange options. The fair value of RMB bonds is determined according to the valuation results of China Central Depository & Clearing Co., Ltd., and the fair value of foreign currency bonds is determined according to Bloomberg's valuation results. Foreign exchange forwards and swaps, interest rate swaps, foreign exchange options are valued using cash flow discounts and the Blair-Scholes model. All significant valuation parameters are obtained from observable market information.

(ii) Level 3 Financial Instruments

The changes in the Group's Level 3 assets and liabilities as follows:

	Trading assets	Other debt investments	Other equity investments	Trading liabilities	Total
1 January 2019	62,343	1,213	3,640	(9,282)	57,914
Additions	20,152	3,048	1,431	(819)	23,812
Disposals and settlements	(23,946)	(2,124)	(44)	8,371	(17,743)
Total gains/(losses) recorded in profit or loss	1,126	342	44	(127)	1,385
Total gains/(losses) recorded in other comprehensive income	-	2	326	-	328
31 December 2019	59,675	2,481	5,397	(1,857)	65,696
Unrealised gains or losses recognised in profit or loss for the year ended 31 December 2019 for the positions held at 31 December 2019	(756)	-	-	(22)	(778)

	Trading assets	Other debt investments	Other equity investments	Trading liabilities	Total
1 January 2018	76,991	1,868	1,140	(13,194)	66,805
Disposals and settlements	24,792	362	1,985	(961)	26,178
Total gains/(losses) recorded in profit or loss	(40,263)	(1,221)	-	4,985	(36,499)
Total gains/(losses) recorded in other comprehensive income	823	211	-	(112)	922
Disposals and settlements	-	(7)	515	-	508
31 December 2018	62,343	1,213	3,640	(9,282)	57,914
Unrealised gains or losses recognised in profit or loss for the year ended 31 December 2018 for the positions held at 31 December 2018	823	-	-	(112)	711

The relevant information of Level 3 of fair value measurement using important unobservable input values is as follows:

31 December 2019	Fair value	Valuation method	Unobservable inputs
Financial investment:			
Trading assets			
- Fund trust and asset management plan	47,227	Income approach	Discount rate
	813	Refer to recent transactions	NA
- Equity	1,619	Income approach	Discount rate
- Fund	2,485	Refer to recent transactions	NA
- Bonds	407	Income approach	Discount rate
- Wealth management products	90	Income approach	Discount rate
- Other	7,034	Note 1	Note 1
	59,675		
Other debt investments			
- Fund trust and asset management plan	2,481	Income approach	Discount rate
Other equity investments			
- Equity	1,149	Refer to recent transactions	NA
	3,287	Market approach	Liquidity discount P/B ratio
	150	Market approach	Liquidity discount P/E ratio
- Fund	763	Refer to recent transactions	NA
	48	Market approach	Liquidity discount P/B ratio
	5,397		
Financial liabilities at fair value through profit or loss			
- Interest of other unit holders in consolidated structured entities	1,857	Note 2	Note 2

31 December 2018	Fair value	Valuation method	Unobservable inputs
Financial investment			
Trading assets			
- Fund trust and asset management plan	52,600	Income apporoach	Discount rate
- Fund	3,074	Refer to recent transaction	N/A
- Equity	783	Income apporoach	Discount rate
- Wealth management products	208	Income apporoach	Discount rate
- Other	5,678	Note 1	Note 1
	62,343		
Other debt investments			
- Fund trust and asset management plan	1,213	Income apporoach	Discount rate
Other equity investments			
- Equity			
	1,985	Refer to recent transaction	N/A
	1,346	Market approach	Liquidity discount P/B ratio
	309	Market approach	Liquidity discount P/E ratio
	3,640		
Financial liabilities at fair value through profit or loss			
- Interest of other unit holders in consolidated structured entities	9,282	Note 2	Note 2

Note1: Financial investments at fair value through profit and loss are products entrusted by the Group to manage by Changjiang Pension Insurance Co., Ltd. The product is ultimately invested in financial assets, and the total fair value of these financial assets equals to the fair value of the product. The calculation method of the fair value of these financial assets is as follows:

- Investment in money market funds: using market quotes as fair value;
- Investment in bonds: based on the yield of bonds with similar remaining maturity, using discounted cash flow method to determine the fair value;
- Financial investments measured at amortized cost: using discounted cash flow model with discount rate as unobservable input value.

Note2: The fair value of the interest of other unit holders in consolidated structured entities is the amount attributable to the investor of the structured entity based on the net value of the structured entity.

5 Offsetting of financial assets and financial liabilities

Some financial assets and financial liabilities in the Group follow executable net amount settlement arrangements or similar agreements. Such arrangements with the Group and counterparties normally allow the net amount settlement under agreements of both parties. If no agreement is reached, it would be settled in full amount. But one party could choose to settle in net amount under the condition that the other party violates the agreement. According to the requirements of the Accounting Standards for Business Enterprises, the Group did not offset these financial assets and financial liabilities.

As at 31 December 2019, the amount of the Group's financial assets and financial liabilities following executable net amount settlement arrangements or similar agreements is not significant.

6 Capital management

The objectives of the Group's capital management are to:

(1) Satisfy regulatory requirements for capital adequacy ratio on an ongoing basis, ensure operational compliance to ultimately optimise capital stock and structure.
(2) Ensure adequate capital for resisting corresponding risks, realise the operational safety, and keep capital at an adequate and reasonable level.
(3) Establish a capital allocation and management system that focuses on economic capital, optimise the resource allocation and management control mechanism at the group level, achieve capital intensive management to ultimately maximise shareholders' value.

The Group manages its capital structure and adjust it based on the changes in economic condition and the risk characteristics. Generally, the mechanism of adjusting the capital structure comprises dividend distribution policies and issuance of additional capital instruments such as tier 1 capital instruments and tier 2 capital instruments, etc.

In China, commercial banks should meet the requirements for capital adequacy ratio set out in the Administrative Measures on the Capital of Commercial Banks (for Trial Implementation). Specifically, for domestic systematically important banks, capital adequacy ratio of core tier 1 capital shall not be less than 8.50%, capital adequacy ratio of tier 1 capital shall not be less than 9.50% and capital adequacy ratio shall not be less than 11.50%. For banks not classified as systemically important banks, capital adequacy ratio of core tier 1 capital shall not be less than 7.50%, capital adequacy ratio of tier 1 capital shall not be less than 8.50% and capital adequacy ratio shall not be less than 10.50%.

	The Group	
	31 December 2019	31 December 2018
Core tier 1 capital - net	485,260	435,120
Tier 1 capital - net	545,555	465,398
Capital - net	655,695	589,308
Total risk weighted assets	4,731,354	4,311,886
Core tier 1 capital adequacy ratio	10.26%	10.09%
Tier 1 capital adequacy ratio	11.53%	10.79%
Capital adequacy ratio	13.86%	13.67%

(1) The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratios includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.

(2) The Group's Core Tier 1 Capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserve, general risk reserve, retained earnings, minority interests (to the extent permitted in the Core Tier 1 Capital under the Regulation).

(3) The Group's Deductible Items from Core Tier 1 Capital include other intangible assets (excluding land use rights) after deducting the related deferred tax liabilities.

(4) The Group's other Tier 1 Capital includes preference shares and minority interests to the extent permitted by the capital rules.

(5) The Group's Tier 2 Capital includes: Tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests to the extent permitted by the capital rules.

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardised approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk weighted Assets and Operational Risk-weighted Assets respectively.

XIII ASSET PLEDGED

Certain assets of the Group are pledged as collateral for financial liabilities, and the analysis of these assets are as follows:

	31 December 2019
Financial investments	473,693
Discounted bills	90,791
Bank loans	414
Total	564,898

XIV EVENTS AFTER THE REPORTING DATE

1 Profit distribution plan

The Bank convened the board of directors on 23 April 2020, approved the profit distribution plan for 2019 and submitted it to the annual general meeting for consideration and approval.

2 Matters concerning the disposal of equity in investment companies

According to the arrangements of the State Council and the China Securities Regulatory Commission, starting from 1 April 2020, the restrictions on the ratio of foreign shares of fund management companies will be removed nationwide. Shanghai International Trust Co., Ltd., a subsidiary of the Bank, received a notice from JPMorgan Asset Management that JPMorgan Asset Management intends to acquire the remaining shares held by Shanghai International Trust Co., Ltd. in China International Fund Management Co., Ltd. As of the reporting date, Shanghai International Trust Co., Ltd. held 51% of China International Fund Management Co., Ltd. and JPMorgan Asset Management (UK) Limited held 49% of China International Fund Management Co., Ltd. The Bank will initiate communication, negotiation, evaluation and listing of the above equity transfer based on regulatory requirements, state-owned asset management requirements and the *Articles of Association* based on mutually beneficial business principles.

3 Evaluation of the impact of COVID-19

Since the outbreak of COVID-19 in January 2020, prevention and control efforts are continuing nationally. The Bank will effectively implement the requirements of relevant regulatory agencies and strengthen financial support for epidemic prevention and control. The pneumonia epidemic will have a certain impact on the operations of global economic and business, which may affect the asset quality and asset return level of the Bank's credit assets and investment assets to a certain extent. The degree of impact will depend on the progress of epidemic prevention and control, duration of the epidemic situation and implementation of relevant regulations and policies by government. The Bank will continuously pay close attention to the development of pneumonia, assess and actively respond to its impact on the Bank's financial situation and financial performance, etc. As of the reporting date, the assessment is still in progress.

XV COMPARATIVE FIGURES

In order to be consistent with the presentation of financial statements for the current year, a number of comparative figures have been reclassified.

Shanghai Pudong Development Bank Co., Ltd.

Supplementary Information to the Financial Statements
For the year ended 31 December 2019

(Expressed in millions of RMB unless otherwise stated)

I Earnings per share

In accordance with "Regulation on the Preparation of Information Disclosures by Companies Issuing Securities No.9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2010 revised) (The Rules for the Information Disclosure and Reporting No.9) issued by the CSRC and relevant accounting standards, the Group's earnings per share are calculated as follows:

	2019	2018
Earnings per share before deducting extraordinary gains and losses		
- Net profit attributable to shareholders of the Bank	57,186	54,189
- Basic earnings per share attributable to shareholders of the Bank (in RMB)	1.95	1.85
- Diluted earnings per share attributable to shareholders of the Bank (in RMB)	1.92	1.85
Earnings per share after deducting extraordinary gains and losses		
- Net profit attributable to shareholders of the Bank	55,829	53,918
- Basic earnings per share attributable to shareholders of the Bank (in RMB)	1.90	1.84
- Diluted earnings per share attributable to shareholders of the Bank (in RMB)	1.87	1.84

II Return on equity

In accordance with "The Rules for the Information Disclosure and Reporting No.9" issued by the CSRC and relevant accounting standards, the Group's return on net assets are calculated as follows:

	2019	2018
Weighted net asset attributable to shareholders of the Bank	465,154	412,281
Before deducting extraordinary gains and losses		
- Net profit attributable to shareholders of the Bank	57,186	54,189
- Weighted average of return on net assets	12.29%	13.14%
After deducting extraordinary gains and losses		
- Net profit attributable to shareholders of the Bank	55,829	53,918
- Weighted average of return on net assets	12.00%	13.08%

III Extraoridinary gains and losses

Extraordinary gains and losses listed below are presented in accordance with Interpretive Pronouncement on the Preparation of Information Disclosure of Companies Issuing Public Shares No.1 – Extraordinary Gains and Losses:

	2019	2018
Profit arising from the disposal of fixed assets	1,470	51
Government grants	485	515
Other non - operating expense	(47)	(59)
Tax effect	(488)	(147)
Total	1,420	360
Including：		
Net amount of extraordinary gains and losses affecting the net profit of the Bank's shareholders	1,357	271
Net amount of extraordinary gains and losses affecting the net profit of the Group's minority shareholders	63	89

Gains on fair value changes of financial assets and liabilities at fair value through profit and loss arising from the Group’s normal operations, and investment income from disposals of financial assets and liabilities at fair value through profit and loss and debt instruments measured at FVOCI are not disclosed as non-recurring gains or losses.

IV Leverage ratio

For more detailed information about leverage ratios, please refer to the column on investor relations at the Bank's website: www.spdb.com.cn.

V Regulatory capital

For more information about regulatory capital, please refer to the column on investor relations at the Bank's website: www.spdb.com.cn.

Shanghai Pudong Development Bank Co., Ltd.

Financial Statements and Auditor's Report
For the year ended 31 December 2019

English translation of the Financial Statements

IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION AND ITS ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL

Independent Auditor's Report
To the Shareholders of Shanghai Pudong Development Bank Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

Opinion

We have audited the financial statements of Shanghai Pudong Development Bank Co., Ltd. ("the Bank") and its subsidiaries ("the Group") set out on pages 1 to 136, which comprise the consolidated and the Bank's statement of financial position as at 31 December 2019, the consolidated and the Bank's statement of profit or loss and other comprehensive income, the consolidated and the Bank's statement of changes in equity and the consolidated and the Bank's statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the consolidated and the Bank's financial positionas at 31 December 2019 and of its consolidated and the Bank's financial performance and its consolidated and the Bank's cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises issued by the the Ministry of Finance of the People's Republic of China.

Basis for opinion

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

Key audit matters

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

Key audit matters (continued)

Measurement of expected credit losses ("ECL") for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments

Refer to Notes II.4(8)(vi), II.4(30)(i), III.13, III.14(b), III.26, VIII.1(1), VIII.1(3), VIII.1(4) and VIII.1(5) to the financial statements.

The Key Audit Matter	How the matter was addressed in our audit
Measurement of ECL for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments involves significant management judgments. The Group established internal controls for the ECL measurement.	Our audit procedures to assess ECL for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments included the following: • Understanding and evaluating the design and operating effectiveness of the key internal controls over financial reporting related to ECL measurement for loans and advances to customers, financial investment at amortized cost, financial guarantees and loan commitments: - Understanding and evaluating the design and operating effectiveness of the key internal controls of the financial reporting process, including credit approval, recording, monitoring, periodic re-evaluation of credit grading, and the accrual of loss allowance; in particular, we assessed the design and operating effectiveness of the key internal controls over financial reporting related to the classification of loans by credit quality across all stages, financial investment at amortized cost, credit quality of financial guarantees and loan commitments; - Understanding and evaluating the design and operating effectiveness of information system controls, including: general information technology control, completeness of key internal historical data, inter-system data transmission, mapping of parameters of ECL model, and system calculation logic of loss allowance for ECL for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments, based on the works of our Information Technology Risk Management ("IRM") Specialists and Financial Risk Management ("FRM") Specialists;

Key audit matters (continued)

<table>
<tr><th colspan="2">Measurement of expected credit losses ("ECL") for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments (continued)</th></tr>
<tr><td colspan="2">Refer to Notes II.4(8)(vi), II.4(30)(i), III.13, III.14(b), III.26, VIII.1(1), VIII.1(3), VIII.1(4) and VIII.1(5) to the financial statements.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group assesses whether the credit risks of loans and advances to customers, financial investments at amortized cost and financial guarantees and loan commitments have increased significantly since their initial recognition, and applies a three – stage impairment model to measure their ECL. For loans and advances to customers, financial investments at amortized cost and financial guarantees and loan commitments, 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.</td><td>Evaluating the reliability of ECL models and parameters used, including prudently evaluating probability of default, loss given default, exposure at default, discount rate, forwar adjustment and other adjustment factors, and evaluating the reasonableness of key management jugments involved, based on the work of FRM Specialists;
Evaluating the completeness and accuracy of key data used by the ECL models. For key internal data related to the original business files, we compared the respective amount of loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments used by the management to evaluate the loss allowances with the general ledger amounts, in order to assess the completeness of lists. Select samples and compare the information of the loans and advances to customers and financial investment at amortized cost, financial guarantees and loan commitments with relevant agreements and other relevant documents to assess the accuracy of the lists. For key external data, we compared it with public information to check its accuracy;
Evaluating key parameters involving subjective judgments by seeking evidence from external sources and comparing it with internal records including historical loss scenarios and security types. As part of these procedures, we inquired management about the reasons for modifictions of key estimates and parameters input, and assessed the consistency of judgement used by management;</td></tr>
</table>

Key audit matters (continued)

Measurement of expected credit losses ("ECL") for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments (continued)

Refer to Notes II.4(8)(vi), II.4(30)(i), III.13, III.14(b), III.26, VIII.1(1), VIII.1(3), VIII.1(4) and VIII.1(5) to the financial statements.

The Key Audit Matter	How the matter was addressed in our audit
The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following: (1) Division of business operations sharing similar credit risk characteristics into the same group, selection of appropriate models and determination of relevant key parameters; (2) Criteria for determining a significant increase in credit risk, default and credit impairments; (3) Application of economic indicators for prospective measurement, economic scenarios and their respective weightings.	• Comparing the predictive economic indicators used by the management to measure the ECL in the previous year with the actual situation of the current year to assess the rationality of the estimate; • For key internal data which was generated by the system calculation, we selected samples and compared the input data used in the system with the original business files to evaluate the accuracy of the data input. In addition, based on the work of IRM Specialists, we selected samples and tested the logic of preparing overdue information of loans and advances to customers; • Selecting samples to assess the reasonableness of management judgement on whether the credit risk has increased significantly since initial recognition and whether credit impairment has occurred. We analysed the loan portfolio by industry sector to select samples in industried sensitive to the current business cycle and regulatory policies. We also focused on loans with perceived higher risk and selected samples from non-performing loans, overdue but performing loans and borrowers with warning signs, adverse press coverage or split ratings. On the basis of sample selection, we reviewed the business documents, checked the overdue information, inquired customer managers about about the operation conditions of borrowers, checked the financial information of the borrower and searched for market information about the borrower's business and operation;

Key audit matters (continued)

Measurement of expected credit losses ("ECL") for loans and advances to customers, financial investments at amortized cost, financial guarantees and loan commitments (continued)	
Refer to Notes II.4(8)(vi), II.4(30)(i), III.13, III.14(b), III.26, VIII.1(1), VIII.1(3), VIII.1(4) and VIII.1(5) to the financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
Measurement of ECL for loans and advances to customers, financial investment at amortized cost, financial guarantees and loan commitments is subject to inherent uncertainty and involves management judgments, and has an important influence on operation conditions and capital positions of the Group. In view of these reasons, we identified ECL measurement as a key audit matter.	• Performing credit reviews for the selected credit impaired loans and advances to customers and financial investment at amortized cost by assessing the forecast of recoverable cash flows through inquiry, applying professional judgment and performing independent research. We also evaluated the timing and realisation method of collaterals and considered other sources of repayment asserted by the management. We Assessed the consistency of the application of key assumptions made by the management and compared the assumptions with our data sources; • Selecting samples and reviewing the calculation of ECL to assess the application of ECL model by the Group; • Evaluating whether the disclosures relating to ECL meet the disclosure requirements of the prevailing accounting standards.

Key audit matters (continued)

<table>
<tr><th colspan="2">Consolidation of structured entities</th></tr>
<tr><td colspan="2">Refer to Notes II.4(1), II.4(30)(iv) and III.36 to the financial statements.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.

The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity, through issuing a wealth management product, an asset-backed security, a trust plan, an asset management plan or a securities investment fund.</td><td>Our audit procedures to assess the recognition of interests in and consolidation of structured entities included the following:

• Making enquiries of management and inspecting documents relating to the judgment process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard;

• Selecting significant structured entities of each key product type and performing the following procedures for each structured entity selected:

- Inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;

- Inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to the exposure, or rights, to variable returns from the Group's involvement in such an entity;</td></tr>
</table>

Key audit matters (continued)

Consolidation of structured entities (continued)	
Refer to Notes II.4(1), II.4(30)(iv) and III.36 to the financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
In determining whether the Group should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions. We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.	• Selecting significant structured entities of each key product type and performing the following procedures for each structured entity selected (continued): - Evaluating management's analysis of the structured entity, including qualitative analysis and the calculation of the magnitude and variability associated with the Group's economic interests in the structured entity, to assess management's judgement over the Group's ability to influence its own returns from the structured entity; - Assessing management's judgement over whether the structured entity should be consolidated or not; • Evaluating the disclosures relating to structured entities in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

Key audit matters (continued)

<table>
<tr><td colspan="2">Fair value of financial instruments</td></tr>
<tr><td colspan="2">Refer to Notes II.4(8), II.4(22), II.4(30)(ii) and VIII.4 to the financial statements.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Financial instruments carried at fair value account for a significant part of the Group's assets and liabilities. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income.

The valuation of the Group's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where such observable data is not readily available, as in the case of level 3 financial instruments, then estimates need to be developed which can involve significant management judgement.

The Group has developed its own models to value certain level 2 and level 3 financial instruments, which also involve significant management judgement.

We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.</td><td>Our audit procedures to assess the fair value of financial instruments included the following:

• Assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments;

• Assessing the level 1 fair values, on a sample basis, by comparing the fair values applied by the Group with publicly available market data;

• Engaging our Financial Risk Management specialists to assist us in performing independent valuations, on a sample basis, of level 2 and level 3 financial instruments and comparing our valuations with the Group's valuations. Our procedures included comparing the valuation model of the Group with the industry-wide accepted valuation methodology, developing parallel models, obtaining inputs independently and verifying the inputs;

• Assessing the appropriate application of fair value adjustment that form an integral part of fair values, inquiring of management about any changes in the fair value adjustment methodologies and assessing the appropriateness of the inputs applied; and

• Assessing whether the disclosures in the consolidated financial statements appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.</td></tr>
</table>

Other Information

Management is responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor’s report thereon.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by IASB, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management 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 Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 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 financial statements, including the disclosures, and whether the 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 financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 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 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 Shi Hai Yun.

KPMG Huazhen LLP

Beijing, the People's Republic of China

23 April 2020

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Statement of Profit or Loss
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	2019	2018	2019	2018
Interest income		282,094	267,488	277,824	263,315
Interest expense		(153,244)	(155,644)	(150,955)	(153,198)
Net interest income	III.1	128,850	111,844	126,869	110,117
Fee and commission income		51,196	46,205	47,188	42,247
Fee and commission expense		(10,749)	(7,196)	(10,818)	(7,200)
Net fee and commission income	III.2	40,447	39,009	36,370	35,047
Net trading income	III.3	15,864	16,175	14,664	15,724
Net gains arising from financial investments	III.4	1,613	1,411	1,430	1,280
Other operating income		3,729	2,388	2,027	969
Operating expenses	III.5	(46,318)	(45,287)	(42,757)	(42,039)
Impairment losses	III.6	(74,707)	(60,420)	(73,181)	(59,823)
Share of profits from associates and joint ventures		171	164	158	176
Profit before income tax		69,649	65,284	65,580	61,451
Income tax expense	III.7	(10,269)	(8,769)	(9,286)	(7,826)
Net profit		59,380	56,515	56,294	53,625
Net profit attributable to:					
Shareholders of the Bank		58,771	55,914	56,294	53,625
Non-controlling interests		609	601	-	-
Earnings per share attributable to the shareholders of the Bank：					
Basic earnings per share (expressed in RMB)	III.8	1.94	1.85		
Diluted earnings per share (expressed in RMB)	III.8	1.92	1.85		

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank’s Statement of Comprehensive Income
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	2019	2018	2019	2018
Net profit		59,380	56,515	56,294	53,625
Other comprehensive income	III.33				
Items that may be reclassified to profit or loss					
Changes in fair value of debt investments at fair value through other comprehensive income		1,762	6,324	1,541	6,518
Credit impairment allowance of debt investments at fair value through other comprehensive income		645	62	329	(71)
Cash flow hedge reserve		(2)	-	-	-
Exchange differences from the translations of foreign operations		(41)	266	(72)	110
Items that will not be reclassified to profit or loss					
Changes in fair value of equity investments at fair value through other comprehensive income		245	331	245	331
Other comprehensive income,net of tax		2,609	6,983	2,043	6,888
Total comprehensive income		61,989	63,498	58,337	60,513
Total comprehensive income attributable to：					
Shareholder of the Bank		61,379	62,893	58,337	60,513
Non-controlling interests		610	605	-	-

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's statement of Financial position
as at 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Assets					
Cash and deposits with central bank	III.9	477,853	443,723	472,824	439,900
Deposits and placements with banks and other financial institutions	III.10	276,362	236,535	274,033	232,916
Precious metals		30,870	10,475	30,870	10,475
Derivative financial assets	III.11	38,719	43,274	38,719	43,274
Financial assets purchased under resale agreements	III.12	2,873	11,573	2,873	11,573
Loans and advances to customers	III.13	3,878,191	3,455,489	3,857,413	3,434,578
Financial investments：	III.14				
-Financial investments at fair value through profit or loss		505,318	395,668	488,178	382,492
-Financial investments at amortized cost		1,074,927	1,144,249	1,072,249	1,133,993
-Financial investments at fair value through other comprehensive income		503,302	382,898	497,178	378,209
Investments in associates and joint ventures	III.15	2,049	1,968	1,841	1,757
Investments in controlled subsidiaries		-	-	24,307	24,307
Fixed assets	III.16	30,383	26,492	14,852	14,885
Intangible assets	III.17	10,357	9,962	8,067	7,655
Goodwill	III.18	6,981	6,981	-	-
Deferred income tax assets	III.19	45,709	36,877	44,763	36,078
Other assets	III.20	129,404	83,442	71,126	30,776
Total assets		7,013,298	6,289,606	6,899,293	6,182,868

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's statement of Financial position (continued)
as at 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Liabilities					
Borrowing from central bank		233,423	221,003	232,934	220,263
Deposits and placements from banks and other financial institutions	III.21	1,163,369	1,216,391	1,126,529	1,185,333
Financial liabilities at fair value through profit or loss	III.22	23,295	34,912	18,464	24,504
Derivative financial liabilities	III.11	41,503	42,793	41,501	42,793
Financial assets sold under repurchase agreements	III.23	227,583	119,564	227,583	119,564
Deposits from customers	III.24	3,661,842	3,253,315	3,634,003	3,222,589
Income tax payable		23,240	16,657	22,651	16,182
Debt securities issued	III.25	1,003,502	841,440	991,301	832,873
Deferred income tax liabilities	III.19	634	643	-	-
Provisions	III.26	6,698	4,747	6,697	4,742
Other liabilities	III.27	67,690	59,761	54,749	49,885
Total liabilities		6,452,779	5,811,226	6,356,412	5,718,728

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's statement of Financial position (continued)
as at 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Equity					
Share capital	III.28	29,352	29,352	29,352	29,352
Other equity instruments	III.29	62,698	29,920	62,698	29,920
Capital reserves	III.30	81,760	81,760	81,710	81,710
Surplus reserves	III.31	125,805	109,717	125,805	109,717
General risk reserve	III.32	76,249	75,946	74,900	74,900
Other reserves	III.33	7,267	4,659	6,670	4,627
Retained earnings	III.34	170,197	140,208	161,746	133,914
Equity attributable to the shareholders of the Bank		553,328	471,562	542,881	464,140
Non-controlling interests		7,191	6,818	-	-
Total equity		560,519	478,380	542,881	464,140
Total liabilities and equity		7,013,298	6,289,606	6,899,293	6,182,868

These financial statements were approved for issue by the Board of Directors of the Bank on 23 April 2020.

Chairman of the board of the directors:

President:

Chief Financial Officer:

Head of the finance and accounting department:

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank’s statement of Changes in Equity
as at 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	Equity attributable to the shareholders of the Bank									
	Ordinary Shares	Other equity instruments	Capital reserves	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 31 December 2018	29,352	29,920	81,760	109,717	75,946	4,659	140,208	471,562	6,818	478,380
Changes of accounting policies (Note II.2)	-	-	-	-	-	-	(393)	(393)	(13)	(406)
Balance at 1 January 2019	29,352	29,920	81,760	109,717	75,946	4,659	139,815	471,169	6,805	477,974
Net profit	-	-	-	-	-	-	58,771	58,771	609	59,380
Other comprehensive income	-	-	-	-	-	2,608	-	2,608	1	2,609
Total comprehensive income	-	-	-	-	-	2,608	58,771	61,379	610	61,989
Issurance of perpetual bonds	-	29,996	-	-	-	-	-	29,996	-	29,996
Equity increase due to issurance of convertible bonds	-	2,782	-	-	-	-	-	2,782	-	2,782
Non-controlling interests change due to subsidiaries’ capital increase	-	-	-	-	-	-	-	-	24	24
Appropriations to surplus reserves and general risk reserve	-	-	-	16,088	303	-	(16,391)	-	-	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(10,273)	(10,273)	-	(10,273)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(248)	(248)
Balance at 31 December 2019	29,352	62,698	81,760	125,805	76,249	7,267	170,197	553,328	7,191	560,519

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's statement of Changes in Equity (continued)
as at 31 December 2018
(Expressed in millions of RMB unless otherwise stated)

	Equity attributable to the shareholders of the Bank									
	Ordinary Shares	Other equity instruments	Capital reserves	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2018	29,352	29,920	81,760	94,198	75,702	(2,320)	104,717	413,329	5,645	418,974
Net profit	-	-	-	-	-	-	55,914	55,914	601	56,515
Other comprehensive income	-	-	-	-	-	6,979	-	6,979	4	6,983
Total comprehensive income	-	-	-	-	-	6,979	55,914	62,893	605	63,498
Non-controlling interests change due to subsidiaries' capital increase	-	-	-	-	-	-	-	-	799	799
Appropriations to surplus reserves and general risk reserve	-	-	-	15,519	244	-	(15,763)	-	-	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(2,935)	(2,935)	-	(2,935)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)	-	(1,725)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(231)	(231)
Balance at 31 December 2018	29,352	29,920	81,760	109,717	75,946	4,659	140,208	471,562	6,818	478,380

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's statement of Changes in Equity (continued)
as at 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	Share capital	Other equity instruments	Capital reserves	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Total
Balance at 31 December 2018	29,352	29,920	81,710	109,717	74,900	4,627	133,914	464,140
Changes of accounting policies (Note II.2)	-	-	-	-	-	-	(376)	(376)
Balance at 1 January 2019	29,352	29,920	81,710	109,717	74,900	4,627	133,538	463,764
Net profit	-	-	-	-	-	-	56,294	56,294
Other comprehensive income	-	-	-	-	-	2,043	-	2,043
Total comprehensive income	-	-	-	-	-	2,043	56,294	58,337
Issurance of perpetual bonds	-	29,996	-	-	-	-	-	29,996
Equity increase due to issurance of convertible bonds	-	2,782	-	-	-	-	-	2,782
Appropriations to surplus reserves	-	-	-	16,088	-	-	(16,088)	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(10,273)	(10,273)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)
Balance at 31 December 2019	29,352	62,698	81,710	125,805	74,900	6,670	161,746	542,881

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's statement of Changes in Equity (continued)
as at 31 December 2018
(Expressed in millions of RMB unless otherwise stated)

	Share capital	Other equity instruments	Capital reserves	Surplus reserves	General risk reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2018	29,352	29,920	81,710	94,198	74,900	(2,261)	100,468	408,287
Net profit	-	-	-	-	-	-	53,625	53,625
Other comprehensive income	-	-	-	-	-	6,888	-	6,888
Total comprehensive income	-	-	-	-	-	6,888	53,625	60,513
Appropriations to surplus reserves	-	-	-	15,519	-	-	(15,519)	-
Cash dividends paid to ordinary shareholders	-	-	-	-	-	-	(2,935)	(2,935)
Cash dividends paid to preference shareholders	-	-	-	-	-	-	(1,725)	(1,725)
Balance at 31 December 2018	29,352	29,920	81,710	109,717	74,900	4,627	133,914	464,140

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Cash Flow Statements
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	The Group		The Bank	
	2019	2018	2019	2018
Cash flows from operating activities				
Profit before income tax	69,649	65,284	65,580	61,451
Adjustment for:				
Depreciation and amortization	3,613	3,326	2,533	2,516
Impairment losses of loans and advances to customers	69,170	58,383	68,319	58,077
Other impairment losses	5,537	2,037	4,862	1,746
Interest expense from debt securities issued	30,741	29,788	30,289	29,499
Interest income from financial investments	(62,287)	(68,006)	(61,834)	(67,423)
Net gains on disposal of fixed assets	(1,325)	(33)	(1,325)	(34)
Share of profits from associates and joint ventures	(171)	(164)	(158)	(176)
Unrealized losses / (gains) on derivative financial instruments	3,246	(2,695)	3,244	(2,695)
Net gains arising from financial investments	(1,613)	(1,411)	(1,430)	(1,280)
Net trading income	(10,236)	(12,621)	(9,151)	(12,188)
Foreign exchange gains arising from investing and financing activities	(3)	(10)	(3)	(10)
Changes in operating assets：				
Statutory reserves with central bank	(407)	74,107	(914)	74,070
Deposits and placements with banks and other financial institutions	(57,934)	(48,783)	(60,537)	(45,899)
Financial assets held for trading	(26,727)	30,565	(21,569)	29,741
Financial assets purchased under resale agreements	10,718	2,406	10,718	2,406
Loans and advances to customers	(487,607)	(411,136)	(487,500)	(409,983)
Other operating assets	(63,350)	13,766	(56,632)	20,075

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Cash Flow Statements (continued)
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	The Group		The Bank	
	2019	2018	2019	2018
Cash flows from operating activities (continued)				
Changes in operating liabilities:				
Borrowing from central bank	12,949	35,353	13,200	35,500
Deposits and placements from banks and other financial institutions	(51,388)	(179,775)	(57,071)	(181,906)
Financial assets sold under repurchase	108,023	(65,014)	108,023	(65,014)
Deposits from customers	400,835	189,082	403,922	190,314
Other operating liabilities	(4,106)	(39,344)	(2,047)	(35,208)
Cash used in operating activities before income tax payment	(52,673)	(324,895)	(49,481)	(316,421)
Income tax paid	(13,085)	(13,465)	(12,081)	(12,291)
Net cash used in operating activities	(65,758)	(338,360)	(61,562)	(328,712)
Cash flows from investing activities				
Proceeds from disposal and redemption of investments	1,280,999	1,673,028	1,270,712	1,667,415
Investment income received	75,082	76,363	74,177	75,570
Proceeds from disposal of fixed assets	2,477	88	2,468	73
Purchase of fixed assets, intangible assets and other long-term assets	(8,829)	(5,934)	(3,840)	(3,552)
Purchase of investment	(1,416,702)	(1,485,656)	(1,415,030)	(1,482,219)
Net cash (used in) / generated from investing activities	(66,973)	257,889	(71,513)	257,287

The notes on pages 13 to 136 form an intergral part of these financial statements.

Shanghai Pudong Development Bank Co., Ltd.
Consolidated and the Bank's Cash Flow Statements (continued)
For the year ended 31 December 2019
(Expressed in millions of RMB unless otherwise stated)

	The Group		The Bank	
	2019	2018	2019	2018
Cash flows from financing activities				
Equity investment	24	799	-	-
Proceeds from issurance of bonds and interbank deposits	1,239,307	1,288,077	1,235,316	1,283,232
Repayment of bonds and interbank deposits issued	(1,045,263)	(1,137,019)	(1,044,853)	(1,136,399)
Cash paid for dividends, profit and interest of bond issued	(42,301)	(33,954)	(41,525)	(33,526)
Proceeds from other financing activities	(2,870)	-	(2,716)	-
Net cash generated from financing activities	148,897	117,903	146,222	113,307
Effect of exchange rate changes on cash and cash equivalents	1,274	2,754	1,236	2,734
Net increase in cash and cash equivalents	17,440	40,186	14,383	44,616
Cash and cash equivalents at the beginning of the year	187,644	147,458	183,454	138,838
Cash and cash equivalents at the end of the year	205,084	187,644	197,837	183,454
Cash flows from operating activities include:				
Interest received	225,724	208,029	221,045	204,219
Interest paid	(116,830)	(122,828)	(115,423)	(120,796)

Composition of cash and cash equivalents：	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash	6,112	6,036	5,964	5,894
Surplus resrves with central bank	105,063	70,709	102,311	69,687
Deposits and placements with banks and other financial institutions with original maturities no more than three months	91,906	110,899	87,559	107,873
Financial assets purchased under resale agreements with original maturities no more than three months	2,003	-	2,003	-
Total	205,084	187,644	197,837	183,454

The notes on pages 13 to 136 form an intergral part of these financial statements.

I General Information

Shanghai Pudong Development Bank Co., Ltd. (the “Bank”) is a joint-stock commercial bank incorporated in Shanghai, the People’s Republic of China (“the PRC”) on 28 August 1992 in accordance with the approval from the People’s Bank of China (“the PBOC” or “Central Bank”) (Yin Fu [1992] No.350). The Address of the head office is 12 First East Zhongshan Road, Shanghai. The Bank obtained its business licence from Shanghai Municipal Administration of Industry and Commerce on 19 October 1992 and commenced its business on 9 January 1993. On 10 November 1999, the Bank’s share capital denominated in RMB were listed and traded on the Shanghai Stock Exchange.

The unified social credit code of the Bank is 9131000013221158XC, and the financial service certificate No. of the Bank is B0015H131000001.

The Bank and its subsidiaries (collectively referred to as “the Group”) are mainly engaged in financial businesses. The scope of business mainly includes commercial banking services, financial leasing businesses and trust services approved by the PBOC and the China Banking and Insurance Regulatory Commission (the “CBIRC”), investment banking and fund management business defined by relevant licenses issued by Securities & Futures Commission of Hong Kong. The Bank’s principal regulator is the CBIRC. The Bank’s overseas branches and subsidiaries are subject to the supervision by local regulators.

The major subsidiaries are consolidated in the Bank’s financial statements are disclosure in Note III. 37(1).

II Basis of preparation and accounting policies

1. Basis of preparation

The accounting year of the Group is from 1 January to 31 December.

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and Interpretations promulgated by the International Accounting Standards Board (“IASB”), on the basis of going concern.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets and financial liabilities measured at fair value through profit or loss (“FVTPL”) and financial assets measured at fair value through other comprehensive income (“FVOCI”), as further explained in the respective accounting policies below.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note II. 4(30).

2. Changes in significant accounting policies

The IASB has issued the following amendments to IFRSs (including International Accounting Standards ("IASs"), and International Financial Reporting Interpretations Committee ("IFRICs")) that are effective in 2019 and relevant to the Group's operation.

- IFRS 16 Lease
- IFRIC 23 Uncertainty over income tax treatments
- Amendments to IFRS 9 Financial instruments "Prepayment features with negative compensation and modifications of financial liabilities"
- Amendments to IAS 28 Investment in associates and joint ventures "Long-term interests in associates and joint ventures"
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits "Plan Amendment, Curtailment or Settlement"

The Group has initially adopted new or amended IFRSs that are effective in 2019. Except for IFRS 16 Lease, all the other adoptions have no material impact on the financial position and the financial result of the Group.

IFRS 16 Lease

The International Financial Reporting Standards 16, Lease ("IFRS 16") has been initially adopted by the Group on 1 January 2019.

IFRS 16 introduces a single accounting model for lessees to recognise leases in their balance sheets. Accordingly, the Group (as a lessee) shall recognise a right-of-use ("ROU") asset for its right to use an underlying asset, and a lease liability for its obligation to pay lease payments. The accounting treatments for lessors are similar to those adopted before.

The Group has applied IFRS 16 using the modified retrospective approach, and recognised the cumulative effect of the initial adoption of IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2019. Accordingly, comparative information of 2018 has not been restated and continues to be reported under International Accounting Standard 17, Lease ("IAS 17") and relevant interpretations. Further details of changes in the accounting policies are set out below:

(1) Definition of lease:

Before the initial adoption of IFRS 16, the Group determined whether an agreement was or contained a lease in accordance with IFRIC 4, determining whether an arrangement contains a lease at the commencement date of a contract. From 1 January 2019 on, the Group assessed its contracts in accordance with the lease definition specified in IFRS 16 to determine whether an agreement was or contained a lease. According to IFRS 16, a contract is or contains a lease if it transfers the right to control the use of an identified asset over a certain period for exchange of considerations.

(2) Significant accounting policies

The Group uses certain assets under leases, mainly including buildings and other office equipment.

The Group (as a lessee) used to classify leases into operating lease or financial lease base on whether almost all the risks and rewards incidental to ownership of the underlying asset have been transferred substantially. According to IFRS 16, the Group includes all significant leases into the scope of its balance sheet and recognises ROU assets and lease liabilities.

For leases of low value assets and short-term leases with terms no longer than 12 months, the Group elects to recognise no ROU assets nor lease liabilities. Their leases payments are recognised as expenses using the straight-line method over their lease terms.

The Group recognises ROU assets and lease liabilities at the commencement date of the lease.

ROU assets are initially measure at cost, and subsequently at cost less accumulated depreciation and impairment losses. The initial cost of an ROU asset includes the initial measurement amount of the lease liability, the amount of lease payments made at the commencement date of the lease or thereafter, initial direct expense incurred and restoration cost, etc.

Lease liabilities are measured at the present value of lease payments unpaid on the commencement date of the lease, discounted by using an incremental borrowing rate. Subsequently, lease liabilities will increase with interest expenses thereof and decrease with payment made for lease payments.

After the commencement date of the lease, the Group remeasures the lease liability based on the present value of the changed lease payments in the following circumstances:

- Movements arise in the expected amount of lease payments based on the guaranteed residual value.
- Movements arise in indexes or ratios used to determine the amount of lease payments.
- Movements arise in assessment of purchase options and options to extend or terminate the lease, or the actual exercise of the options to extend or terminate the lease is inconsistent with the original assessment.

On the commencement date of the lease, the Group assessed whether it is reasonably certain to exercise renewal options. Where significant but controllable events or movements occur, the Group will reassess whether it is reasonably certain to exercise renewal options. The assessment of whether the Group is reasonably certain to exercise renewal options has links with the determination of the lease term.

(3) Impact of transition to IFRS 16

According to the amount of cumulative effects at the initial adoption date of IFRS 16, the Group has adjusted the retained earnings at the initial adoption date, but left the comparable information unadjusted. As for operating leases prior to the initial adoption date, the Group determines the lease liabilities by discounting the balances of remaining lease payments to present values at the Group’s incremental borrowing rates at the initial adoption date, and measures the ROU assets at the carrying amounts with the assumption that the new lease standard is adopted on the lease inception date (discounted using the Group’s incremental borrowing rates at the initial adoption date).

The table below sets out the undiscounted lease payments and lease liabilities charged into the statement of financial position of the Group as at 1 January 2019. As at 1 January 2019, the Group’s leases of low value assets and short-term leases for which the recognition exemption is applied was RMB 75 million in total. In calculation of lease liabilities, the amounts of lease payments were discounted by using the Group’s incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rate used for determination of the present value of the remaining lease payments was 4.16%.

	The Group	The Bank
Undiscounted lease payments under IFRS 16	8,134	7,724
Lease liabilities recognised at 1 January 2019	7,173	6,816

Impacts from changes in accounting policies on items in the statement of financial position at the initial adoption date are summarised as follows in accordance with the new lease standard:

	The Group		
	Carrying amount at 31 December 2018	Adjustment amount	Carrying amount at 1 January 2019
Other assets - Non-ROU asset	83,442	(605)	82,837
Other assets - ROU assets	-	7,200	7,200
Other liabilities-Non-lease liabilities	(59,761)	37	(59,724)
Other liabilities-Lease liabilities	-	(7,173)	(7,173)
Deferred tax assets	36,877	135	37,012
Retained earnings	(140,208)	393	(139,815)
Non-controlling interests	(6,818)	13	(6,805)

	The Bank		
	Carrying amount at 31 December 2018	Adjustment amount	Carrying amount at 1 January 2019
Other assets - Non-ROU asset	30,776	(580)	30,196
Other assets - ROU assets	-	6,857	6,857
Other liabilities-Non-lease liabilities	(49,885)	37	(49,848)
Other liabilities-Lease liabilities	-	(6,816)	(6,816)
Deferred tax assets	36,078	126	36,204
Retained earnings	(133,914)	376	(133,538)

3. Impact of issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements.

IFRS 3 Amendments (1)	Clarifying what is a business
IAS 1 and IAS 8 Amendments (1)	Definition of Material
IFRS 17 (2)	Insurance contracts
IFRS 10 and IAS 28 Amendments (3)	Sale or contribution of assets between an investor and its associate or joint venture

(1) Effective for annual periods beginning on or after 1 January 2020, early adoption is permitted.
(2) Effective for annual periods beginning on or after 1 January 2023, early adoption is permitted.
(3) Effective for annual periods is to be determined, early adoption is permitted.

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

4. Summary of significant accounting policies

(1) Subsidiaries

Subsidiaries are entities (including structured entities) controlled by the Group. The Group controls an entity if it is exposed, or has rights, to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an entity.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and any unrealised profit or loss arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less impairment losses (see Note II. 4(20)).

(2) Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to a parent.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

(3) Associates and joint ventures

An associate is an entity in which the Group or Bank has significant influence.

A joint venture is an arrangement whereby the Group or Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

The Group's investments in associates or joint ventures are accounted for under the equity method of accounting. Under the equity method, an investment in an associate or joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate or joint venture, less any impairment losses. The consolidated statement of profit or loss reflects the share of the results of operations of the associate or joint venture. Where there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Under the equity method, unrealised profits and losses resulting from transactions between the Group and the associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures.

In the Bank's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see Note II.4(20)).

(4) Functional currency

The Group's functional currency is Renminbi and these financial statements are presented in Renminbi. Items included in the financial statements of each of the Group's operations oversea are measured using the currency of the primary economic environment in which the entity operates.Their financial statements have been translated based on the accounting policy set out in Note II.4(5).

(5) Foreign currency translation

Foreign currency transactions are initially recorded in the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in profit or loss, with the exception that they are taken directly to other comprehensive income when the monetary items are designated as part of the hedge of the Bank's net investment of a foreign entity, and the aggregate exchange differences are not recognised in profit or loss until the disposal of such net investment. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined. The exchange differences are recognised in profit or loss or in other comprehensive income, depending on the nature of non-monetary items.

As at the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Bank at the exchange rates ruling at the end of the reporting period. All items within equity except for retained profits are translated at the exchange rates ruling at the dates of the initial transactions. Income and expenses in the statement of profit or loss are translated at the weighted average exchange rates for the year. The exchange differences arising on the above translation are taken to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily withdraw on demand, and short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(7) Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in the statement of profit or loss.

(8) Financial instruments

(i) Recognition and initial measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

A financial assets and financial liabilities is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

(ii) Classification and subsequent measurement of financial assets

(a) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The instrument meets the definition of equity from the perspective of the issuer.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(b) Subsequent measurement of financial assets

- Financial assets measured at FVTPL

  These financial assets are subsequently measured at fair value. Net gains and losses (including any interest or dividend income) are recognised in profit or loss unless the financial assets are part of a hedging relationship.

- Financial assets measured at amortised cost

  These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

- Debt investments measured at FVOCI

  These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

- Equity investments measured at FVOCI

  These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(iii) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL and amortised cost.

- Financial liabilities measured at FVTPL

  A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

  Financial liabilities measured at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

- Financial liabilities measured at amortised cost

  These financial liabilities are subsequently measured at amortised cost using the effective interest method.

(iv) Offsetting

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied：

- The Group currently has a legally enforceable right to set off the recognised amounts；
- The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(v) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

- the Group’s contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or；
- the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred measured at the date of derecognition;
- the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment measured at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset or the maximum amount of consideration that the Group could be required to repay.

Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When a securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability; when the securitisation of financial assets partially qualifies for derecognition, the Group continue to recognise the transferred assets to the extent of its continuing involvement, derecognise the remaining. The carrying amount of the transferred assets is apportioned between the derecognised portion and the retained portion based on their respective relative fair values, and the difference between the carrying amount of the derecognised portion and the total consideration paid for the derecognised portion is recorded in profit or loss.

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(vi) Impairment of financial assets

The Group recognises loss allowances for expected credit loss (“ECL”) on:

- Financial assets measured at amortised cost;
- Debt instruments measured at FVOCI; and
- Loan commitments and financial guarantee contracts.

Financial assets measured at fair value, including debt investments or equity securities measured at FVTPL, equity securities designated as at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The Group’s method of measuring ECL of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECL is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 months).

Refer to Note VIII.1(3) for more detailed explanations of measuring ECL.

Presentation of allowance for ECL

ECL are remeasured at the end of each reporting period to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for financial instruments measured at amortised cost with a corresponding adjustment to their carrying amount through a loss allowance account; for debt instruments that are measured at FVOCI, the loss allowance is recognised in other comprehensive income.

Write-off

The book value of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(vii) Modification of loan contracts

In some cases (such as renegotiating loans), the Group may renegotiate or otherwise modify the financial assets contracts.The Group would assess whether or not the new contractual terms are substantially different to the original terms. If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset under the revised terms. If the renegotiation or modification does not result in derecognition, but lead to changes in contractual cash flows, the Group assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under original terms.

(viii) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Company for repurchasing self-issued equity instruments are deducted from shareholders' equity.

(9) 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 debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in Note VIII.1(3)); and

- The premium received on initial recognition less the accumulated amount of income.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note VIII.1(3)). 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.

The Group's expected credit losses of financial guarantees and loan commitments are presented as “provision”.

(10) Derivatives and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Certain derivatives are embedded in hybrid contracts.If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes (Note II.8(ii)). Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

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

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group’s overseas branch implanted fair value hedge and cash flow hedge, by designated selected derivative instruments to hedge the specific fair value or cash flow related risk of recognized assets.

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

<u>Fair value hedges</u>

A fair value hedge is a hedge of the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or a portion of such an asset, liability or firm commitment.

The gain or loss from remeasuring the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the recognised hedged item not measured at fair value and is recognised in profit or loss.

Any adjustment to the carrying amount of a hedged item is amortised to profit or loss if the hedged item is a financial instrument (or a component thereof) measured at amortised cost. The amortisation is based on a recalculated effective interest rate at the date that amortisation begins.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows. The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income as a cash flow hedge reserve. The amount of the cash flow hedge reserve is adjusted to the lower of the following (in absolute amounts):

- the cumulative gain or loss on the hedging instrument from inception of the hedge;

- the cumulative change in present value of the expected future cash flows on the hedged item from inception of the hedge.

The change in the amount of the cash flow hedge reserve is recognised in other comprehensive income in each period.

The portion of the gain or loss on the hedging instrument that is determined to be ineffectiveness is recognised in profit or loss.

If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group removes that amount from the cash flow hedge reserve and includes it in the initial cost or other carrying amount of the asset or liability.

For cash flow hedges other than those covered above, that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.

When the Group discontinues hedge accounting for a cash flow hedge, the amount of the accumulated cash flow hedge reserve recognised in other comprehensive income is accounted for as follows:

- If the hedged future cash flows are still expected to occur, that amount will remain in the cash flow hedge reserve, and be accounted for in accordance with the above policy.

- If the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

Hedges of a net investment in a foreign operation

A hedge of a net investment in a foreign operation is a hedge of the exposure to foreign exchange risk associated with a net investment in a foreign operation. The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When disposing a foreign operation, in whole or in part, the aforesaid gain or loss on the hedging instrument will be transferred from equity to profit or loss as a reclassification adjustment. The portion of the gain or loss on the hedging instrument that is determined to be ineffective is recognised in profit or loss.

(11) Convertible instruments

<u>Convertible instruments containing an equity component</u>

Convertible instruments issued by the Group that can be converted to equity shares, where the number of shares to be issued and the value of consideration to be received at that time do not vary, are accounted for as compound financial instruments containing both liability and equity components.

The initial carrying amount of a compound financial instrument is allocated to its equity and liability components. The amount recognised in the equity is the difference between the fair value of the instrument as a whole and the separately determined fair value of the liability component (including the fair value of any embedded derivatives other than the equity component). Transaction costs that relate to the issuance of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method, unless it is designated upon recognition at fair value through profit or loss. The equity component is not re-measured.

If the convertible instrument is converted, the liability component, together with the equity component, is transferred to equity. If the convertible instrument is redeemed, the consideration paid for the redemption, together with the transaction costs that relate to the redemption, are allocated to the liability and equity components. The method used to allocate the consideration and transaction costs is the same as that used for issuance. After allocating the consideration and transaction costs, the difference between the allocated and carrying amounts is charged to profit and loss if it relates to the liability component or is directly recognised in equity if it relates to the equity component.

<u>Other convertible instruments not containing an equity component</u>

For other convertible instruments issued by the Group which do not contain an equity component, at initial recognition, the derivative component is measured at fair value, and any excess of proceeds over the derivative component is recognised as the liability component.

The derivative component is subsequently measured at fair value, and gains or losses from the changes in the fair value are recognised in profit or loss. The liability component is subsequently carried at amortised cost using the effective interest method.

On conversion, the carrying amounts of the derivative and liability components are transferred to equity. If the instrument is redeemed, any difference between the redemption amount paid and the carrying amounts of both components is recognised in profit or loss.

(12) Preference shares and perpetual bonds

At initial recognition, the Group classifies the preference shares, perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Preference shares and perpetual bonds issued containing both equity and liability components are accounted for using the accounting policy for convertible instruments containing an equity component. Preference shares and perpetual bonds issued not containing an equity component are accounted for using the accounting policy for other convertible instruments not containing an equity component.

Preference shares and perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the preference shares and perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

(13) Repurchase and reverse repurchase transactions (including securities borrowing and lending)

Assets sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing and lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a financial liability held for trading and measured at fair value with any gains or losses included in profit or loss.

(14) Fixed assets

Recognition of fixed assets

Fixed assets represent the tangible assets held by the Groupfor use in supply of services, for rental or for administrative purposes with useful lives over one accounting year.

The cost of a purchased fixed asset 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 self-constructed assets is measured in accordance with the policy set out in Note II.4(15).

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Group in a different pattern, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Group, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

Depreciation of fixed assets

The cost of a fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life.The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

Class	Estimate useful life (years)	Residual value rate (%)	Depreciation rate (%)
Plant and buildings	30years	3 - 5%	3.17 -3.23%
Motor vehicles	5years	3 - 5%	19.00 - 19.40%
Electronic computers and other equipments	3 - 5years	3 - 5%	19.00 - 32.33%
Plane and ship equipments	20years	5%	4.75%

Useful lives, estimated residual values and depreciation methods are reviewed at least at each year-end.

For the impairment of the fixed assets, refer to Note II.4(20).

Disposal of fixed assets

The carrying amount of a fixed asset is derecognised:

- when the fixed asset is holding for disposal; or

- when no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

(15) Construction in progress

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs , and any other costs directly attributable to bringing the asset to working condition for its intended use.A self-constructed asset is classified as construction in progress and transferred to fixed asset when it is ready for its intended use. No depreciation is provided against construction in progress. Construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note II.4(20)).

(16) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note II.4(20)). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life, unless the intangible asset is classified as held for sale.

- Land use right is amortized since the month of acquisition using straight-line method within its statutory useful life. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

- Software is amortized since month of acquisition using straight-line method over its beneficial life.

- Customer contract relationship is amortized on the straight-line basis over the maximum beneficial life upon the acquisition date.

- Brand and franchise right are intangible assets with no expected useful lives, which are not subject to amortization.

The Group reviews the useful life and amortization method of a finite useful life intangible assets at the end of each year and adjusts it if necessary.
If the useful life of an intangible asset is finite, an enterprise shall assess the length of, or the number.of production or similar units constituting that useful life.An intangible life shall be regarded as having indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the enterprise.

(17) Long-term deferred expenses

Long-term deferred expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term deferred expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(18) Repossessed assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(19) Goodwill

The initial cost of goodwill represents the excess of cost of acquisition over the acquirer’s interest in the fair value of the identifiable net assets of the acquiree under a business combination not involving entities under common control.Goodwill is not amortised and is stated in the balance sheet at cost less accumulated impairment losses (see Note II.4(20)). On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

(20) Impairment of assets other than inventories and financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- long-term equity investments
- goodwill
- long-term deferred expenses
- ROU, etc.

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of intangible assets not ready for use at least annually and the recoverable amounts of goodwill and intangible assets with indefinite useful lives at each year-end, irrespective of whether there is any indication of impairment. Goodwill is allocated to each asset group or set of asset groups, which is expected to benefit from the synergies of the combination for the purpose of impairment testing.

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset group is composed of assets directly related to cash generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

(21) Provisions

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome.
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

(22) Fair value measurement

Unless otherwise specified, the Group measures fair value as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

(23) Dividend distribution

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

(24) Fiduciary activities

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreement with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

(25) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

(i) For purchased or originated credit-impaired financial assets, whose interest income is calculated, since initial recognition, by applying the credit adjusted effective interest rate to their amortised cost; and

(ii) Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Group reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

(i) The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as theGroup performs;
- The customer controls the service provided by the Group in the course of performance; or
- The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

(ii) In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading. This includes gains and losses from changes in fair value relating to the ineffective portion of the hedging arrangements.

(26) Employee benefits

Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accured at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

Post-employment benefits-defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

Termination benefits

When the Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;
- When the Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(27) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax 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, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(i) Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(i) Where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and;

(ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred tax assets and liabilities are offset when:

- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities;and
- the deferred taxes are related to the same tax payer within the Group and the same taxation authority.

(28) Leases

A contract is lease if the lessor conveys the right to control the use of an identified asset to lessee for a period of time in exchange for consideration.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.The right-of-use asset is depreciated using the straight-line method, impairment losses of right-of-use assets are accounted for in accordance with the accounting policy described in Note II.4(20).The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. The detailed accounting policies is described in Note II.2.

As a lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

Under a finance lease, at the commencement date, the Group recognises the finance lease receivable and derecognises the finance lease asset. The finance lease receivable is initially measured at an amount equal to the net investment in the lease. The net investment in the lease is measured at the aggregate of the unguaranteed residual value and the present value of the lease receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease.

The Group recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return. The derecognition and impairment of the finance lease receivable are recognised in accordance with the accounting policy in Note II.4(8).

Lease receipts from operating leases is recognised as income using the systematic basis over the lease term. The initial direct costs incurred in respect of the operating lease are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income.

(29) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;
(ii) has significant influence over the Group; or
(iii) is a member of the key management personnel of the Group or of a parent of the Group;

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;
(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
(iii) the entity and the Group are joint ventures of the same third party;
(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
(vi) the entity is controlled or jointly controlled by a person identified in (a);
(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

(30) Significant accounting and judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

(i) Measurement of the allowance for ECL

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI and with exposure arising from loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses).

The measurement of ECL involves many key assumptions, such as:
- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining significant increase in credit risk, default and credit-impaired; and
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings.

The detailed measurement method of ECL is described at Note VIII.1(3).

(ii) Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(iii) Taxes

Significant estimates are required in calculating the income tax, value added tax and other taxes. During the ordinary business activities, there is uncertainty in the final tax treatment of some transactions and events. The Group recognizes liabilities for anticipated tax issues arising from new tax regulations or other uncertain tax arrangements based on estimates of whether additional taxes will be due. The deductibility of certain items is subject to tax authority's final approval. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income taxes, deferred tax provisions and taxes and surcharges in the period in which such determination is made.

In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

(iv) Consolidation of structured entities

Management applies its judgment to determine whether the Group is acting as an agent or a principle in relation to the structured entities in which the Group acts as an asset manager. In assessing whether the Group is acting as an agent, the Group considers factors such as scope of the asset manager's decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to viability of returns by other arrangements (such as direct investments).

(v) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or groups of CGUs to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the CGU or groups of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(vi) Derecognition of financial assets

The Group's transfer of financial assets include transfer of loans and advances to customers, securitization and financial assets sold under repurchase agreements. When assess whether the transfer of financial asset meet the derecognition requirement of financial asset, it is required to assess whether the Group has transferred the right to receive cash flows of financial asset, or has transferred the contractual rights to receive cash flows from the financial asset to another party which meet the requirement of "pass-through", whether nearly all the risks and rewards of ownership of the financial asset have been transferred out and whether its control over the transferred financial asset has been given up.

III NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1 Net interest income

	The Group		The Bank	
	2019	2018	2019	2018
Interest income				
Loans and advances to customers				
-Corporate loans	89,548	85,927	89,026	85,300
-Retail loans	97,785	85,560	96,975	84,869
-Discounted bills	10,094	7,939	10,091	7,932
Financial investments				
-at amortiazed cost	46,505	57,856	46,307	57,537
-at fair value through other comprehensive income	15,782	10,150	15,527	9,886
Deposits from and placements with banks and other financial institutions	10,661	8,434	10,710	8,287
Deposits with central bank	6,198	6,806	6,155	6,759
Finance lease receivables	2,488	2,071	-	-
Financial assets purchased under resale agreements	1,969	2,141	1,969	2,141
Others	1,064	604	1,064	604
Subtotal	282,094	267,488	277,824	263,315
Interest expense				
Deposits from customers	(75,315)	(59,653)	(74,686)	(59,036)
Deposits to and placements from banks and other financial institutions	(34,596)	(54,672)	(33,498)	(53,150)
Debt securities issued	(30,741)	(29,788)	(30,289)	(29,499)
Borrowing from central bank	(6,741)	(6,734)	(6,727)	(6,716)
Financial assets sold under repurchase agreements	(4,715)	(3,436)	(4,715)	(3,436)
Others	(1,136)	(1,361)	(1,040)	(1,361)
Subtotal	(153,244)	(155,644)	(150,955)	(153,198)
Net interest income	128,850	111,844	126,869	110,117

2 Net fee and commission income

	The Group		The Bank	
	2019	2018	2019	2018
Fee and commission income				
Fees from bank cards	28,415	23,390	28,415	23,388
Custodian and other fiduciary activities commissions	11,556	12,831	8,091	9,425
Fees from investment banking activities	3,631	3,048	3,512	2,920
Agency commissions	2,723	1,883	2,722	1,882
Credit commitment fees	2,154	2,276	2,152	2,274
Settlement and clearing fees	975	1,020	973	1,019
Others	1,742	1,757	1,323	1,339
Subtotal	51,196	46,205	47,188	42,247
Fee and commission expense	(10,749)	(7,196)	(10,818)	(7,200)
Net fee and commission income	40,447	39,009	36,370	35,047

3 Net trading income

	The Group		The Bank	
	2019	2018	2019	2018
Financial investments measured at FVTPL	13,130	16,408	11,912	15,974
Precious metals	3,471	(1,214)	3,471	(1,214)
Exchange gains and losses	312	1,155	328	1,138
Hedged bonds	296	103	296	103
Non-foreign exchange derivative financial instruments	(1,534)	(277)	(1,532)	(277)
Others	189	-	189	-
Total	15,864	16,175	14,664	15,724

4 Net gains arising from financial investments

	The Group		The Bank	
	2019	2018	2019	2018
Financial investments measured at FVOCI	1,878	1,393	1,566	1,182
Financial investments at amortized cost	(309)	(22)	(309)	(68)
Dividend income	44	40	173	166
Total	1,613	1,411	1,430	1,280

5 Operating expenses

	The Group		The Bank	
	2019	2018	2019	2018
Staff costs				
- Short-term employee benifits	22,781	20,450	21,174	19,024
- Post-employment benifits	2,189	2,328	2,100	2,237
- Other long-term employee benefits	2,045	1,865	1,989	1,832
Subtotal	27,015	24,643	25,263	23,093
Depreciation and amortization	5,511	2,773	4,893	2,516
Business tax and surcharges	1,946	1,852	1,868	1,755
Electronic equipment operating and maintenance expenses	818	760	768	717
Office expenses	421	407	419	403
Interest expenses for lease liabilities	307	NA	282	NA
Others	10,300	14,852	9,264	13,555
Total	46,318	45,287	42,757	42,039

6 Impairment losses

	The Group		The Bank	
	2019	2018	2019	2018
Loans and advances to customers measured at amortized cost	68,941	58,590	68,090	58,284
Provisions	1,951	207	1,955	211
Financial investments measured at amortized cost	1,171	470	1,571	556
Finance lease receivables	777	191	-	-
Other receivables	741	559	714	550
Financial investments at fair value through other comprehensive income	573	400	301	222
Accrued and interest receivable	255	315	255	315
Loans and advances to customers at fair value through other comprehensive income	229	(207)	229	(207)
Deposits and placements with banks and other financial institutions	76	(42)	73	(45)
Financial assets purchased under resale agreements	(6)	(66)	(6)	(66)
Repossessed assets	(1)	3	(1)	3
Total	74,707	60,420	73,181	59,823

7 Income tax expense

	The Group		The Bank	
	2019	2018	2019	2018
Current income tax expense	19,668	13,687	18,550	12,516
Deferred income tax expense	(9,399)	(4,918)	(9,264)	(4,690)
Total	10,269	8,769	9,286	7,826

Reconciliations between the Group's income tax expenses calculated using the statutory tax rate and actual income tax expense are as follows:

	The Group		The Bank	
	2019	2018	2019	2018
Profit before income tax	69,649	65,284	65,580	61,451
Tax calculated at statutory tax rate of the PRC	17,412	16,321	16,395	15,363
Tax effect from other various tax rates adopted by subsidiaries	(46)	(32)	-	-
Tax effect of non-deductible expenses	289	302	214	202
Tax effect of non-taxable income	(7,716)	(7,878)	(7,627)	(7,769)
Income tax adjustments in prior years	330	56	304	30
Income tax expense	10,269	8,769	9,286	7,826

8 Earnings per share

(1) Basic earnings per share

Basic earnings per share (EPS) is calculated by dividing consolidated net profit for the year attributable to the holders of the Bank's share capital by the weighted average number of share capital outstanding during the year. The conversion feature of preference shares is considered to fall within the category of contingently issuable share capital. As at 31 December 2019, the triggering events of share conversion did not occur. Therefore, the conversion feature of preference shares has no effect on the calculation of basic and diluted earnings per share in the current period.

The Group

	2019	2018
Profit for the year attributable to shareholders of the Bank	58,771	55,914
Less: Profit for the year attributable to preference shareholders of the Bank	(1,725)	(1,725)
Profit for the year attributable to the holders of the Bank's share capital	57,046	54,189
Weighted average number of outstanding share capital (million)	29,352	29,352
Basic EPS (RMB)	1.94	1.85

The Bank declared cash dividends of RMB 1,725 million for preference share in this year. For the purpose of calculating EPS, dividends on preference shares declared in respect of the year have been deducted from the profit attributable to ordinary shareholders of the Bank.

The issue of perpetual bonds interest has not been announced this year.

(2) Diluted earnings per share

The diluted earnings per share is calculated on the assumption that the RMB 50 billion convertible corporate bonds publicly issued by the Bank deemed to have all been converted to ordinary shares upon issuance and by dividing, after adjustments for the interest expenses of the convertible corporate bonds for the year the net profit of the year attributable to ordinary shareholders of the Bank by the adjusted weighted average number of ordinary shares outstanding during the year.

The Group

	2019	2018
Net profit for the current year attributable to shareholders of the Bank	57,046	54,189
Add: Interest expenses of convertible corporate bonds in the current year (after tax)	243	-
Net profit for the current year attributable to ordinary shareholders of the Bank	57,289	54,189
Weighted average number of outstanding ordinary shares (million)	29,352	29,352
Add: Assume that convertible corporate bonds are entirely converted to weighted average number of ordinary shares from the beginning of the period to the conversion date (million)	554	-
Weighted average number of outstanding ordinary shares of the year for calculating diluted earnings per share (million)	29,906	29,352
Diluted earnings per share (RMB)	1.92	1.85

9 Cash and deposits with central bank

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash		6,112	6,036	5,964	5,894
Statutory reserves with central bank	(1)	364,433	364,026	362,304	361,390
Surplus reserves with central bank	(2)	105,063	70,709	102,311	69,687
Fiscal deposits with central bank		2,065	2,733	2,065	2,710
Accrued interest		180	219	180	219
Total		477,853	443,723	472,824	439,900

(1) The Group is required to place statutory reserves with the PBOC and overseas central banks, including RMB and foreign currency deposit reserves and foreign exchange risk reserves for forward foreign exchange sales businesses, which are not allowed to be used in the Group's daily operations. The reserve rates for deposits denominated RMB and foreign currencies of domestic branches and sub-branches are in line with the PBOC's requirements, while the deposit requirements for overseas branches and sub-branches are regulated by local regulators.

(2) The surplus reserves refer to money deposited by the Group with the PBOC and overseas central banks for the purpose of funds liquidation.

10 Deposits and placements with banks and other financial institutions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deposits with domestic banks	56,583	47,965	49,231	41,123
Deposits with overseas banks	46,075	45,635	45,994	45,555
Deposits with domestic non-bank financial institutions	815	399	666	320
Placements with domestic banks	26,260	14,006	26,260	13,506
Placements with overseas banks	15,864	17,231	15,864	17,231
Placements with domestic non-bank financial institutions	108,621	87,548	109,831	88,408
Placements with overseas non-bank financial institutions	20,468	22,292	24,485	25,320
Accrued interest	1,958	1,665	1,955	1,633
Less: impairment allowance	(282)	(206)	(253)	(180)
Total	276,362	236,535	274,033	232,916

11 Derivative financial instruments

The Group

	31 December 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Interest rate swap contracts	5,032,981	13,221	(13,017)
Currency swap contracts	1,875,203	16,168	(16,688)
Option contracts	667,976	3,013	(2,739)
Precious metal derivative financial instruments	182,064	5,432	(8,110)
Foreign exchange forward contracts	44,615	589	(394)
Commodity contracts	9,903	208	(137)
Derivative financial instruments held as hedging instruments			
Interest rate swap	20,289	21	(401)
Cross-currency interest rate swap	4,094	67	(17)
Total		38,719	(41,503)

	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	3,745,734	23,836	(22,517)
Interest rate swap contracts	3,178,256	12,882	(14,673)
Option contracts	668,433	3,940	(3,105)
Precious metal derivative financial instruments	135,375	1,814	(1,414)
Foreign exchange forward contracts	92,855	587	(861)
Commodity contracts	2,825	62	(55)
Derivative financial instruments held as hedging instruments			
Interest rate swap	20,777	146	(141)
Cross-currency interest rate swap	2,134	7	(27)
Total		43,274	(42,793)

The Bank

	31 December 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Interest rate swap contracts	5,032,981	13,221	(13,017)
Currency swap contracts	1,875,203	16,168	(16,688)
Option contracts	667,976	3,013	(2,739)
Precious metal derivative financial instruments	182,064	5,432	(8,110)
Foreign exchange forward contracts	44,615	589	(394)
Commodity contracts	9,903	208	(137)
Derivative financial instruments held as hedging instruments			
Interest rate swap	20,096	21	(399)
Cross-currency interest rate swap	4,094	67	(17)
Total		38,719	(41,501)

	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	3,745,734	23,836	(22,517)
Interest rate swap contracts	3,178,256	12,882	(14,673)
Option contracts	668,433	3,940	(3,105)
Precious metal derivative financial instruments	135,375	1,814	(1,414)
Foreign exchange forward contracts	92,855	587	(861)
Commodity contracts	2,825	62	(55)
Derivative financial instruments held as hedging instruments			
Interest rate swap	20,777	146	(141)
Cross-currency interest rate swap	2,134	7	(27)
Total		43,274	(42,793)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group’s exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

12 Financial assets purchased under resale agreements

The Group and the Bank

	31 December 2019	31 December 2018
Bonds	2,715	11,575
Discounted bills	145	-
Accrued interest	14	5
Less: impairment allowance	(1)	(7)
Total	2,873	11,573

13 Loans and advances to customers

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans and advances to Customers measured at				
- amortized cost (a)	3,555,971	3,299,570	3,533,088	3,277,027
- FVOCI (b)	412,935	249,153	412,935	249,153
- FVTPL (c)	3,180	482	3,180	482
Subtotal	3,972,086	3,549,205	3,949,203	3,526,662
Accrued interest	14,584	11,705	14,487	11,642
Impairment allowances				
-Loans and advances to customers measured at amortized cost	(108,359)	(105,339)	(106,157)	(103,649)
- Accrued interest of loans and advances to customers measured at amortized cost	(120)	(82)	(120)	(77)
Subtotal	(108,479)	(105,421)	(106,277)	(103,726)
Net loans and advances to customers	3,878,191	3,455,489	3,857,413	3,434,578

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
(a) Loans and advances to customers measured at amortized cost				
Corporates loans				
Commercial Loans	1,847,828	1,778,999	1,839,136	1,769,084
Trade finance	32,623	36,875	32,623	36,875
Discounted bills	144	468	120	314
Retail loans				
Mortgage loans	730,260	588,988	724,536	585,007
Credit card and overdraft	421,535	433,470	421,398	433,470
Business loans	274,606	240,404	267,758	233,422
Consumer loans and others	248,975	220,366	247,517	218,855
Subtotal	3,555,971	3,299,570	3,533,088	3,277,027
(b) Loans and advances to customers measured at FVOCI				
Corporates loans				
Trade finance	35	-	35	-
Discounted bills	412,900	249,153	412,900	249,153
Subtotal	412,935	249,153	412,935	249,153
(c) Loans and advances to customers measured at FVTPL				
Corporates loans				
Trade finance	1,100	-	1,100	-
Discounted bills	2,080	482	2,080	482
Subtotal	3,180	482	3,180	482
Total loans and advances to customers	3,972,086	3,549,205	3,949,203	3,526,662

13.1 Loans and advances to customers analysed by industry

The Group

	31 December 2019		31 December 2018	
	Amount	(%)	Amount	(%)
Corporate loans				
Real estate	334,229	8.41	283,516	7.99
Manufacturing	330,592	8.32	305,290	8.60
Lease and commercial service	264,423	6.66	265,795	7.49
Water, environment and public facilities management	152,055	3.83	165,400	4.66
Transportation, warehouse and postal services	141,266	3.56	125,359	3.53
Construction	139,388	3.51	141,439	3.99
Wholesale and retail	136,718	3.44	207,144	5.84
Financial services	82,438	2.08	56,467	1.59
Mining	79,581	2.00	77,164	2.17
Electricity, heat, gas, water production and supply	67,941	1.71	64,389	1.81
Information transmission, software and IT services	38,852	0.98	25,023	0.71
Agriculture, forestry, farming and fishery	27,785	0.70	27,205	0.77
Research and technology services	24,016	0.60	21,401	0.60
Culture, sports and entertainment	18,301	0.46	10,573	0.30
Healthcare and social welfare	16,936	0.43	11,837	0.33
Education	11,883	0.30	10,302	0.29
Others	15,182	0.38	17,570	0.50
Subtotal	1,881,586	47.37	1,815,874	51.17
Discounted bills	415,124	10.45	250,103	7.04
Retail loans	1,675,376	42.18	1,483,228	41.79
Total	3,972,086	100.00	3,549,205	100.00

The Bank

	31 December 2019		31 December 2018	
	Amount	(%)	Amount	(%)
Corporate loans				
Real estate	334,208	8.46	283,488	8.04
Manufacturing	325,632	8.25	299,984	8.51
Lease and commercial service	264,935	6.71	266,381	7.55
Water, environment and public facilities management	151,988	3.85	165,321	4.69
Transportation, warehouse and postal services	141,134	3.57	125,240	3.55
Construction	138,860	3.52	140,879	3.99
Wholesale and retail	134,976	3.42	205,237	5.82
Financial services	83,134	2.10	56,467	1.60
Mining	79,418	2.01	77,019	2.18
Electricity, heat, gas, water production and supply	67,477	1.71	63,948	1.81
Information transmission, software and IT services	38,779	0.98	24,958	0.71
Agriculture, forestry, farming and fishery	26,418	0.67	25,782	0.73
Research and technology services	23,997	0.61	21,376	0.61
Culture, sports and entertainment	18,263	0.46	10,514	0.30
Healthcare and social welfare	16,899	0.43	11,787	0.33
Education	11,837	0.30	10,257	0.29
Others	14,939	0.38	17,321	0.50
Subtotal	1,872,894	47.43	1,805,959	51.21
Discounted bills	415,100	10.51	249,949	7.09
Retail loans	1,661,209	42.06	1,470,754	41.70
Total	3,949,203	100.00	3,526,662	100.00

13.2 Loans and advances to customers analysed by collateral type

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Unsecured loans	1,621,602	1,325,740	1,621,148	1,324,946
Guaranteed loans	706,838	739,258	697,934	729,446
Collateralized loans	1,422,864	1,284,367	1,410,241	1,273,603
Pledged loans	220,782	199,840	219,880	198,667
Total	3,972,086	3,549,205	3,949,203	3,526,662

13.3 Overdue loans and advances to customers

The Group

	31 December 2019				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	12,649	13,496	3,751	360	30,256
Guaranteed loans	9,759	8,381	6,638	1,221	25,999
Collateralized loans	12,041	9,226	5,744	1,328	28,339
Pledged loans	1,283	1,371	480	68	3,202
Total	35,732	32,474	16,613	2,977	87,796

	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	9,693	9,591	1,610	177	21,071
Guaranteed loans	13,721	14,817	12,744	485	41,767
Collateralized loans	9,602	7,952	5,132	2,473	25,159
Pledged loans	833	1,853	777	47	3,510
Total	33,849	34,213	20,263	3,182	91,507

The Bank

	31 December 2019				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	12,647	13,460	2,803	360	29,270
Guaranteed loans	9,180	8,197	6,428	1,175	24,980
Collateralized loans	11,825	9,152	5,630	1,317	27,924
Pledged loans	1,247	1,371	479	68	3,165
Total	34,899	32,180	15,340	2,920	85,339

	31 December 2018				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Unsecured loans	9,663	9,551	1,539	177	20,930
Guaranteed loans	13,279	14,295	12,269	451	40,294
Collateralized loans	9,355	7,754	4,996	2,429	24,534
Pledged loans	760	1,853	756	47	3,416
Total	33,057	33,453	19,560	3,104	89,174

The Group classifies the total loans with principal or interest overdue 1 day above (including 1 day) as overdue loans and restates the comparative figures in accordance with this classification.

13.4 Movements of ECL allowance

(a) Movements of ECL allowance of loans and advances to customers at amortized cost

The Group

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019		25,042	26,693	53,604	105,339
Transfers during the year:					
- Transfer to stage 1		3,122	(2,940)	(182)	-
- Transfer to stage 2		(1,602)	2,105	(503)	-
- Transfer to stage 3		(1,147)	(17,022)	18,169	-
Net increase during the year	(1)	3,591	10,461	54,889	68,941
Written-offs and disposals during the year		-	-	(68,004)	(68,004)
Recovery of loans and advances written off in previous years		-	-	3,539	3,539
Others		1	-	(1,457)	(1,456)
Balance at 31 December 2019		29,007	19,297	60,055	108,359

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018		31,168	35,384	38,930	105,482
Transfers during the year:					
- Transfer to stage 1		2,842	(2,720)	(122)	-
- Transfer to stage 2		(2,387)	2,540	(153)	-
- Transfer to stage 3		(550)	(7,642)	8,192	-
Net (decrease) / increase during the year	(1)	(6,172)	(871)	65,604	58,561
Written-offs and disposals during the year		-	-	(61,290)	(61,290)
Recovery of loans and advances written off in previous years		-	-	3,748	3,748
Others		141	2	(1,305)	(1,162)
Balance at 31 December 2018		25,042	26,693	53,604	105,339

The Bank

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019		24,551	26,501	52,597	103,649
Transfers during the year:					
- Transfer to stage 1		3,055	(2,923)	(132)	-
- Transfer to stage 2		(1,589)	2,089	(500)	-
- Transfer to stage 3		(1,122)	(16,998)	18,120	-
Net increase during the year	(1)	3,634	10,329	54,127	68,090
Written-offs and disposals during the year		-	-	(67,683)	(67,683)
Recovery of loans and advances written off in previous years		-	-	3,473	3,473
Others		1	-	(1,373)	(1,372)
Balance at 31 December 2019		28,530	18,998	58,629	106,157

	Note	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018		30,587	35,308	37,908	103,803
Transfers during the year:					
- Transfer to stage 1		2,828	(2,718)	(110)	-
- Transfer to stage 2		(2,381)	2,515	(134)	-
- Transfer to stage 3		(540)	(7,607)	8,147	-
Net (decrease) / increase during the year	(1)	(6,084)	(999)	65,333	58,250
Written-offs and disposals during the year		-	-	(60,912)	(60,912)
Recovery of loans and advances written off in previous years		-	-	3,670	3,670
Others		141	2	(1,305)	(1,162)
Balance at 31 December 2018		24,551	26,501	52,597	103,649

(1) This item includes changes of PD, EAD, LGD due to routine updates to model parameters, and the impact of stage changes on the measurement of ECL.

(2) Financial instruments whose credit risks haven't significantly increased since the initial recognition are classified into stage 1, then they will be transferred into stage 2 if their credit risks have significantly increased since the initial recognition with no objective evidence for impairment, and will be further transferred into stage 3 where there is objective impairment evidence on the balance sheet date. Refer to Note VIII. 1(3) for ECL measurement.

(b) Movements of ECL allowance of loans and advances to customers at fair value through other comprehensive income

The Group and the Bank

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	199	4	-	203
Transfers during the year：				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net increase during the year	89	4	136	229
Balance at 31 December 2019	288	8	136	432

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	409	1	-	410
Transfers during the year：				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net (decrease) / increase for the year	(210)	3	-	(207)
Balance at 31 December 2018	199	4	-	203

14 Financial Investments

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial investment measured at FVTPL	(a)	505,318	395,668	488,178	382,492
Financial investments measured at amortized cost	(b)	1,074,927	1,144,249	1,072,249	1,133,993
Fnancial investments measured at FVOCI	(c)	503,302	382,898	497,178	378,209
Financial instruments, net		2,083,547	1,922,815	2,057,605	1,894,694

(a) Financial investments measured at FVTPL:

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Fund investments		360,856	263,191	354,530	257,693
Trust and asset management plans	(1)	65,313	71,131	60,531	65,145
Corporate bonds		39,350	12,629	39,129	12,410
Bonds issued by financial institutions		10,313	5,610	10,126	5,610
Bonds issued by policy banks		7,780	5,109	7,780	5,109
Government bonds		5,846	7,859	5,846	7,859
Equity investment		4,306	1,128	114	97
Deposit certificates issued by other financial institutions		4,424	23,056	4,424	23,056
Wealth management products managed by other banks		90	208	-	-
Assets backed securities (“ABS”)		6	69	6	69
Other investment	(2)	7,034	5,678	5,692	5,444
Total		505,318	395,668	488,178	382,492

(1) Trust and asset management plans are managed and operated by the third-party trust plan trustee or asset manager, and are ultimately invested in bonds, ABS, equity investments with third-party repurchase arrangement, etc.

(2) Other investments mainly include the long-term employee benefits payable to Changjiang Pension Insurance Co., Ltd. for investment entrusted by the Group.

(b) Financial Investments measured at amortized cost

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Government bonds	481,018	455,516	481,018	455,516
Trust and asset management plans				
- Loans	138,263	177,438	137,120	168,066
- Bill assets	106,200	102,141	106,200	102,141
- ABS	122,905	117,897	122,905	117,897
- Others	11,061	5,997	11,061	5,997
Bonds issued by policy banks	193,020	194,088	193,020	194,088
Corporate bonds	6,805	25,782	6,267	25,374
Bonds issued by financial institutions	3,678	45,167	3,469	45,167
Deposit certificates issued by other financial institutions	1,373	695	1,373	695
ABS	1,346	2,518	1,346	2,518
Other debt instrument	2,155	9,650	2,155	9,650
Subtotal	1,067,824	1,136,889	1,065,934	1,127,109
Accrued interest	15,818	14,863	15,733	14,690
Impairment allowance				
-Principal of financial Investments measured at amortized cost	(8,679)	(7,488)	(9,382)	(7,791)
-Accrued interest of financial Investments measured at amortized cost	(36)	(15)	(36)	(15)
Subtotal of impairment allowance	(8,715)	(7,503)	(9,418)	(7,806)
Financial Investments at amortized cost, net	1,074,927	1,144,249	1,072,249	1,133,993

(i) Movement for ECL allowance of the financial investments measured at amortized cost：

The Group

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	2,909	238	4,341	7,488
Transfers for the year：				
- to stage 1	29	(4)	(25)	-
- to stage 2	(5)	5	-	-
- to stage 3	(196)	(132)	328	-
Net (decrease) / increase for the year	(1,137)	(50)	2,358	1,171
Recovery of loans and advances written off in previous years	-	-	21	21
Others	(1)	-	-	(1)
Balance at 31 December 2019	1,599	57	7,023	8,679

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	2,868	418	3,724	7,010
Transfers for the year：				
- to stage 1	4	(4)	-	-
- to stage 2	(5)	5	-	-
- to stage 3	(7)	(40)	47	-
Net increase / (decrease) for the year	44	(141)	562	465
Others	5	-	8	13
Balance at 31 December 2018	2,909	238	4,341	7,488

The Bank

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	2,932	238	4,621	7,791
Transfers for the year：				
- to stage 1	29	(4)	(25)	-
- to stage 2	(5)	5	-	-
- to stage 3	(5)	(132)	137	-
Net (decrease) / increase for the year	(1,376)	(54)	3,001	1,571
Recovery of loans and advances written off in previous years	-	-	21	21
Others	(1)	-	-	(1)
Balance at 31 December 2019	1,574	53	7,755	9,382

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	2,778	418	4,032	7,228
Transfers for the year：				
- to stage 1	4	(4)	-	-
- to stage 2	(5)	5	-	-
- to stage 3	(7)	(40)	47	-
Net increase / (decrease) for the year	157	(141)	534	550
Others	5	-	8	13
Balance at 31 December 2018	2,932	238	4,621	7,791

(c) Financial investments measured at FVOCI

	Note	The Group		The Bank	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Government bonds		192,752	153,340	192,752	153,340
Bonds issued by policy banks		133,893	73,947	133,893	73,947
Bonds issued by financial		80,978	57,177	80,631	57,177
Corporate bonds		59,066	54,251	55,974	50,775
Deposit certificates issued by other financial institutions		11,653	20,804	11,653	20,804
ABS		9,093	11,982	9,093	11,982
Equity investments		4,983	4,038	4,983	4,038
Trust and asset management plans	(1)	2,825	2,487	147	1,274
Fund investments		811	-	811	-
Subtotal		496,054	378,026	489,937	373,337
Accrued interest		7,248	4,872	7,241	4,872
Total		503,302	382,898	497,178	378,209

(1) Trust and asset management plans are managed and operated by the third-party trust plan trustee or asset manager, are ultimately invested in trust financial products, bill assets and bonds, etc.

(i) Movements of ECL allowance of financial investments measured at FVOCI：

The Group

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	530	16	169	715
Transfers for the year：				
- to stage 1	1	(1)	-	-
- to stage 2	(50)	50	-	-
- to stage 3	(38)	(34)	72	-
Net (decrease) / increase for the year	(79)	52	600	573
Write-offs	-	-	(95)	(95)
Others	3	-	1	4
Balance at 31 December 2019	367	83	747	1,197

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	200	-	225	425
Transfers for the year:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net increase for the year	334	16	50	400
Write-offs	-	-	(110)	(110)
Others	(4)	-	4	-
Balance at 31 December 2018	530	16	169	715

The Bank

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2019	354	14	169	537
Transfer for the year:				
- to stage 1	-	-	-	-
- to stage 2	(3)	3	-	-
- to stage 3	-	(18)	18	-
Net (decrease) / increase for the year	(62)	42	321	301
Write-offs	-	-	(95)	(95)
Others	3	-	1	4
Balance at 31 December 2019	292	41	414	747

	Stage 1 12-month ECL	Stage 2 Life-time ECL	Stage 3 Life-time ECL	Total
Balance at 1 January 2018	200	-	225	425
Transfers for the year:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Net increase for the year	158	14	50	222
Write-offs	-	-	(110)	(110)
Others	(4)	-	4	-
Balance at 31 December 2018	354	14	169	537

15 Investments in associate and joint ventures

	Note	The Group 31 December 2019	The Group 31 December 2018	The Bank 31 December 2019	The Bank 31 December 2018
Investments in joint ventures	III.37(2)	1,841	1,757	1,841	1,757
Investments in associate	III.37(2)	208	211	-	-
Total		2,049	1,968	1,841	1,757

The Group

	1 January 2019	Net income adjusted by equity method	Declared cash dividends	Other change	31 December 2019
AXA SPDB Investment Managers Co., Ltd.	1,247	166	(77)	-	1,336
SPDB Silcon Valley Bank	510	(8)	-	3	505
Others	211	13	-	(16)	208
Total	1,968	171	(77)	(13)	2,049

	1 January 2018	Net income adjusted by equity method	Declared cash dividends	Other change	31 December 2018
AXA SPDB Investment Managers Co., Ltd.	326	154	(64)	831	1,247
SPDB Silcon Valley Bank	478	22	-	10	510
Others	202	(12)	-	21	211
Total	1,006	164	(64)	862	1,968

16 Fixed assets

The Group

	land and buildings	Motor vehicles	Electronic computers and other equipments	Plane and ship equipments	Construction in progress	Total
Cost						
1 January 2018	12,657	464	7,701	10,295	4,674	35,791
Additions	366	31	844	2,300	6,326	9,867
Transferred from construction in progress	-	-	-	-	(6,501)	(6,501)
Disposals	(7)	(34)	(577)	-	-	(618)
31 December 2018	13,016	461	7,968	12,595	4,499	38,539
Additions	204	34	979	4,684	840	6,741
Transferred from / (to) construction in progress	1,244	-	3	-	(1,366)	(119)
Disposals	(749)	(48)	(644)	-	-	(1,441)
31 December 2019	13,715	447	8,306	17,279	3,973	43,720
Accumulated depreciation						
1 January 2018	(3,793)	(355)	(5,596)	(907)	-	(10,651)
Charge	(424)	(36)	(896)	(608)	-	(1,964)
Disposal	3	31	534	-	-	568
31 December 2018	(4,214)	(360)	(5,958)	(1,515)	-	(12,047)
Charge	(471)	(43)	(942)	(744)	-	(2,200)
Disposal	332	45	533	-	-	910
31 December 2019	(4,353)	(358)	(6,367)	(2,259)	-	(13,337)
Net book value						
31 December 2019	9,362	89	1,939	15,020	3,973	30,383
31 December 2018	8,802	101	2,010	11,080	4,499	26,492

As at 31 December 2019, the net book value of RMB 15.02 billion (31 December 2018: RMB 11.08 billion) of the flight and ship equipment were rent out under operating lease by the Group's subsidiary, Puyin Financial Leasing Co., Ltd..

The Bank

	land and buildings	Motor vehicles	Electronic computers and other equipments	Construction in progress	Total
Cost					
1 January 2018	12,140	435	7,536	4,674	24,785
Additions	357	26	809	6,326	7,518
Transferred from constructions in progress	-	-	-	(6,501)	(6,501)
Disposals	(7)	(25)	(550)	-	(582)
31 December 2018	12,490	436	7,795	4,499	25,220
Additions	113	24	863	837	1,837
Transferred from / (to) constructions in progress	1,244	-	3	(1,366)	(119)
Disposals	(739)	(47)	(630)	-	(1,416)
31 December 2019	13,108	413	8,031	3,970	25,522
Accumulated					
1 January 2018	(3,745)	(336)	(5,514)	-	(9,595)
Charge	(392)	(32)	(861)	-	(1,285)
Disposals	3	23	519	-	545
31 December 2018	(4,134)	(345)	(5,856)	-	(10,335)
Charge	(368)	(28)	(824)	-	(1,220)
Disposals	322	44	519	-	885
31 December 2019	(4,180)	(329)	(6,161)	-	(10,670)
Net book value					
31 December 2019	8,928	84	1,870	3,970	14,852
31 December 2018	8,356	91	1,939	4,499	14,885

As at 31 December 2019, the Land and buildings with original cost of RMB 1,236 million and net book value of RMB 1,078 million were in use by the Group and the Bank while the property right registration were still in progress.

17 Intangible assets

The Group

	Land use rights	Software and others	Contractual customer relationships	Brand and franchise right	Total
Cost					
1 January 2018	408	2,609	688	2,236	5,941
Additions	6,392	1,033	-	-	7,425
31 December 2018	6,800	3,642	688	2,236	13,366
Additions	-	1,336	-	-	1,336
Disposals	-	(4)	-	-	(4)
31 December 2019	6,800	4,974	688	2,236	14,698
Accumulated					
1 January 2018	(67)	(2,016)	(559)	-	(2,642)
Amortization	(210)	(463)	(89)	-	(762)
31 December 2018	(277)	(2,479)	(648)	-	(3,404)
Amortization	(177)	(745)	(19)	-	(941)
Disposals	-	4	-	-	4
31 December 2019	(454)	(3,220)	(667)	-	(4,341)
Net book value					
31 December 2019	6,346	1,754	21	2,236	10,357
31 December 2018	6,523	1,163	40	2,236	9,962

The Bank

	Land use rights	Software and others	Total
Cost			
1 January 2018	405	2,549	2,954
Additions	6,392	1,023	7,415
31 December 2018	6,797	3,572	10,369
Additions	-	1,282	1,282
Disposals	-	(2)	(2)
31 December 2019	6,797	4,852	11,649
Accumulated			
1 January 2018	(67)	(1,988)	(2,055)
Amortization	(210)	(449)	(659)
31 December 2018	(277)	(2,437)	(2,714)
Amortization	(177)	(693)	(870)
Disposals	-	2	2
31 December 2019	(454)	(3,128)	(3,582)
Net book value			
31 December 2019	6,343	1,724	8,067
31 December 2018	6,520	1,135	7,655

18 Goodwill

	31 December 2019	31 December 2018
Goodwill		
-Shanghai International Trust Co., Ltd. (“Shanghai International Trust”)	6,981	6,981
Less：impairment allowances	-	-
Total	6,981	6,981

The goodwill is recognized as a result of the Bank’s issuance of share capital to acquire 97.33% equity of Shanghai International Trust in March 2016.

The goodwill allocated to the CGU or CGUs on transcation date according to operating segments are summarised as follows:

	31 December 2018 and 2019
Shanghai International Trust	4,739
Subsidiaries of Shanghai International Trust	2,242
Total	6,981

In the case of a goodwill impairment test, the Group compares the book value of CGU or CGUs (including goodwill) with its recoverable amount. If the recoverable amount is less than the book value, the related difference is recognised in profit or loss. The Group's goodwill allocation has not changed during the year.

The Group calculates the recoverable amount of CGU and CGUs using cash flow models based on the management's approved five year financial forecasts. The Group determines the growth rate based on historical experience and market development forecasts, and uses a pre-tax rate that reflects the specific risk relating to the relevant CGU and CGUs as the discount rate. The stable period growth rate is the weighted average growth rate used for subsequent cash flows after the five-year forecast period.

19 Deferred income tax

19.1 The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts:

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deferred income tax assets	45,709	36,877	44,763	36,078
Deferred income tax liabilities	(634)	(643)	-	-

19.2 Deferred income tax assets / liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

The Group

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Impairment allowances for financial assets at amortized cost	178,398	44,599	148,296	37,074
Employee benefits payable	7,496	1,874	684	171
Provisions	6,698	1,674	4,747	1,187
Fair value changes of derivative financial instruments	2,784	696	-	-
Fair value changes of loan measured at FVOCI	532	133	-	-
Fair value changes of other debt investments recognised in other comprehensive income	-	-	394	98
Fair value changes of precious metals and commodities	-	-	357	89
Fair value changes of hedged debt investments	-	-	64	16
Others	767	191	-	-
Subtotal	196,675	49,167	154,542	38,635
Offset amounts		(3,458)		(1,758)
Deferred income tax assets after offsetting		45,709		36,877

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Fair value changes of financial investment measured at FVOCI	(7,517)	(1,879)	(4,545)	(1,136)
Fair value changes of precious metals and commodities	(2,681)	(670)	-	-
Differences between fair value and carrying amount of identifiable net assets arising from business combinations of entities not under common control	(2,529)	(632)	(2,568)	(642)
Fair value changes of assets and liabilities measured at FVTPL	(2,437)	(609)	(1,233)	(308)
Fair value changes of financial investment measured at FVOCI	(905)	(226)	(579)	(145)
Fair value changes of hedged financial investment measured at FVOCI	(296)	(74)	-	-
Fair value changes of derivative financial instruments	-	-	(481)	(120)
Fair value changes of loan measured at FVOCI	-	-	(169)	(42)
Others	(8)	(2)	(33)	(8)
Subtotal	(16,373)	(4,092)	(9,608)	(2,401)
Offset amounts		3,458		1,758
Deferred tax liabilities after offsetting		(634)		(643)

The Bank

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Impairment allowances for financial assets at amortized cost	175,589	43,897	145,976	36,494
Provision	6,697	1,674	4,742	1,186
Employee benefits payable	6,478	1,619	-	-
Fair value changes of derivative financial instruments	2,782	696	-	-
Fair value changes of loan measured at FVOCI	532	133	-	-
Fair value changes of precious metals and commodities	-	-	357	89
Fair value changes of hedged other debt investments	-	-	64	16
Others	764	191	-	-
Subtotal	192,842	48,210	151,139	37,785
Offset amounts		(3,447)		(1,707)
Deferred tax liabilities after offsetting		44,763		36,078

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Fair value changes of financial investment measured at FVOCI	(7,300)	(1,825)	(4,545)	(1,136)
Fair value changes of precious metals and commodities	(2,681)	(670)	-	-
Fair value changes of assets and liabilities measured at FVTPL	(2,609)	(652)	(1,028)	(257)
Fair value changes of other equity instruments recognized in other comprehensive income	(905)	(226)	(579)	(145)
Fair value changes of hedged financial investment measured at FVOCI	(296)	(74)	-	-
Fair value changes of derivative financial instruments	-	-	(481)	(120)
Fair value changes of loan measured at FVOCI	-	-	(169)	(42)
Others	-	-	(29)	(7)
Subtotal	(13,791)	(3,447)	(6,831)	(1,707)
Offset amounts		3,447		1,707
Deferred tax liabilities after offsetting		-		-

19.3 The movement of the deferred income tax account is as follows:

	Note	The Group 2019	The Group 2018	The Bank 2019	The Bank 2018
Balance at beginning of the year		36,234	28,342	36,078	28,381
Impact of initial adoption of IFRS 16		135	-	126	-
Impact of initial adoption of IFRS 9		-	5,213	-	5,266
Restated beginning balance of the year		36,369	33,555	36,204	33,647
Charged to profit or loss	III.7	9,399	4,918	9,264	4,690
Charged to other comprehensive income	III.33	(693)	(2,239)	(705)	(2,259)
Balance at the end of the year		45,075	36,234	44,763	36,078

20 Other assets

	Note	The Group 31 December 2019	The Group 31 December 2018	The Bank 31 December 2019	The Bank 31 December 2018
Finance lease receivables	(1)	52,259	48,232	-	-
Suspense accounts		41,884	13,543	41,884	13,543
Margin deposits		12,353	9,754	12,353	9,754
ROU assets	(2)	7,717	NA	7,235	NA
Other receivables	(3)	4,930	4,932	2,779	3,316
Repossessed and other assets		3,967	605	3,651	595
Payments to Trust Protection Fund on behalf of investors		3,004	2,745	-	-
Prepayment for land-use rights and constructions		2,204	1,758	2,204	1,758
Long-term deferred expenses		598	1,168	538	1,110
Interest receivable		488	705	482	700
Total		129,404	83,442	71,126	30,776

(1) Financial lease receivables

The Group

	31 December 2019	31 December 2018
Within 1 year (including 1 year)	18,789	17,424
1 to 2 years (including 2 years)	16,310	12,642
2 to 3 years (including 3 years)	11,279	9,485
Over 3 years	13,617	15,562
Gross amount of minimum finance lease receivables	59,995	55,113
Accrued interest	444	502
Less: unearned financial income	(6,480)	(6,460)
Less: Impairment allowance	(1,700)	(923)
Net finance lease receivables	52,259	48,232

(2) ROU assets

The Group

	Leased houses and buildings	Other leased equipments	Total
Cost			
1 January 2019	14,139	675	14,814
Additions	3,648	25	3,673
Deductions	(1,690)	(273)	(1,963)
31 December 2019	16,097	427	16,524
Depreciation			
1 January 2019	(7,299)	(315)	(7,614)
Charge	(2,482)	(160)	(2,642)
Deduction	1,293	156	1,449
31 December 2019	(8,488)	(319)	(8,807)
Net book value			
31 December 2019	7,609	108	7,717
1 January 2019	6,840	360	7,200

The Bank

	Leased houses and buildings	Other leased equipments	Total
Cost			
1 January 2019	13,872	300	14,172
Additions	3,118	25	3,143
Deductions	(1,673)	(57)	(1,730)
31 December 2019	15,317	268	15,585
Depreciation			
1 January 2019	(7,150)	(165)	(7,315)
Charge	(2,308)	(52)	(2,360)
Deduction	1,271	54	1,325
31 December 2019	(8,187)	(163)	(8,350)
Net book value			
31 December 2019	7,130	105	7,235
1 January 2019	6,722	135	6,857

(3) Other receivables

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Analysis by aging				
Within 1 year	6,182	6,155	4,191	4,680
1 to 2 years	399	315	241	161
2 to 3 years	162	61	150	51
Over 3 years	1,345	1,052	1,337	1,048
Subtotal	8,088	7,583	5,919	5,940
Less: Impairment allowance	(3,158)	(2,651)	(3,140)	(2,624)
Total	4,930	4,932	2,779	3,316

21 Deposits and placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deposits from domestic banks	263,808	231,926	269,760	238,492
Deposits from overseas banks	15,297	30,180	15,297	30,180
Deposits from domestic non-bank financial institutions	702,051	783,406	703,303	784,655
Deposits from overseas non-bank financial institutions	17,108	18,047	17,861	18,047
Placements from domestic banks	106,186	96,104	67,872	61,910
Placements from overseas banks	50,159	48,515	46,741	45,571
Placements from domestic non-bank financial institutions	5,300	3,470	2,400	1,800
Placements from overseas non-bank financial institutions	350	-	350	-
Accrued interest	3,110	4,743	2,945	4,678
Total	1,163,369	1,216,391	1,126,529	1,185,333

22 Financial liabilities measured at FVTPL

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial liabilities related to precious metals		18,464	24,504	18,464	24,504
Interest of other unitholders in consolidated structured entities	(1)	4,831	10,408	-	-
Total		23,295	34,912	18,464	24,504

(1) The Group designated interests attributable to other unit holders in consolidated structured entities as financial liabilities measured at FVTPL. As at 31 December 2019 and 31 December 2018, no significant fair value changes have occurred due to changes in the Group's own credit risk.

23 Financial assets sold under repurchase agreements

	The Group and the Bank	
	31 December 2019	31 December 2018
Bonds	136,559	85,383
Discounted bills	90,574	34,067
Interbank deposit certificates	340	-
Accrued interest	110	114
Total	227,583	119,564

24 Deposits from customers

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Current deposits				
-corporate	1,312,073	1,244,437	1,308,329	1,235,699
-retail	239,287	219,601	236,633	216,471
Time deposits				
-corporate	1,477,382	1,330,802	1,472,697	1,325,892
-retail	596,673	428,273	580,767	415,068
Other deposits	2,438	3,905	2,414	3,788
Subtotal	3,627,853	3,227,018	3,600,840	3,196,918
Accrued interest	33,989	26,297	33,163	25,671
Total	3,661,842	3,253,315	3,634,003	3,222,589

25 Debt securities issued

	Note	The Group 31 December 2019	The Group 31 December 2018	The Bank 31 December 2019	The Bank 31 December 2018
Interbank deposit certificates and deposit certificates issued	(1)	692,491	614,564	692,491	614,564
Bonds issued					
Subordinated bond issued in 2011	(2)	18,400	18,400	18,400	18,400
Subordinated bond issued in 2012	(3)	12,000	12,000	12,000	12,000
Tier II capital bond issued in 2015	(4)	30,000	30,000	30,000	30,000
Green Financial Bond 01		-	20,000	-	20,000
Green Financial Bond 02	(5)	15,000	15,000	15,000	15,000
Green Financial Bond 03	(6)	15,000	15,000	15,000	15,000
2017 First Financial Bond	(7)	15,000	15,000	15,000	15,000
2017 Second Financial Bond	(8)	22,000	22,000	22,000	22,000
2017 Third Financial Bond	(9)	13,000	13,000	13,000	13,000
2018 Tier II First Financial Bond	(10)	20,000	20,000	20,000	20,000
2018 Tier II Second Financial Bond	(11)	20,000	20,000	20,000	20,000
2019 First Special Financial Bond for Small and Micro Enterprise Loans	(12)	50,000	-	50,000	-
Hong Kong USD medium-term note	(13)	12,191	12,015	12,191	12,015
Singapore USD medium-term note	(14)	2,090	2,060	2,090	2,060
London USD medium-term note	(15)	2,090	-	2,090	-
SPDB Convertible corporate bonds	(16)	50,000	-	50,000	-
2017 SPDB Financial Leasing Financial Bond	(17)	3,000	3,000	-	-
2018 SPDB Financial Leasing Financial Bond	(18)	5,000	5,000	-	-
2019 First SPDB Financial Leasing Financial Bond	(19)	2,000	-	-	-
2019 Second SPDB Financial Leasing Financial Bond	(20)	2,000	-	-	-
Subtotal		308,771	222,475	296,771	214,475
Less: Unamortized issue cost		(2,645)	(104)	(2,629)	(97)
Debt securities issued		306,126	222,371	294,142	214,378
ABS					
Puxin 2017 First Leasing ABS		9	419	-	-
Interest accrued		4,876	4,086	4,668	3,931
Total		1,003,502	841,440	991,301	832,873

(1) As at 31 December 2019, the Group issued a total of 266 interbank deposit certificates in the domestic inter-bank market which have not yet expired, with the longest term to maturity being 3 years and interest rates falling within a range from 2.65% to 3.28% (As at 31 December 2018, the Group issued a total of 225 interbank deposit certificates in the domestic inter-bank market which have not yet expired, with the longest term to maturity being 3 years and interest rates falling within a range from 2.80% to 4.94%).

The deposit certificates of the Group were all publicly issued by overseas institutions of the Group. As at 31 December 2019, the number of deposit certificates publicly issued but not yet expired were 50 in total, with the longest term to maturity being 372 days and interest rates falling within a range from 0% to 3.30% (as at 31 December 2018, the number of deposit certificates publicly issued but not yet expired were 58 in total, with the longest term to maturity being 1,826 days and interest rates falling within a range from 0% to 4.40%).

(2) The Bank issued subordinated bond in the amount of RMB 18.4 billion in the domestic inter-bank market on 11 October 2011 which have a term of 15 years through maturity, with a fixed annual coupon rate of 6.15%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

(3) The Bank issued subordinated bond in the amount of RMB 12.0 billion in the domestic inter-bank market on 27 December 2012 which have a term of 15 years through maturity, with a fixed annual coupon rate of 5.20%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

(4) The Bank issued Tier II capital instruments in the amount of RMB 30 billion in the domestic inter-bank market on 7 September 2015 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.50%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain circumstances.

(5) The Bank issued “2016 Second Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 25 March 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.20%.

(6) The Bank issued “2016 Third Green Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 14 July 2016 which has a term of 5 years through maturity, with a fixed annual coupon rate of 3.40%.

(7) The Bank issued “2017 First Financial Bond” in the amount of RMB 15 billion in the domestic inter-bank market on 22 February 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.00%.

(8) The Bank issued “2017 Second Financial Bond” in the amount of RMB 22 billion in the domestic inter-bank market on 26 April 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

(9) The Bank issued “2017 Third Financial Bond” in the amount of RMB 13 billion in the domestic inter-bank market on 10 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.20%.

(10) The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 5 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

(11) The Bank issued Tier II capital instruments in the amount of RMB 20 billion in the domestic inter-bank market on 14 September 2018 which have a term of 10 years through maturity, with a fixed annual coupon rate of 4.96%. The Bank is entitled to redeem entire portion or part of the instruments at par value on its fifth anniversary under certain conditions.

(12) The Bank issued “2019 First Special Financial Bond for Small and Micro Enterprise Loans” in the amount of RMB 50 billion in the domestic inter-bank market on 25 March 2019 which have a term of 3 years, with a fixed annual coupon rate of 3.50%.

(13) The Bank issued USD 500 million Medium-term note in Hong Kong Exchange and Clearing Limited on 13 February 2017 which have a term of 3 years through maturity, with a fixed annual coupon rate of 2.375%. The Bank issued USD 400 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July 2017 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+85BPS. The Bank issued USD 350 million medium-term note in Hong Kong Exchange and Clearing Limited on 13 July, 2017 which has a term of 5 years through maturity, with a flexible annual coupon rate of 3ML+95BPS. The Bank issued USD 500 million medium-term note in Hong Kong Exchange and Clearing Limited on 24 September 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+84BPS.

(14) The Bank issued USD 300 million medium-term note in Singapore Exchange Limited on 26 November 2018 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+87BPS.

(15) The Bank issued USD 300 million medium-term note in London Exchange Limited on 30 October 2019 which has a term of 3 years through maturity, with a flexible annual coupon rate of 3ML+70BPS.

(16) As approved by the relevant regulatory authorities in China, the Bank made a public offering of RMB50 billion A-share convertible corporate bonds on 15 November 2019. The convertible corporate bonds have a term of six years from 28 October 2019 to 27 October 2025, at coupon rates of 0.20% for the first year, 0.80% for the second year, 1.50% for the third year, 2.10% for the fourth year, 3.20% for the fifth year and 4.00% for the sixth year. The conversion of these convertible corporate bonds begins from the first trading day after six months upon the completion date of the offering (4 May 2020) to the maturity date (27 October 2025).

In accordance with formulas set out in the prospectus of the convertible corporate bonds, the initial conversion price of the convertible corporate bonds is RMB 15.05 per share, and the price of the convertible corporate bonds will be adjusted to reflect the dilutive impact of cash dividends and increase in paid-in capital under specified circumstances (excluding the conversion of convertible bonds due to this issue). The holder of this bond applies for a conversion within the conversion period. The number of conversions is calculated by dividing the total amount of the bond faced by the bond holder applying for the conversion by the effective conversion price on the day of application for the conversion. Within five trading days after the expiration of the convertible bonds issued by the Bank, the Bank will redeem all unconverted convertible bonds at 110% of the face value of the bonds' convertible bonds (including the interest of the last year). For the specific issuance terms of this bond, please refer to the relevant issuance announcement.

(17) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2017 Financial Bond” in the amount of RMB 3 billion in the domestic inter-bank market on 24 August 2017 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.96%.

(18) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued “2018 Financial Bond” in the amount of RMB 5 billion in the domestic inter-bank market on 19 July 2018 which has a term of 3 years through maturity, with a fixed annual coupon rate of 4.49%.

(19) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued "2019 first Financial Bond" in the amount of RMB 2 billion in the domestic inter-bank market on 23 July 2019 which has a term of 3 years through maturity, with a fixed annual coupon rate of 3.62%.

(20) SPDB Financial Leasing Co., Ltd, the subsidiary of the Bank, issued "2019 second Financial Bond" in the amount of RMB 2 billion in the domestic inter-bank market on 20 August 2019 which has a term of 3 years through maturity, with a fixed annual coupon rate of 3.45%.

Convertible bonds are as follows:

	Liability	Equity (Note III.29)	Total
Issued amount of convertible bonds	47,214	2,786	50,000
Direct issuance expenses	(78)	(4)	(82)
Balance at the issuance date	47,136	2,782	49,918
Amortisation in the current year	306	-	306
Balance at 31 December 2019	47,442	2,782	50,224

26 Provisions

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Impairment allowance for financial guarantees and loan commitments	6,698	4,747	6,697	4,742

27 Other liabilities

		The Group		The Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Suspense accounts		24,656	28,527	24,656	28,527
Employee benefits payable		12,628	10,487	11,269	9,311
Lease liabilities	(1)	7,907	NA	7,421	NA
VAT and other taxes payable		4,820	4,938	3,514	3,832
Advances from and deposits under lease agreements		4,164	4,262	-	-
Contract liabilities		3,290	2,782	2,073	1,156
Accrued expenses		1,374	3,240	1,251	3,240
Due to Trust Protection Fund		1,000	970	-	-
Others		7,851	4,555	4,565	3,819
Total		67,690	59,761	54,749	49,885

(1) Lease liabilities by maturity date

	The Group		The Bank	
	31 December 2019		31 December 2019	
	Undiscounted amount	Carrying amount	Undiscounted amount	Carrying amount
Within 1 year	2,563	2,494	2,434	2,392
1 to 2 years	1,957	1,844	1,876	1,770
2 to 3 years	1,427	1,291	1,362	1,232
3 to 5 years	1,627	1,391	1,523	1,302
Over 5 years	1,197	887	976	725
Total	8,771	7,907	8,171	7,421

28 Share capital

The Group and the Bank

	31 December 2019	31 December 2018
Domestic listed RMB ordinary share (A shares)	29,352	29,352

A shares issued by the Bank are all ordinary share, with a par value of RMB 1 per share. All shares rank pari passu with each other in all respects.

29 Other equity instrument

The Group and the Bank

	Note	31 December 2019	31 December 2018
Other equity instruments included in the tier 1 capital of the Bank-Equity of SPDB convertible corporate bonds	(1)	2,782	-
Other equity instruments included in other tier 1 capital of the Bank	(2)	59,916	29,920
Total		62,698	29,920

(1) As at 31 December 2019, the Equity of convertible corporate bonds issued by the Bank was RMB 2,782 million (2018: nil), see note III. 25(16) for specific information.

(2) Other equity instruments included in other tier 1 capital of the Bank

Name of other equityinstruments outstanding	Dividend rate	Issuance Price (Yuan)	Number	Opening amount	Movements during the year	Closing amount	Maturity date or renewals	Conversion (Yes/No)
Pufayou 1(a)	6% for the first five years; 5.58% for the second five years	100	150 million	15,000	-	15,000	No maturity date	No
Pufayou 2(a)	5.5% for the first five years	100	150 million	15,000	-	15,000	No maturity date	No
19 SPDB Perpetual bonds (b)	4.73% for the first five years	100	300 million	-	30,000	30,000	No maturity date	No
Less: Issue expenses				(80)	(4)	(84)		
Carrying amount				29,920	29,996	59,916		

(a) On 28 November 2014 and 6 March 2015, the Bank issued non-cumulative preference shares with a total par value of RMB 30 billion. The proceeds after deducting transaction costs amounted to RMB 29.92 billion and were recorded as other equity instruments. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, under the approval obtained from the CBIRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on annual basis at a fixed dividend rate which is adjusted every five years. The Bank at its discretion has the right not to declare and distribute the dividends of the preference shares in part or full.

Upon occurrence of any of the following triggering events and subject to the approval from the CBIRC, the Bank’s outstanding preference shares shall be mandatorily converted in part or full to the Bank’s ordinary shares:

1、 When the core tier 1 capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preference share shall be converted into the Bank’s ordinary shares in part or full at a pre-determined mandatory conversion price so as to bring the Bank’s core tier 1 capital adequacy ratio back to above 5.125%;

2、When any triggering event of the Bank’s tier 2 capital instruments occurs, the outstanding preference shares shall be converted to the Bank’s ordinary A shares at the pre-determined mandatory conversion price.

Under the approval from regulatory authority, the outstanding preference shares will be fully or partially converted to ordinary A-shares at the price of RMB 7.62 per share when meeting the mandatory conversion triggering conditions. If the Bank subsequently appropriates bonus shares, transfers retained earnings to ordinary shares, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible bonds, etc.) or issue rights, the conversion price shall be adjusted subject to the terms and formula provided by the offering documents to adjust for the dilutive effects of these specified increases in ordinary shares.

Pursuant to the relevant laws and regulations, and the Approval from CBIRC on the Bank's Non-Public Offering of Preference Shares and Corresponding Revisions to the Article of Association (YJF[2014]No.564), the proceeds from the issuance of preference shares shall be used to supplement the other tier 1 capital of the Bank.

Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

(b) The Bank issued RMB 30,000 million capital bonds without fixed terms ("Perpetual bonds") in the inter-bank market on 10 July 2019 and raised funds RMB 29,996 million after deducting issuance expenses were all accounted for as other equity instruments. The duration of this perpetual bonds was consistent with the duration of the Bank's continuing operations. The Bank shall have the right to redeem the Perpetual Bond in whole or in part on the fifth distribution payment date since the issuance, provided that prerequisite for redemption is met and such redemption is approved by the CBIRC, and the bond investors have no right to request the Bank to redeem the perpetual bond. The Bank shall have the right to cancel, in whole or in part, distributions on the Perpetual Bond

The Bank has the right to write down the bonds without obtaining the consent of the perpetual bond investor when the Bank triggers the following trigger events as deemed by the CBIRC or relevant departments and obtains regulatory approval.

1、 Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% or below), with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above Perpetual Bond issued and existing at that time in accordance with the total par value, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%.

2、 When any triggering event of the Bank's tier 2 capital instruments occurs, the Bank has the right to write down all the above Perpetual Bond issued and existing at that time in accordance with the total par value without the consent of the bondholders.

Pursuant to applicable laws and regulations and the "China Banking and Insurance Regulatory Commission's Reply on the Issuance of Unfixed-Term Capital Bonds by SPDB" (Yinbao Jianfu [2019] No. 596), the funds raised from perpetual bonds are used to supplement other Tier 1 capital of the Bank.

The compensation order of the perpetual bond is behind of depositors, general creditors and subordinated debts that are prior than the perpetual bond, and ahead of all types of shares held by shareholders of the Bank; the perpetual bond will be compensated in the same order with other Tier 1 capital instruments which have the same compensation order.

30 Capital reserves

	The Group		The Bank	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Share premium	81,689	81,689	81,689	81,689
Other capital surplus				
- Capital increase of subsidiaries	50	50	-	-
- Others	21	21	21	21
Total	81,760	81,760	81,710	81,710

31 Surplus reserves

The Group and The Bank

	1 January 2019	Addition	31 December 2019
Statutory reserve	22,206	-	22,206
Discretionary reserve	87,511	16,088	103,599
Total	109,717	16,088	125,805

	1 January 2018	Addition	31 December 2018
Statutory reserve	22,206	-	22,206
Discretionary reserve	71,992	15,519	87,511
Total	94,198	15,519	109,717

Pursuant to related PRC regulations, the Bank is required to appropriate 10% of its annual net profit to a statutory reserve until such reserve has reached 50% of ordinary shares. After the appropriation of statutory reserve, the Bank may further appropriate discretionary reserve.

32 General risk reserve

The Group

	1 January 2019	Addition	31 December 2019
General risk reserve	75,946	303	76,249

	1 January 2018	Addition	31 December 2018
General risk reserve	75,702	244	75,946

The Bank

	1 January 2019	Addition	31 December 2019
General risk reserve	74,900	-	74,900

	1 January 2018	Addition	31 December 2018
General risk reserve	74,900	-	74,900

Pursuant to Caijin [2012] No. 20 “Administration Rules on Appropriation to General Risk Reserve for Financial Institutions” issued by MOF, the Bank is required to make appropriation to a general risk reserve.

General risk reserve of the Group also includes appropriation of the Bank’s subsidiaries required by industry or district regulations.

33 Other reserves

The Group

	Opening balance of other comprehensive income attributable to the Bank's Shareholders	for the year from 1 January 2019 to 31 December 2019					Ending balance of other comprehensive income attributable to the Bank's Shareholders
		Transfer in before tax	Less：transfer out	Less：income tax	Attributable to the Bank after tax	Attributable to minority shareholders after tax	
Items that may be reclassified to profit or loss							
Financial investments measured at FVOCI							
- Fair value changes	3,240	4,186	(1,878)	(546)	1,760	2	5,000
- Impairment allowance	689	806	(95)	(66)	645	-	1,334
Exchange differences from the translation of foreign operations	296	(41)	-	-	(41)	-	255
Cash flow hedge reserve	-	(2)	-	-	(1)	(1)	(1)
Item that will not be reclassified to profit or loss							
Changes in fair value of other equity instruments							
- Fair value changes	434	326	-	(81)	245	-	679
	4,659	5,275	(1,973)	(693)	2,608	1	7,267

	Opening balance of other comprehensive income attributable to the Bank's Shareholders	for the year from 1 January 2018 to 31 December 2018					Ending balance of other comprehensive income attributable to the Bank's Shareholders
		Transfer in before tax	Less: transfer out	Less: income tax	Attributable to the Bank after tax	Attributable to minority shareholders after tax	
Items that may be reclassified to profit or loss							
Financial investments measured at FVOCI							
- Fair value changes	(3,084)	8,793	(361)	(2,108)	6,324	-	3,240
- Impairment allowance	626	193	(110)	(21)	63	(1)	689
Exchange differences from the translation of foreign operations	35	266	-	-	261	5	296
Item that will not be reclassified to profit or loss							
Changes in fair value of other equity instruments							
- Fair value changes	103	441	-	(110)	331	-	434
	(2,320)	9,693	(471)	(2,239)	6,979	4	4,659

The Bank

	Opening balance of other comprehensive income	for the year from 1 January 2019 to 31 December 2019				Ending balance of other comprehensive income
		Transfer in before tax	Less： transfer out	Less： income tax	after tax	
Items that may be reclassified to profit or loss						
Financial investments measured at FVOCI						
- Fair value changes	3,536	3,621	(1,566)	(514)	1,541	5,077
- Impairment allowance	555	534	(95)	(110)	329	884
Exchange differences from the translation of foreign operations	102	(72)	-	-	(72)	30
Item that will not be reclassified to profit or loss						
Changes in fair value of other equity instruments						
- Fair value changes	434	326	-	(81)	245	679
	4,627	4,409	(1,661)	(705)	2,043	6,670

	Opening balance of other comprehensive income	for the year from 1 January 2018 to 31 December 2018 Transfer in before tax	Less：transfer out	Less：income tax	after tax	Ending balance of other comprehensive income
Items that may be reclassified to profit or loss						
Financial investments measured at FVOCI						
- Fair value changes	(2,982)	8,841	(150)	(2,173)	6,518	3,536
- Impairment allowance	626	15	(110)	24	(71)	555
Exchange differences from the translation of foreign operations	(8)	110	-	-	110	102
Item that will not be reclassified to profit or loss						
Changes in fair value of other equity instruments						
- Fair value changes	103	441	-	(110)	331	434
	(2,261)	9,407	(260)	(2,259)	6,888	4,627

34 Profit appropriations

(1) Profit distribution for the year ended 31 December 2018

Pursuant to the approval at the Shareholders' meeting on 24 April 2019, the Bank's profit distribution plan for the year ended 31 December 2018 is as follows:

(i) The Bank appropriated for discretionary surplus reserve at 30% of the profit after tax, amounting to RMB 16,088 million;

(ii) The Bank declared and distributed cash dividends of RMB 3.50 Yuan (tax included) for every 10 shares to all shareholders based on the total share capital of 29,352,080,397 ordinary shares at the end of 2018, amounting to RMB 10,273 million.

(2) Profit distribution for the year ended 31 December 2017

Pursuant to the approval at the Shareholders' meeting on 28 May 2018, the Bank's profit distribution plan for the year ended 31 December 2017 is as follows:

(i) The Bank appropriates for discretionary surplus reserve at 30% of the profit after tax, amounting to RMB 15,519 million;

(ii) The Bank declared and distributed cash dividends of RMB 1 Yuan (tax included) for every 10 shares to all shareholders based on the total share capital of 29,352,080,397 ordinary shares at the end of 2017, amounting to RMB 2,935 million;

(3) Dividend distribution for preference shares

On 20 November 2019, the dividend distribution plan for Pufayou 1 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 900 million in total (tax included) on 3 December 2019, which were calculated according to the rate of 6.0%.

On 1 February 2019, the dividend distribution plan for Pufayou 2 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 825 million in total (tax included) on 11 March 2019, which were calculated according to the rate of 5.5%.

On 19 November 2018, the dividend distribution plan for Pufayou 1 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 900 million in total (tax included) on 3 December 2018, which were calculated according to the rate of 6.0%.

On 2 March 2018, the dividend distribution plan for Pufayou 2 was approved by the Board of Directors of the Bank. The Bank distributed dividends of RMB 825 million in total (tax included) on 12 March 2018, which were calculated according to the rate of 5.5%.

35 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Assets backed securitization transaction

For the year ended 31 December 2019, the Group transferred financial assets amounted to RMB 28,930 million through assets backed securitization transactions, and all have met the requirement of derecognition (For the year ended 31 December 2018, the Group transferred financial assets amounted to RMB 7,893 million through assets backed securitization transactions, all have met the requirement of derecognition).

Transfer of loans assets

For the year ended 31 December 2019, the Group directly transferred and derecognized a total amount of RMB 24,189 million loan assets to third parties, which were all non-performing loans to asset management companies and have met the requirement of derecognition (For the year ended 31 December 2018, the Group directly transferred a total amount of RMB 67,595 million loan assets to third parties. Among them, a total amount of RMB 22,049 million loan assets were transferred to structured entities and a total amount of RMB 45,546 million were non-performing loans to asset management companies. All of the transferred assets have met the requirement of derecognition).

Securities lending transaction

In the securities lending transaction, the counterparty may sell or re-use the above securities in the condition that no default exists, but at the same time bear the obligation to return the above securities on the expiration date specified in the agreement. For the above business, the Group believes that the Group retains most of the risks and rewards of the relevant securities and therefore does not derecognize the relevant securities. As at 31 December 2019, the carrying amount of the assets transferred by the Group in securities lending transactions was RMB 59,540 million (31 December 2018: RMB 44,240 million).

36 Involvement with unconsolidated structured entities

(1) Structured entities sponsored by third party institutions in which the Group holds an Interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the products issued by these structured entities. Such structured entities include fund investment, capital trust and asset management plans, wealth management products, asset-backed securities and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of investment products to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in the structured entities sponsored by third party institutions:

	The Group			
	31 December 2019		31 December 2018	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments measured at FVTPL				
Fund investments	359,823	359,823	260,512	260,512
Capital trust and asset management plans	60,531	60,531	65,145	65,145
Wealth management products	90	90	208	208
Other investments	7,034	7,034	5,678	5,678
Financial investments measured at amortised cost				
Capital trust and asset management plans	368,384	368,384	272,648	272,648
ABS	1,361	1,361	2,536	2,536
Financial investments measured at FVOCI				
ABS	9,093	9,093	11,982	11,982
Fund investments	811	811	-	-
Capital trust and asset management plans	147	147	1,274	1,274

The maximum exposures to loss in the above fund investment, capital trust and asset management plans, wealth management products, asset-backed securities and other investments are the amortised cost or fair value of the assets held by the Group at the reporting date.

(2) Structured entities sponsored by the Group which the Group did not consolidate but held an interest

The types of unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products, trust plan, fund investment and asset-backed securities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes investments in notes issued by these structured entities and fees charged by providing management services. As at 31 December 2019, the carrying amounts of the investments in the notes issued by these structured entities and fee receivables being recognised were not material in the statement of financial positions.

As at 31 December 2019, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, were RMB 1,447,050 million (31 December 2018: RMB 1,375,683 million) respectively.

During the year of 2019, the amount of the average exposure of financing transactions through reverse repurchase agreements from the Group with non-principal guaranteed wealth management products sponsored by the Group was RMB 31 million (2018: RMB 3,490 million). The transactions were conducted in the ordinary course of business under normal terms and conditions and at market rates.

As at 31 December 2019, the amount of assets held by the unconsolidated capital trust and asset management plans, which are sponsored by the Group, were RMB 560,521 million (31 December 2018: RMB 650,384million) respectively.

As at 31 December 2019, the amount of assets held by the unconsolidated fund investments, which are sponsored by the Group, were RMB 390,304million (31 December 2018: RMB 379,178 million) respectively.

As at 31 December 2019, the amount of assets held by the unconsolidated asset-backed securities, which are sponsored by the Group, were RMB 111,019 million (31 December 2018: RMB 100,866 million) respectively.

(3) Unconsolidated structured entities sponsored by the Group during the year in which the Group does not have an interest at 31 December 2019

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 was RMB 19,206 million (The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2018 but matured before 31 December 2018 was RMB 44,800 million).

The aggregated amount of the capital trust and asset management plans sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 was RMB 19,162 million (The aggregated amount of the investment funds sponsored and issued by the Group after 1 January 2018 but matured before 31 December 2018 was RMB 5,781 million).

The aggregated amount of the fund investments sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 was RMB 92,036 million (The aggregated amount of the investment funds sponsored and issued by the Group after 1 January 2018 but matured before 31 December 2018 was RMB 95,885 million).

In 2019, the income earned by the group in the above-mentioned structured entities is not significant (2018: not significant).

37 Interests in other entities

(1) Interests in major subsidiaries

(i) Major subsidiaries of the Group

Name of subsidiaries	***Place of main business***	***Place of registration***	***Obtaining method***	***Share-holding percentage (direct)***
SPDB Financial Leasing Co., Ltd.	Shanghai	Shanghai	Establishment	61.02%
Shanghai International Trust Co., Ltd.	Shanghai	Shanghai	Acquisition	97.33%
SPDB International Holding ,Ltd.	Hong Kong	Hong Kong	Acquisition	100.00%
Mianzhu SPD Rural Bank Co., Ltd.	Mianzhu, Sichuan	Mianzhu, Sichuan	Establishment	55.00%
Liyang SPD Rural Bank Co., Ltd.	Liyang, Jiangsu	Liyang, Jiangsu	Establishment	51.00%
Gongyi SPD Rural Bank Co., Ltd.	Gongyi, Henan	Gongyi, Henan	Establishment	51.00%
Fengxian SPD Rural Bank Co., Ltd.	Fengxian, Shanghai	Fengxian, Shanghai	Establishment	51.00%
Zixing SPD Rural Bank Co., Ltd.	Zixing, Hunan	Zixing, Hunan	Establishment	51.00%
Chongqing Banan SPD Rural Bank Co., Ltd.	Banan, Chongqing	Banan, Chongqing	Establishment	51.00%
Zouping SPD Rural Bank Co., Ltd.	Zouping, Shandong	Zouping, Shandong	Establishment	51.00%
Zezhou SPD Rural Bank Co., Ltd.	Jincheng Shanxi	Jincheng Shanxi	Establishment	51.00%
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	Ganjingzi, Liaoning	Ganjingzi, Liaoning	Establishment	51.00%
Hancheng SPD Rural Bank Co., Ltd.	Hancheng Shaanxi	Hancheng Shaanxi	Establishment	51.00%
Jiangyin SPD Rural Bank Co., Ltd.	Jiangyin, Jiangsu	Jiangyin, Jiangsu	Establishment	51.00%
Pingyang SPD Rural Bank Co., Ltd.	Pingyang, Zhejiang	Pingyang, Zhejiang	Establishment	51.00%
Xinchang SPD Rural Bank Co., Ltd.	Xinchang, Zhejiang	Xinchang, Zhejiang	Establishment	51.00%
Yuanjiang SPD Rural Bank Co., Ltd.	Yuanjiang, Hunan	Yuanjiang, Hunan	Establishment	51.00%
Chaling SPD Rural Bank Co., Ltd.	Zhuzhou, Hunan	Zhuzhou, Hunan	Establishment	51.00%
Linchuan SPD Rural Bank Co., Ltd.	Fuzhou, Jiangxi	Fuzhou, Jiangxi	Establishment	51.00%
Linwu SPD Rural Bank Co., Ltd.	Chenzhou, Hunan	Chenzhou, Hunan	Establishment	51.00%
Hengnan SPD Rural Bank Co., Ltd.	Hengyang, Hunan	Hengyang, Hunan	Establishment	51.00%
Haerbin Hulan SPD Rural Bank Co., Ltd.	Haerbin, Heilongjiang	Haerbin, Heilongjiang	Establishment	51.00%
Gongzhuling SPD Rural Bank Co., Ltd.	Siping, Jilin	Siping, Jilin	Establishment	51.00%
Yuzhong SPD Rural Bank Co., Ltd.	Lanzhou, Gansu	Lanzhou, Gansu	Establishment	51.00%
Fumin SPD Rural Bank Co., Ltd.	Fumin, Yunnan	Fumin, Yunnan	Establishment	51.00%
Ningbo Haishu Rural Bank Co., Ltd.	Ningbo, Zhejiang	Ningbo, Zhejiang	Establishment	51.00%
Urumchi Midong SPD Rural Bank Co., Ltd.	Urumchi, Xinjiang	Urumchi, Xinjiang	Establishment	51.00%
Tianjin Baodi SPD Rural Bank Co., Ltd.	Baodi, Tianjin	Baodi, Tianjin	Establishment	49.00%
Chongqing Tongliang SPD Rural Bank Co., Ltd	Tongliang, Chongqing	Tongliang, Chongqing	Establishment	51.00%
Qianxinan yilong SPD Rural Bank Co., Ltd.	Yilong, Guizhou	Yilong, Guizhou	Establishment	51.00%
Fufeng SPD Rural Bank Co., Ltd.	Baoji, Shaanxi	Baoji, Shaanxi	Establishment	51.00%

In accordance with relevant conventions entered into by the Bank and other shareholders of Baodi Tianjin SPD Rural Bank Co., Ltd., the Bank owns 51% voting rights in Baodi Tianjin SPD Rural Bank Co., Ltd, and therefore is able to control Baodi Tianjin SPD Rural Bank Co., Ltd..

All subsidiaries are unlisted and consolidated in the Bank’s consolidated financial statements.

(ii) Relevant information of major partly-owned subsidiaries

After individual assessment, the Group concluded that no subsidiary has non-controlling interest that is material to the Group.

(2) Interests in joint ventures and associates

(i) General information of major joint ventures and associates

Name of the investee	***Note***	***Place of main business***	***Place of registration***	***Strategic investment***	***Share-holding percentage (Direct)***	***Business nature***
Joint ventures:						
AXA SPDB Investment Managers Co., ltd.	(a)	Shanghai	Shanghai	Y	51%	Financial industry
SPD Silicon Valley Bank Co., Ltd.		Shanghai	Shanghai	Y	50%	Financial industry

Equity investments above-mentioned are all accounted for by equity method.

(a) According to the Articles of Association of AXA SPDB Investment Managers Co., Ltd., resolutions on certain significant operations and finance decisions shall be approved by shareholders representing more than two-thirds voting shares. These resolutions are involved with the Company's strategic plans, investment plans, authorization on the Board of Directors for approval of annual financial budget and settlement plans, approval of profit appropriations and plans to cover accumulated losses, and approval of equity transfers and modification of the Articles of Association, etc. Although the Group owns 51% voting shares of AXA SPDB Investment Management Co., Ltd., it has to exercise influences over the company jointly with other major shareholders.

(ii) Key financial information of major joint ventures and associates

The Group's joint ventures and associates are all unlisted companies. The Group is of the view that these joint ventures and associates are not material to the Group in terms of their aggregated net profit and net assets.

IV SEGMENT REPORTING

Top management of the Group reviews the performance of the Bank's branches and subsidiaries in different economic regions from geographic perspective. The branches and subsidiaries of the Bank mainly provide services to local customers domiciled in respective geographic areas, therefore operating segments are analysed principally based on the location of the assets.

The operating segments' principal income are mainly from various commercial and investment banking services, including deposits and loans, discounted bills, trade finance, inter-bank money market and investments etc.

The Group's operating segments of different regions are set out as follows:

Headquarter:	Headquarters (including the direct institutions under headquarters and the branches)
Yangtze River Delta:	Branches in Shanghai, Jiangsu, Zhejiang
Pearl River Delta and West Side of Taiwan Strait:	Branches in Guangdong and Fujian
Bohai Rim:	Branches in Beijing, Tianjin, Hebei and Shandong
Central China:	Branches in Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan
Western China:	Branches in Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongoli and Tibet
North-east China:	Branches in Liaoning, Jilin and Heilongjiang
Overseas and subsidiaries:	Overseas branches and domestic and overseas Subsidiaries

	For the year from 1 January 2019 to 31 December 2019									
	Headquarters	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Interest income	246,895	136,501	39,646	52,017	46,764	37,235	15,623	11,864	(304,451)	282,094
Including:										
External interest income	110,689	61,032	18,385	22,392	26,760	22,942	9,175	10,719	-	282,094
Internal interest income	136,206	75,469	21,261	29,625	20,004	14,293	6,448	1,145	(304,451)	-
Interest expense	(211,799)	(97,489)	(30,540)	(38,910)	(31,586)	(27,415)	(11,447)	(8,509)	304,451	(153,244)
Including:										
External interest expense	(65,241)	(33,307)	(10,710)	(16,045)	(10,000)	(6,343)	(4,093)	(7,505)	-	(153,244)
Internal interest expense	(146,558)	(64,182)	(19,830)	(22,865)	(21,586)	(21,072)	(7,354)	(1,004)	304,451	-
Net interest income	35,096	39,012	9,106	13,107	15,178	9,820	4,176	3,355	-	128,850
Net fee and commission income	31,200	(476)	1,765	1,238	921	828	484	4,487	-	40,447
Net trading income	11,766	705	349	644	396	234	178	1,592	-	15,864
Net gains arising from financial investments	1,430	-	-	-	-	-	-	183	-	1,613
Other operating income	1,695	122	50	163	38	67	13	1,581	-	3,729
Operating expenses	(14,786)	(9,629)	(3,497)	(4,688)	(4,119)	(3,899)	(1,770)	(3,930)	-	(46,318)
Impairment losses	(35,872)	(1,742)	(4,110)	(12,576)	(5,792)	(10,183)	(2,684)	(1,748)	-	(74,707)
Share of profits associates and joint ventures	158	-	-	-	-	-	-	13	-	171
Total segment profit	30,687	27,992	3,663	(2,112)	6,622	(3,133)	397	5,533	-	69,649

	31 December 2019									
	Headquarters	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Loans and advances to customers	627,975	1,055,320	399,324	477,637	541,539	490,269	185,552	102,140	(1,565)	3,878,191
Total assets	3,284,348	1,795,143	519,869	806,897	628,591	550,834	230,710	326,548	(1,129,642)	7,013,298
Deposits from customers	157,228	1,395,417	426,262	641,551	476,127	304,583	160,601	104,653	(4,580)	3,661,842
Total liabilities	2,775,825	1,767,437	516,299	808,736	622,051	554,338	230,064	307,671	(1,129,642)	6,452,779
Net position of assets and liabilities	508,523	27,706	3,570	(1,839)	6,540	(3,504)	646	18,877	-	560,519

	For the year from 1 January 2018 to 31 December 2018									
	Headquarters	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Interest income	247,422	131,074	48,998	61,916	46,287	37,206	16,894	10,547	(332,856)	267,488
Including:										
External Interest income	111,510	51,678	18,622	22,711	22,865	21,273	8,848	9,981	-	267,488
Internal interest income	135,912	79,396	30,376	39,205	23,422	15,933	8,046	566	(332,856)	-
Interest expense	(222,140)	(96,871)	(39,503)	(48,932)	(32,662)	(28,020)	(12,879)	(7,493)	332,856	(155,644)
Including:										
External interest expense	(47,381)	(35,075)	(18,652)	(23,463)	(11,719)	(6,943)	(5,354)	(7,057)	-	(155,644)
Internal interest expense	(174,759)	(61,796)	(20,851)	(25,469)	(20,943)	(21,077)	(7,525)	(436)	332,856	-
Net interest income	25,282	34,203	9,495	12,984	13,625	9,186	4,015	3,054	-	111,844
Net fee and commission income	26,699	1,495	1,864	1,571	1,500	1,042	457	4,381	-	39,009
Net trading income	15,314	128	9	(122)	231	14	4	597	-	16,175
Net gains arising from financial investments	1,154	-	-	-	-	-	-	257	-	1,411
Other operating income	410	278	31	102	47	85	16	1,419	-	2,388
Operating expenses	(14,842)	(8,798)	(3,250)	(4,650)	(4,281)	(3,868)	(1,856)	(3,742)	-	(45,287)
Impairment losses	(22,491)	(5,579)	(401)	(9,988)	(3,910)	(12,308)	(5,024)	(719)	-	(60,420)
Share of profits associates and joint ventures	164	-	-	-	-	-	-	-	-	164
Total segment profit	31,690	21,727	7,748	(103)	7,212	(5,849)	(2,388)	5,247	-	65,284

	31 December 2018									
	Headquarters	Yangtze River Delta	Pearl River Delta and West Side of Taiwan Strait	Bohai Rim	Central China	Western China	North-east China	Overseas and subsidiaries	Elimination	Total
Loans and advances to customers	513,222	1,033,524	341,125	433,260	451,586	432,088	172,205	78,479	-	3,455,489
Total assets	3,122,456	1,624,513	476,554	715,037	529,596	472,223	192,223	282,312	(1,125,308)	6,289,606
Deposits from customers	140,524	1,220,107	362,570	530,809	460,398	304,694	153,818	80,395	-	3,253,315
Total liabilities	2,690,165	1,602,682	468,647	714,754	522,089	478,117	194,470	265,610	(1,125,308)	5,811,226
Net position of assets and liabilities	432,291	21,831	7,907	283	7,507	(5,894)	(2,247)	16,702	-	478,380

V CONTINGENCIES AND COMMITMENTS

1 Credit commitments

The Group's credit commitments are listed as follows:

	31 December 2019	31 December 2018
Bank acceptance bills	473,598	419,815
Letters of credit issued	162,473	161,120
Letters of guarantee issued	88,940	101,003
Credit cards and loan commitments	457,683	351,725
Total	1,182,694	1,033,663

2 Commitment on redemption of certificate treasury bonds

The Group is entrusted by the MOF to underwrite certificate treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest at the redemption date.

As at 31 December 2019, the outstanding principal value of the treasury bonds sold by the Group amounted to RMB 4,401 million (31 December 2018: RMB 4,355 million).

The MOF will not provide funding for the early redemption of these treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The management expects the amount of the bonds of which redemption is through the Group before the maturity dates will not be material.

3 Capital commitments

As at 31 December 2019, the major capital commitments the Group had signed but not paid amounted to RMB 3,640 million (31 December 2018: RMB 3,248 million). Additionally, as at 31 December 2019, the amount of the procurement plan of financial lease commitments and operating fixed assets that the Bank's subsidiaries had signed but not paid was RMB 3,778 million.

As at 31 December 2019, the major capital commitments the Group had approved but not signed amounted to RMB 292 million (31 December 2018: RMB 175 million). Additionally, as at 31 December 2019, the amount of the procurement plan of financial lease commitments and operating fixed assets that the Bank's subsidiaries had approved but not signed was RMB 3,993 million.

4 Legal proceedings

As at 31 December 2019, the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 153 and 92, respectively. The corresponding amount involved was about RMB 2,216 million and RMB 220 million, respectively. The Group assessed the possibility of loss from reparations being not large, so no provisions was accrued during the year (As at 31 December 2018, the number of outstanding legal proceedings where the Group acts as the defendant and third party defendant was 93 and 82, respectively. The corresponding amount involved was about RMB 1,488 million and RMB 2,355 million, respectively. The Group assessed the possibility of loss being not large, so no provisions was accrued).

VI FIDUCIARY BUSINESSES

The Group provides safe-keeping and entrusted loan businesses to independent third party customers. The assets arising from these businesses are not recorded on the Group's balance sheet. As at 31 December 2019, the balance of entrusted loan business was RMB 137,221 million (As at 31 December 2018: RMB 150,374 million).

VII RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1 Major shareholders holding more than 5% shares of the Bank

As at 31 December 2019 and 31 December 2018, major shareholders holding more than 5% ordinary shares of the Bank are as follows:

	Direct shareholding percentage	Major business
Shanghai International Group Co., Ltd.	21.57%	Investment management
China Mobile Group Guangdong Company Limited	18.18%	Mobile and Communication
Funde Sino Life Insurance Co., Ltd. – Traditional	9.47%	Insurance Business
Funde Sino Life Insurance Co., Ltd. – Capital	6.01%	Insurance Business

As at 31 December 2019, Shanghai International Group Co., Ltd. hold 10.11% of the Bank's convertiable bond, China Mobile Group Guangdong Company Limited hold 18.17% of the Bank's convertiable bond.

2 Subsidiaries

For general information of the Group's subsidiaries, please refer to Note III.37(1) "Interests in other entities".

3 Joint ventures and associates

For general information of the joint ventures and associates, please refer to Note III. 37(2) "Interests in other entities".

4 Other major related parties

Other related parties mainly include respective group companies of shareholders who hold 5% or more ordinary shares of the Bank, key management personnel of the Bank (including the directors, supervisors and senior executives) and their close family members, and the companies that are controlled or jointly controlled by these key management personnel and their close family members, or the companies in which key management personnel and their close family members serve as directors or senior executives.

Additionally, in accordance with relevant regulations, the Bank has reported to the Shanghai Stock Exchange on the exemption from disclosure of the transactions between the Bank and its independent directors and companies in which its external supervisors have part-time positions.

5 Transactions and balances with related parties

The amounts of material transactions between the Group and its related parties and related balances at the balance sheet date are summarised as follows：

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Amounts of significant transactions from 1 January 2019 to 31 December 2019 are listed below：							
Interest income	-	-	366	43	1	410	0.15%
Interest expense	(349)	(22)	(1,535)	(294)	(1)	(2,201)	1.44%
Net Fee and commission income	-	195	18	20	-	233	0.46%
Net trading income	-	1,008	-	103	-	1,111	7.00%
Share of profits associates and joint ventures	-	171	-	-	-	171	100.00%
Operating expenses	(17)	-	(256)	-	-	(273)	0.59%
Other comprehensive income	-	-	-	16	-	16	0.61%

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Significant item balances at 31 December 2019：							
Deposits and placements with banks and other financial institutions	-	-	1,567	-	-	1,567	0.57%
Loans and advances to customers	-	-	491	877	30	1,398	0.04%
Derivative financial assets	-	1	-	540	-	541	1.40%
Financial investments measured at:							
- FVTPL	-	45,164	-	916	-	46,080	9.12%
- amortized cost	-	-	-	40	-	40	0.00%
- FVOCI	-	-	-	1,803	-	1,803	0.36%
Investments in associates and Joint Ventures	-	2,049	-	-	-	2,049	100.00%
Deposits and placements from banks and other financial institutions	-	(1,981)	(20,585)	(10,771)	-	(33,337)	2.87%
Derivative financial liabilities	-	-	-	(450)	-	(450)	1.08%
Deposits from customers	(4,421)	(1,747)	(43,542)	(10,084)	(57)	(59,851)	1.63%
Significant off-balance item at 31 December 2019							
Letters of guarantee issued	-	-	2,529	-	-	2,529	2.84%

Note: As at 31 December 2019, key management of the Bank possessed a total number of 968,200 shares of common stock issued by the Bank. During the first half of 2019, key management has obtained relavent cash dividends of their shares.

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Amounts of significant transactions from 1 January 2018 to 31 December 2018 are listed below：							
Interest income	-	-	127	-	1	128	0.05%
Interest expense	(176)	(21)	(1,360)	(50)	-	(1,607)	1.03%
Net Fee and commission income	-	-	22	3	-	25	0.05%
Share of profits associates and joint ventures	-	164	-	-	-	164	1.04%
Operating expenses	(7)	-	(383)	-	-	(390)	0.86%

	Major shareholders	Joint ventures and associates	Other major related parties - group companies of major shareholders (exclusive)	Other major related parties - companies with significant influence by key management personnel (exclusive)	Other major related parties - individuals	Total	Proportion of relavent transactions and balances
Significant item balances at 31 December 2018：							
Deposits and placements with banks and other financial institutions	-	-	4,422	-	-	4,422	1.87%
Loans and advances to customers	-	-	239	-	24	263	0.01%
Investments in associates and Joint Ventures	-	1,968	-	-	-	1,968	100.00%
Deposits and placements from banks and other financial institutions	-	(1,058)	(5,113)	-	-	(6,171)	0.51%
Deposits from customers	(5,324)	-	(37,999)	(1,500)	-	(44,823)	1.38%
Significant off-balance item at 31 December 2018：							
Letters of guarantee issued	-	-	3,766	-	-	3,766	3.73%

Note: As at 31 December 2018, key management of the Bank possessed a total number of 400,200 shares of common stock issued by the Bank.

6 Related parties that are controlled by the Bank

Related parties that are controlled by the Bank are the subsidiaries of the Bank. Major transactions with these subsidiaries and their balances are eliminated in the consolidated financial statements, and are summarised as follows:

Balances at the year end：	31 December 2019	31 December 2018
Deposits and placements with banks and other financial institutions	5,784	4,400
Loans and advances to customers	1,565	991
Deposits and placements from banks and other financial institutions	8,076	8,025
Deposits from customers	4,580	609
Others	26	21

Transactions during the year：	2019	2018
Interest income from deposits and placemets from banks and other financial institutions	226	118
Interest income from loans and advances to customers	51	114
Interest expenses on deposits from banks and other financial institutions	271	191
Interest expenses on deposits from customers	78	-
Fee and commission income	88	21
Fee and commission expense	114	41
Other income	2	-

7 Compensation of key management personnel

Key management personnel are those people having authority and responsibility for planning, directing, and controlling the activities of the Group, either directly or indirectly, including directors, supervisors and senior executives.

Compensation of key management personnel for the respective periods (excluding the social insurance charges paid by the Bank) is as follows:

	2019	2018
Compensation of key management personnel	28	30

The Compensation of key management personnel are remuneration without social insurance paid in 2019 to the directors, supervisor and senior management of the Bank in past 12 months or will do so in the next 12 months according to the relevant contract arrangement.

8 Transactions with the annuity plan

In terms of the enterprise annuity funds established by the Group, in addition to the normal contribution, there has been no other related party transactions during the reporting period.

VIII FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks in its operating activities. The Group analyses, evaluates, accepts and manages certain degree of risks or risk portfolios. Managing financial risk is critical to the financial industry, and the inherent risks is an inevitable consequence of business operation. The Group's aim is therefore to strike an appropriate balance between risk and return and minimise potential adverse impact on the Group's financial performance.

The Group has designed a series of risk management policies to identify and analyse these risks, so as to set appropriate risk limits and formulate control procedures. It has also monitored the risks and their limits through reliable information systems.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk mainly consists of foreign currency risk, interest rate risk and commodity price risk.

The Board of Directors of the Bank is responsible for determining the Group's overall risk appetite. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, relevant departments of the headquarters are responsible for the implementation.

1 Credit risk

Credit risk is the risk that a customer or counterparty may fail or be unwilling to fulfil an obligation or commitment to the Group resulting in a financial loss. Credit risk is higher when counterparties are concentrated in single industry or geographic region, because various counterparties in the same industry or geographic region could be adversely affected by the same economic factors, which ultimately affect their repayment ability.

(1) Credit risk management

(i) Loans

The Group manages, restricts and controls the concentration of credit risk identified, especially with regards to concentration on singular counterparty, group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent review where necessary.

The Group manages the exposure to credit risk through regular analysis of borrowers' ability to repay principal and interest payments and amends the credit facilities where appropriate.

The Group has established relevant policies and various measures to mitigate credit risk. Obtaining collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals has been one of the main strategies to control credit risk. The Group provides guidelines on the specific types of acceptable collateral or pledged assets, mainly include the following:

- Residential property and land tenure;
- Commercial assets, such as commercial property, inventory and accounts receivable;
- Financial instruments, such as bonds and equity shares.

Fair value of collaterals or pledged assets is generally assessed by professional evaluation agencies designated by the Group. When there are indications of impairment, the value of collaterals or pledged assets will be re-examined by the Group to assess whether the collaterals or pledged assets could adequately cover the credit risks associated with loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collaterals or pledged assets. The main types of collaterals or pledged assets for corporate loans and retail loans and their corresponding maximum loan-to-value ratio are as follows:

Collaterals or pledged assets	Maximum loan-to-value ratio
Time deposits	92% - 100%
Government bonds	90% - 100%
Financial bonds	95%
Corporate bonds (including financial institutions)	80%
Right to collect fees	60% - 70%
Franchise right	50%
Commercial property and standard plant	60%
Residential property	70%
Land tenure	50% - 60%

Management assesses fair value of collaterals or pledged assets based on the latest available external valuation results, and adjusts the fair value with reference to experience, current market conditions and disposal expenses to be incurred.

For loans guaranteed by third parties, the Group evaluates the financial condition and credit record of guarantors and guarantor’s ability to meet obligations.

(ii) Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through mechanisms include controlling the investment scale, setting access list of issuers, rating access, establishing post-investment management, etc. Generally, external credit rating of the issuer of foreign currency bonds at the time of purchase (by Standard & Poor’s or equivalent rating agencies) should be at BBB- or above. Overseas investments in RMB bonds are limited to those issuers with external credit rating at BBB+ or above (by rating agencies identified by the PBOC). Rating of domestic middle to long term RMB bonds should be at AA or above and rating of short term RMB bonds, their credit ratings should be at A-1 (by rating agencies identified by the PBOC).

(iii) Other financial assets measured at amortized cost

Other financial assets measured at amortized cost mainly include fund trust and asset management plans. The Group has rating access system on the trust companies, security companies and fund companies with the set credit facility for ultimate investors of trust plans and asset management plans, and performs post-lending management periodically.

(iv) Inter-bank transactions

The Group reviews and manages the credit risk of individual financial institution on regularly basis and sets credit limit for individual bank or non-banking financial institution which has transactions with the Group.

(v) Derivative financial instruments

The Group strictly restricts transactions in derivative financial instruments. For corporate customers, the Group mitigates credit risk associated with derivative financial instruments by acquiring margin deposits.

(vi) Credit commitments

The primary purpose of credit commitments is to ensure that funds are available to customers as required. Letters to guarantee, bill acceptance and letters of credit are irrevocable commitment from the Group. The Group undertakes credit risks similar to loans and commits to pay third parties on behalf on customers or make payments in the event that customers cannot meet obligations to third parties. When the requested amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's potential credit exposure is equivalent to the total amount of credit commitments. In addition, cash outflows may occur when customers spend credit card and loan commitment granted by the Group in the future.

(vii) Trust plan

The main credit risk of the trust plan is the potential loss of fiduciary estate or inherent property when the counterparties fail, cannot or be unwilling to fulfil the contract commitments in the course of transactions. The Group strictly enforces the policy “pre-loan investigation, in-process review, post-lending inspection” over trust plan. In the design of the product trade structure, the Group introduces guarantee mechanism including financial institution credit, property mortgage, rights pledge to comprehensively manages risks through avoidance, prevention, dispersion, transfer and compensation, and disperses and transfers credit risks of financing entities to reduce risk exposure.

(2) Credit risk measurement

The Group has established a five-tier grading system of credit assets to measure and manage the quality of loans and advances to corporate and retail customers according to the “Guidelines for Risk-based Loan Classification” (the “Guideline”) (Yin Jian Fa [2007] No. 54). The Group’s five-tier grading system and the Guideline classify on-balance sheet credit assets into five categories: pass, special-mention, substandard, doubtful and loss, among which loans with the grading of substandard, doubtful and loss are regarded as non-performing loans.

The core definitions of the credit assets classification are as follows:

Pass: The borrower could fulfil the contractual obligation and there is not enough reason to suspect that the principal and interest cannot be repaid in full and on time.

Special Mention: The repayment might be adversely affected by some factors although the borrower currently has the capability to repay the principal and interest.

Substandard: The borrower’s capability to repay is apparently in question and cannot repay the principal and interest in full depending on its operating income. Certain losses might occur even when guarantees are executed.

Doubtful: Cannot repay principal and interest in full and significant losses will occur even when guarantees are executed.

Loss: Principal and interest cannot be recovered or only a very small portion of them can be recovered after taking all possible measures or necessary legal procedures.

(3) ECL measurement

Pursuant to the new accounting standards, the Group divides the loss allowance for expected credit losses on financial assets into three stages:

Stage 1 (no significant increase in credit risk since initial recognition): measure the loss at an amount equal to 12-month ECL;

Stage 2 (significant increase in credit risk since initial recognition): measure the loss allowance at an amount equal to the lifetime ECL; and

Stage 3 (credit- impaired assets): measure the loss allowance at an amount equal to the lifetime ECL.

The Group has developed the impairment model to calculate ECL in accordance with the new accounting standards. A top-down development method was adopted to establish a logistic regression model of risk parameters and macroeconomic indicators such as gross domestic product "GDP" and consumer price index "CPI". The Group periodically forecasts three kind of macroeconomic scenarios (optimistic, basic and pessimistic) and measures ECL based on different scenarios.

Credit risk grading

The Group uses internal credit risk gradings to reflect assessment of default probability for individual counterparties and applies different internal rating models for different categories of counterparties. Borrowers' and specific loan related information collected during loan application (such as disposable income, guarantee level for retail exposures; and corporate customers' revenue and industry) is incorporated into rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models also include expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure to compensate considerations that may not be captured as part of the other data inputs into the model.

The Group does not have financial assets identified as "low risk" and corresponding credit risk management in accordance with new financial instruments standards.

Stage division

Significant increase in credit risk ("SICR")

The Group assesses on each balance sheet date whether the credit risk of the relevant financial assets has increased significantly since initial recognition. When considering the ECL stage of financial assets, the Group considering all reasonable and supportable information, including that which is forward-looking. The main factors to be considered are regulatory and operational environment, internal and external credit rating, solvency, operational capability, loan contract terms, repayment behaviour, etc.

The Group considers that there has been a significant increase in credit risk of financial instrument when one or more of the following quantitative, qualitative or upper limits criteria have been met:

Quantitative criteria:

The Group determines whether there has been a significant increase in credit risk since initial recognition by considering whether the credit risk rating has downgraded to a certain level, i.e. credit risk rating of counterparty for corporate loans and financial investments has downgraded to B or below since initial recognition as at the reporting date, or whether the probability of default ("PD") has increased significantly since initial recognition, i.e. for retail loans, the counterparty's PD is 8-10 times of initial PD as at the reporting date.

Qualitative criteria:

For corporate loans and financial investments, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operational results of the borrower
- Early signs of cashflow / liquidity problems such as delay in repayment of payables / loans

Upper limit:

If the borrower fails to make payment for more than 30 days after contractual payment date.

Default and *credit-impaired*

When a financial asset is impaired, the Group defines it as in default. The Group defines a financial asset as credit impaired when it meets one or more of the following criteria:

Qualitative criteria:

The borrower meets “capability to repay is apparently in question” criteria, which indicates the borrower is in significant financial difficulty and examples include:

- The issuer or borrower is in significant financial difficulties
- The borrower has breached financial contract(s), such as past due of interest or principal repayments
- Concessions have been made by the lender relating to the borrower’s financial difficulty with consideration of economy and contract
- The borrower is likely to head towards bankruptcy or other debts restructuring
- Issuer or borrower’s financial difficulties lead to disappearance of active market for financial assets
- Financial assets are purchased or originated at substantial discount that reflects the incurred credit losses

Upper limit:

If the borrower fails to make payment for more than 90 days after contractual payment date.

The criteria above have been applied to all financial instruments held by the Group and are consistent with internal credit risk management purposes. The default definition has been consistently applied to establish models for the PD, Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group’s ECL measurement.

Explanation of parameters, assumptions and estimation techniques of ECL model

The ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the product of the PD, EAD and LGD, and the relevant definitions are as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD) or the remaining lifetime (Lifetime PD) of the obligation.
- The EAD is the amounts the Group expects to be repaid at the time of default.
- LGD is expressed as a percentage loss per unit of exposure at the time of default.

The ECL is determined by projecting the PD, LGD and EAD for individual future exposure, which effectively calculates the ECL for each future month.

The Lifetime PD is based on expiry information derived from 12M PD. Maturity analysis covers the change of loan default situation from initial recognition to maturity. Maturity portfolio is based on historical observed data with the assumption of same portfolio and identical credit rating assets. The above analysis is supported by historical data.

The Group determines LGD based on factors affecting recovery after default, which vary by product type.

Forward-looking economic information should be considered in determining the 12M and lifetime ECL.

There have been no significant changes in estimation techniques or significant assumptions during the reporting period.

Forward-looking information incorporated in the ECL model

Both the assessment of SICR and the calculation of ECL incorporate forward-looking information. The Group identifies the key economic indicators impacting credit risk and ECL for each portfolio through historical data analysis.

The Group has selected a series of macroeconomic indicators based on industry best practices and the Group’s internal experts’ judgement, which includes GDP, industrial added value growth rate and CPI growth rate, etc. to establish statistical relationship between actual PD and macro indicators for each model exposure, and calculate forward-looking PD by using forecasted economic indicators.

In addition to the base economic scenario, the Group has also set up other scenarios based on analysis of each major product type. The number and attributes of scenarios are reassessed at each reporting date. As at 31 December 2019 and 31 December 2018, the scenario weightings are determined by combination of statistical analysis and expert judgement, taking into account of the range of possible outcomes represented by scenarios. The Group adopts the base and lifetime PD with scenario weightings, along with qualitative and upper limit criteria to determine whether the credit risk has increased significantly. The determination of financial instrument stage indicates the measurement of the loss allowance at an amount equal to the 12-month or lifetime ECL accordingly. The Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3).

The Group considers these projections have represented the best estimate of the possible outcomes and analyses the non-linearities and asymmetries within the Group's different portfolios to determine that selected scenarios adequately represent scenarios that might occur. Similar to other economic projections, there are inherent uncertainties regarding estimates of projected values and likelihood of occurrence, thus substantial differences may occur between actual results and projections.

Combination method for evaluation of expected credit risk

When analysing the relevance of ECL with macroeconomic indicators, the Group has classified the assets with similar credit risk characteristics into the same portfolio. The Group has obtained sufficient information to ensure the statistical reliability for the portfolio classification. Where sufficient information is not available internally, the Group establishes the model with reference to internal or external supplementary data. The characteristics and any supplementary data used to determine portfolio classification are outlined below:

Corporate loans and financial investments

- Industry
- Collateral type
- Retail loans
- Product type (i.e. mortgage loans, consumer loan and credit card)
- Repayment type
- Utilisation percentage range
- Loan to value ratio range

(4) Maximum exposure to credit risk

Financial assets and guarantee commitment subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The book value of financial assets below represents the Group's maximum exposure to credit risk on these assets.

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central bank	471,741	-	-	471,741
Deposits and placements with banks and other financial institutions	276,332	30	-	276,362
Financial assets purchased under resale agreements	2,873	-	-	2,873
Loans and advances to customers measured at				
- Amortized cost	3,324,258	114,164	23,654	3,462,076
- FVOCI	412,457	188	290	412,935
Financial investment measured at				
- Amortized cost	1,071,351	1,052	2,524	1,074,927
- FVOCI	495,853	879	776	497,508
Other financial assets	109,713	3,963	1,242	114,918
Total	6,164,578	120,276	28,486	6,313,340

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central bank	437,687	-	-	437,687
Deposits and placements with banks and other financial institutions	236,535	-	-	236,535
Financial assets purchased under resale agreements	11,573	-	-	11,573
Loans and advances to customers measured at				
- Amortized cost	3,056,361	130,846	18,647	3,205,854
- FVOCI	249,105	48	-	249,153
Financial investment measured at				
- Amortized cost	1,137,024	5,337	1,888	1,144,249
- FVOCI	378,414	446	-	378,860
Other financial assets	67,402	2,425	330	70,157
Total	5,574,101	139,102	20,865	5,734,068

	31 December 2019 Maximum exposure to credit risk	31 December 2018 Maximum exposure to credit risk
Commitment and guarantee		
Bank acceptance notes	471,274	418,035
Letters of credit issued	162,001	160,819
Letters of guarantee issued	87,542	100,206
Credit cards and other commitments	455,179	349,929
Total	1,175,996	1,028,989

(5) Credit-impaired loans and advances to customers

The Group closely monitors collateral held for financial assets considered to be credit-impaired, because the Group is more likely to confiscate these collateral to reduce potential credit losses comparing to other collaterals. As at 31 December 2019, carrying amount of the Group's loans and advances to customers that are credit-impaired is RMB 83,999 million (31 December 2018: RMB 72,251 million), in which the loans covered by collaterals are amounting to RMB 30,551 million (31 December 2018: RMB 21,880 million).

When the Group is unable to cover the whole or part of the financial assets after implementation of necessary procedures, and the financial assets meet the write-off conditions defined by the Ministry of Finance, the Group writes off the financial assets.

(6) Bonds and other investments

The table below analyses the Group's investment securities by external rating agencies, including S&P or equivalent credit agencies identified by the PBOC.

	31 December 2019			
Investments denominated in RMB	Financial investments measured at FVTPL	Financial investments measured at amortized cost	Financial investments measured at FVOCI	Total
Medium or long term				
AAA	14,096	398,495	146,716	559,307
AA+ to AA-	442	23,730	5,135	29,307
A+ to A-	-	-	187	187
Short term				
A-1	2,126	-	966	3,092
Unrated-Bonds	111,284	651,488	274,233	1,037,005
	127,948	1,073,713	427,237	1,628,898

Investments denominated in foreign currencies	31 December 2019 Financial investments measured at FVTPL	Financial investments measured at amortized cost	Financial investments measured at FVOCI	Total
AAA	1,819	31	324	2,174
AA	7	-	477	484
A and below A	2,540	324	18,873	21,737
Unrated-Bonds	494	859	50,597	51,950
	4,860	1,214	70,271	76,345

Investments denominated in RMB	31 December 2018 Financial investments measured at FVTPL	Financial investments measured at amortized cost	Financial investments measured at FVOCI	Total
Medium or long term				
AAA	5,459	96,685	78,567	180,711
AA+ to AA-	3,491	48,954	6,751	59,196
A+ to A-	-	108	210	318
Short term				
A-1	9,705	219	2,889	12,813
Unrated-Bonds	105,088	995,305	235,386	1,335,779
	123,743	1,141,271	323,803	1,588,817

Investments denominated in foreign currencies	31 December 2018 Financial investments measured at FVTPL	Financial investments measured at amortized cost	Financial investments measured at FVOCI	Total
AAA	62	31	2,050	2,143
AA	83	1,138	2,368	3,589
A and below A	929	1,401	3,380	5,710
Unrated-Bonds	646	408	47,259	48,313
	1,720	2,978	55,057	59,755

2 Market risk

Market risk is the risk of losses of on and off-balance sheet businesses arising from adverse movements in market prices, such as interest rates, exchange rates, equity and commodities. Both the Group's trading book and banking book is exposed to market risk, which mainly consists of interest rate risk, currency risk and commodity price risk. The Group considers the exposure to the commodity price risk to be insignificant.

The Board of Directors of the Bank is ultimately responsible for monitoring the market risk management and ensuring the Group can effectively identify, measure, monitor and control the market risk associated with the Group's business activities. Under the authorisation of the Board of Directors, the senior management of the Group is responsible for establishing the group-wide market risk management system, organisational structure with well-defined roles and responsibilities, authorisation structures and accountability mechanism. Relevant departments of headquarters are responsible for carrying out detailed market risk management activities including policies and procedures, measurement approaches and models, analyses and reporting and monitoring of various limits in order to timely and accurately identify, measure, monitor and control the market risk exposures in respective business areas and reporting to the senior management and Board of Directors on timely basis.

Meanwhile, the established internal controls and independent inspections are integrated in the group-wide market risk management system. Relevant business units are responsible for executing the daily control activities. A three-line defence system includes the business units as the first line defence, the market risk management and compliance department as the second line defence and the review department as the third line defence.

The Group measures market risk based on predetermined benchmarks. The major measurement approaches include stress testing, analysis on value at risk, back testing, gap analysis and sensitivity analysis etc. The market risk of new products and businesses should be identified before these new products and businesses are launched according to relevant policies.

(1) Currency risk

The Group mainly operates in the PRC and its main business activities are conducted in RMB. Majority of its foreign currency business are conducted in USD. The table below summarises the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorised by original currency.

	31 December 2019				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and deposits with central bank	460,186	12,480	4,873	314	477,853
Deposits and placements with banks and other financial institutions	166,670	92,546	10,890	6,256	276,362
Derivative financial assets	37,897	251	556	15	38,719
Financial assets purchased under resale agreements	2,873	-	-	-	2,873
Loans and advances to customers	3,734,284	107,188	25,685	11,034	3,878,191
Financial investments:					
- FVTPL	496,006	9,091	221	-	505,318
- AC	1,073,713	577	606	31	1,074,927
- FVOCI	433,031	64,544	2,498	3,229	503,302
Other financial assets	74,871	35,094	2,665	2,288	114,918
Total financial assets	6,479,531	321,771	47,994	23,167	6,872,463
Borrowing from central bank	233,423	-	-	-	233,423
Deposits and placements from banks and other financial institutions	1,035,761	101,302	19,924	6,382	1,163,369
Financial liabilities measured at FVTPL	8,327	14,968	-	-	23,295
Derivative financial liabilities	40,378	560	558	7	41,503
Financial assets sold under repurchase agreement	213,340	14,243	-	-	227,583
Deposits from customers	3,425,104	204,740	25,181	6,817	3,661,842
Debt securities issued	968,868	33,937	697	-	1,003,502
Other financial liabilities	40,519	1,843	1,602	405	44,369
Total financial liabilities	5,965,720	371,593	47,962	13,611	6,398,886
Net position of financial instruments	513,811	(49,822)	32	9,556	473,577
Currency derivatives	(53,342)	56,955	1,222	(3,978)	857
Credit commitments	1,102,487	58,105	8,164	7,240	1,175,996

	31 December 2018				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and deposits with central bank	436,007	7,237	185	294	443,723
Deposits and placements with banks and other financial institutions	138,999	72,591	18,171	6,774	236,535
Derivative financial assets	37,153	5,927	40	154	43,274
Financial assets purchased under resale agreements	11,573	-	-	-	11,573
Loans and advances to customers	3,324,428	100,600	19,957	10,504	3,455,489
Financial investments measured at:					
- FVTPL	386,144	9,450	74	-	395,668
- amortized cost	1,141,271	1,795	207	976	1,144,249
- FVOCI	327,841	45,891	6,838	2,328	382,898
Other financial assets	20,302	49,563	227	65	70,157
Total financial assets	5,823,718	293,054	45,699	21,095	6,183,566
Borrowing from central bank	221,003	-	-	-	221,003
Deposits and placements from banks and other financial institutions	1,071,882	121,084	18,553	4,872	1,216,391
Financial liabilities measured at FVTPL	18,435	16,477	-	-	34,912
Derivative financial liabilities	37,411	4,976	83	323	42,793
Financial assets sold under repurchase agreement	109,984	9,580	-	-	119,564
Deposits from customers	3,039,761	183,701	23,323	6,530	3,253,315
Debt securities issued	812,380	23,455	4,856	749	841,440
Other financial liabilities	29,600	1,018	3	329	30,950
Total financial liabilities	5,340,456	360,291	46,818	12,803	5,760,368
Net position of Financial instruments	483,262	(67,237)	(1,119)	8,292	423,198
Currency derivatives	(133,326)	126,067	3,770	(11,914)	(15,403)
Credit commitments	957,962	61,623	1,158	8,246	1,028,989

The Group measures the possible effect on net profit arising from foreign exchange rate fluctuation using sensitivity analysis. The table below shows the result of sensitivity analysis of the balance sheet date.

Net profit	31 December 2019		31 December 2018	
	Exchange rate fluctuation %		Exchange rate fluctuation %	
(Decrease) / Increase	-1%	1%	-1%	1%
USD against RMB	(54)	54	(296)	296
Other currencies against RMB	(61)	61	30	(30)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities, and calculated the impact on the net profit from changes in exchange rates of other foreign currencies against RMB. The assumptions are shown as below:

- Exchange rate sensitivity represents the exchange gain or loss resulting from the 1% change in daily closing exchange rates (middle) on the financial reporting date;
- Changes in exchange rates of other foreign currencies means the exchange rates of other foreign currencies against RMB are fluctuating simultaneously and in the same direction;
- Foreign currency exposure contains spot exchange exposure and forward exchange exposure. Based on the above assumption, the actual exchange gains or losses may differ from the sensitivity analysis results.

(2) Interest rate risk

Interest rate risk is the risk of losses in overall earnings and economic value arising from adverse movements in factors such as interest rates, term structure, etc., including interest rate risk from bank book and trading book respectively.

The Group determines the loan interest rate in accordance with the relevant provisions of the PBOC.

The Group's interest rate risk mainly results from re-pricing risk of bank book. The Group considers its exposure to the interest rate risk of trading book to be insignificant. The Group has established an internal transfer pricing system, which enables the Group to manage the interest rate risk of bank book centrally. The Group measures and monitors interest rate risk in trading accounts using value-at-risk and sensitivity analysis etc.

The table below summarises the Group’s exposures to interest rate risk. The table presents the Group’s assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	31 December 2019						
	Within a month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and deposits with central bank	457,557	-	-	-	-	20,296	477,853
Deposits and placements with banks and other financial institutions	105,550	48,213	100,348	20,293	-	1,958	276,362
Derivative financial assets	-	-	-	-	-	38,719	38,719
Financial assets purchased under resale agreements	2,433	426	-	-	-	14	2,873
Loans and advances to customers	1,944,856	471,346	1,261,633	155,516	30,376	14,464	3,878,191
Financial investments measured at:							
- FVTPL	8,513	4,632	39,650	39,121	21,594	391,808	505,318
- Amortized cost	48,083	36,282	191,243	510,980	272,557	15,782	1,074,927
- FVOCI	4,144	10,748	57,516	277,470	140,382	13,042	503,302
Other financial assets	46,030	1,337	16,065	-	-	51,486	114,918
Total financial assets	2,617,166	572,984	1,666,455	1,003,380	464,909	547,569	6,872,463
Liabilities							
Borrowing from central bank	6,880	10	223,799	-	-	2,734	233,423
Deposits and placements from banks and other financial institutions	630,040	242,473	281,197	6,171	378	3,110	1,163,369
Financial liabilities measured at FVTPL	-	-	-	-	-	23,295	23,295
Derivative financial liabilities	-	-	-	-	-	41,503	41,503
Financial assets sold under repurchase agreements	182,515	24,038	20,920	-	-	110	227,583
Deposits from customers	2,188,505	422,188	492,649	524,303	208	33,989	3,661,842
Debt securities issued	87,959	221,984	451,899	88,965	147,819	4,876	1,003,502
Other financial liabilities	1,785	346	2,586	4,526	887	34,239	44,369
Total financial liabilities	3,097,684	911,039	1,473,050	623,965	149,292	143,856	6,398,886
Total interest repricing gap	(480,518)	(338,055)	193,405	379,415	315,617	403,713	473,577

	31 December 2018						
	Within a month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and deposits with central bank	428,273	-	-	-	-	15,450	443,723
Deposits and placements with banks and other financial institutions	91,257	25,784	100,042	17,787	-	1,665	236,535
Derivative financial assets	-	-	-	-	-	43,274	43,274
Financial assets purchased under resale agreements	11,568	-	-	-	-	5	11,573
Loans and advances to customers	2,030,010	357,903	882,466	127,754	45,733	11,623	3,455,489
Financial investments measured at:							
- FVTPL	4,199	6,745	35,445	37,082	25,924	286,273	395,668
- Amortized cost	64,785	92,905	149,392	533,626	288,693	14,848	1,144,249
- FVOCI	22,561	8,912	51,610	179,288	111,617	8,910	382,898
Other financial assets	44,677	1,067	1,985	-	-	22,428	70,157
Total financial assets	2,697,330	493,316	1,220,940	895,537	471,967	404,476	6,183,566
Liabilities							
Borrowing from central bank	9,020	30,090	178,630	-	-	3,263	221,003
Deposits and placements from banks and other financial institutions	894,850	142,794	168,028	5,431	499	4,789	1,216,391
Financial liabilities measured at FVTPL	-	-	10	8,688	603	25,611	34,912
Derivative financial liabilities	-	-	-	-	-	42,793	42,793
Financial assets sold under repurchase agreements	87,767	11,747	19,936	-	-	114	119,564
Deposits from customers	1,945,923	383,651	659,481	232,916	5,047	26,297	3,253,315
Debt securities issued	49,817	249,836	320,170	117,176	100,355	4,086	841,440
Other financial liabilities	729	970	724	-	-	28,527	30,950
Total financial liabilities	2,988,106	819,088	1,346,979	364,211	106,504	135,480	5,760,368
Total interest repricing gap	(290,776)	(325,772)	(126,039)	531,326	365,463	268,996	423,198

The Group performs sensitivity analysis to measure the potential impact of changes in interest rate on net profit and equity. The table below shows the results of the sensitivity analysis on the balance sheet date.

	31 December 2019		31 December 2018	
	Interest rate fluctuation (Basis points)		Interest rate fluctuation (Basis points)	
	-100	+100	-100	+100
(decrease) / increase in net profit	(2,112)	2,112	(2,964)	2,964
Increase / (decrease) in other comprehensive income under equity	14,327	(13,392)	10,637	(10,407)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. The analysis only measures the impact of changes in the interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's assets and liabilities within the one-year period.

- Except for current deposits, assets and liabilities, whose maturity dates are within three months or more than three months but will be repricing within one year, are assumed to be re-priced in the middle of each specified period;
- The interest rates of current deposits and statutory deposit reserves with central bank remain unchanged;
- The yield curve moves in parallel with interest rate;
- There are no changes in assets and liabilities at year end. Based on the assumptions, the actual change in net profit may be different from the sensitivity analysis results.

Based on the assumption of the parallel movement of the yield curve along with interest rate change, the sensitivity analysis of the equity is derived by remeasuring the fair value of debt instruments at fair value through other comprehensive income as a result of changes in interest rate with a certain percentage.

3 Liquidity risk

The Group's liquidity risk management is intended to meet the obligations to serve customers for withdrawal and payment, to achieve the balance between the total amount and structure of assets and liabilities; to reduce the liquidity cost, avoid liquidity crisis of the Group, and to effectively respond to systematic liquidity risk by active management.

The Group's liquidity risk management system comprises mainly regular and contingent management system which includes 10 components, such as policies and strategies, management framework, regulations, management tools, daily operation, stress tests, system construction, risk monitoring, risk report, and emergency management and drilling.

Daily management of liquidity risk. During the reporting period, the Group kept layered beforehand balanced management of liquidity risk in line with the principle of aggregate balance and structural equilibrium; it carries out real-time monitoring on daily position accounts in local and foreign currencies, and made centralised allocation of positions in local and foreign currencies; it established a beforehand declaration system for large-amount positions, and established a monitoring mechanism for total liquidity level; it prepared a cash flow gap table on a daily basis, used the gap management method to predit cash flow gap changes in future assets and liabilities's on and off-balance sheet items, and regularly (irregularly in case of major events) conducted liquidity risk assessment for assets and liabilities' on and off-balance sheet items; the Group also considered its own liquidity risk policies and risk limit requirements to make active financing arrangement and make adjustments to asset and liability portfolios, enabling the business development to effectively meet the requirements for appropriate liquidty management goals.

The table below presents the undiscounted cash flows of the Group under contracts of non-derivative financial assets and liabilities by remaining contractual maturities.

	31 December 2019						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and deposits with central bank	-	477,853	-	-	-	-	477,853
Deposits and placements with banks and other financial institutions	-	58,646	86,097	115,741	23,319	-	283,803
Financial assets purchased under resale agreements	-	-	2,878	-	-	-	2,878
Loans and advances to customers	62,353	-	923,781	1,526,946	1,123,540	1,196,731	4,833,351
Financial investments measured at:							
- FVTPL	630	391,808	12,383	41,829	82,327	26,497	555,474
- Amortized cost	7,270	-	88,640	220,592	604,506	313,863	1,234,871
- FVOCI	244	5,794	40,423	70,902	318,657	160,972	596,992
Other financial assets	2,611	46,515	4,666	26,399	36,721	4,485	121,397
Total financial assets	73,108	980,616	1,158,868	2,002,409	2,189,070	1,702,548	8,106,619
Liabilities							
Borrowing from central bank	-	-	7,109	231,185	-	-	238,294
Deposits and placements from banks and other financial institutions	-	328,115	546,831	287,976	6,399	477	1,169,798
Financial liabilities at profit or loss	-	3,258	16,429	1,820	1,214	574	23,295
Financial assets sold under repurchase agreements	-	-	206,788	21,120	-	-	227,908
Deposits from customers	-	1,552,581	1,073,724	566,834	547,530	247	3,740,916
Debt securities issued	-	-	300,735	472,658	126,479	165,821	1,065,693
Other financial liabilities	-	31,284	933	3,127	7,732	1,333	44,409
Total financial liabilities	-	1,915,238	2,152,549	1,584,720	689,354	168,452	6,510,313
Net liquidity	73,108	(934,622)	(993,681)	417,689	1,499,716	1,534,096	1,596,306
Derivative financial instruments							
-Inflow	-	-	163,350	209,554	50,990	27	423,921
-Outflow	-	-	164,686	211,447	50,829	82	427,044
Net value of derivative financial instruments	-	-	(1,336)	(1,893)	161	(55)	(3,123)
Credit commitments	-	432,004	277,360	424,134	48,272	924	1,182,694

	31 December 2018						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and deposits with central bank	-	443,723	-	-	-	-	443,723
Deposits and placements with banks and other financial institutions	-	60,315	57,105	105,718	17,069	-	240,207
Financial assets purchased under resale agreements	-	-	11,575	-	-	-	11,575
Loans and advances to customers	71,057	-	869,961	1,054,759	1,022,783	1,386,969	4,405,529
Financial investments measured at:							
- FVTPL	1,583	286,273	10,816	38,598	44,340	29,469	411,079
- Amortized cost	4,351	-	159,543	197,612	640,567	326,329	1,328,402
- FVOCI	130	4,038	20,063	62,378	241,825	130,684	459,118
Other financial assets	291	25,826	3,539	11,402	32,703	4,985	78,746
Total financial assets	77,412	820,175	1,132,602	1,470,467	1,999,287	1,878,436	7,378,379
Liabilities							
Borrowing from central bank	-	-	40,400	184,602	-	-	225,002
Deposits and placements from banks and other financial institutions	-	719,855	322,620	173,457	6,374	704	1,223,010
Financial liabilities at profit or loss	194	25,611	-	10	8,495	603	34,913
Financial assets sold under repurchase agreements	-	-	99,606	20,194	-	-	119,800
Deposits from customers	-	1,487,391	1,119,643	681,214	246,550	6,241	3,541,039
Debt securities issued	-	-	283,043	333,567	156,216	124,000	896,826
Other financial liabilities	-	28,649	1,594	-	731	-	30,974
Total financial liabilities	194	2,261,506	1,866,906	1,393,044	418,366	131,548	6,071,564
Net liquidity	77,218	(1,441,331)	(734,304)	77,423	1,580,921	1,746,888	1,306,815
Derivative financial instruments							
-Inflow	-	-	559,678	278,921	43,570	-	882,169
-Outflow	-	-	558,572	278,411	44,045	29	881,057
Net value of derivative financial instruments	-	-	1,106	510	(475)	(29)	1,112
Credit commitments	-	358,270	287,927	342,327	42,651	2,488	1,033,663

4 Fair value of financial instruments

(1) Fair value hierarchy

According to the the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement, the levels are defined as follows:

- Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities. The financial instruments of this level include listed equity securities, debt instruments and open-end fund investments;

- Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities. The financial instruments of this level include most Over-the-Counter (“OTC”) derivatives and bonds. The sources of the yield curve or counterparty credit risk input value parameters are Thomson Reuters, Bloomberg and ChinaBond.com.

- Level 3 inputs: inputs that are unobservable for underlying assets or liabilities. The financial instruments of this level include equity instruments and debt instruments with significant non-observable components.

(2) Financial instruments not measured at fair value

Financial assets and financial liabilities not measured at fair value in the statement of financial position mainly include: deposits with central banks, deposits and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers (measured at amortized cost), financial investment measured at amortized cost, borrowing from central bank, deposits and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, lease liabilities and bonds issued.

The book value and corresponding fair value of financial investment not measured at fair value (financial investment measured at amortized cost) and bonds issued as at 31 December 2019 and 31 December 2018 are listed in the following table.

	31 December 2019				
	Book Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets：					
Financial investment measured at amortized cost	1,074,927	-	804,624	282,208	1,086,832
Financial liabilities：					
Debt securities issued	1,003,502	-	1,012,359	-	1,012,359

	31 December 2018				
	Book Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets：					
Financial investment measured at amortized cost	1,144,249	-	856,521	292,683	1,149,204
Financial liabilities：					
Debt securities issued	841,440	-	844,012	-	844,012

(i) Financial investment measured at amortized cost

The fair value of financial investments measured at amortized cost is based on market quotes, and therefore belongs to the first level. If the relevant market information of debt investments cannot be obtained, then the discounted cash flow model is used for the valuation of fair value, which belongs to Level 3. Where applicable, the fair value of financial investments measured at amortized cost are determined with reference to the valuation results of China Central Depository & Clearing Co., Ltd., China Securities Index Co., Ltd. or Bloomberg, which belongs to Level 2.

(ii) Debt securities issued

The fair value of bonds issued is based on public quotes on the market. For bonds that cannot be quoted in the market, the fair value is determined by the discounted cash flow method and is based on the actual return rate matching the remaining maturity of the bond.

In addition to the above financial assets and financial liabilities, the fair value of other financial assets and financial liabilities that are not measured at fair value in the statement of financial position are deteremined with the discounted future cash flow method. There is no significant difference between their book value and fair value because these financial instruments have a shorter duration, or their interest rates fluctuate with market interest rates.

(3) Assests and liabilities measured at fair value a recurring basis

The following table presents the fair value information and the fair value hierarchy of the Group's assets and liabilities which are measured at fair value a recurring basis.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial investments:				
Financial investments measured at FVTPL				
- Fund	358,371	-	2,485	360,856
- Fund trust and asset management plan	-	17,273	48,040	65,313
- Bonds	2,310	60,572	407	63,289
- Equity	2,687	-	1,619	4,306
- Interbank Certificates of Deposit	-	4,424	-	4,424
- Wealth management products	-	-	90	90
- ABS	-	6	-	6
- Other	-	-	7,034	7,034
Financial investments measured at FVOCI				
- Bonds	52,676	421,261	-	473,937
- Interbank Certificates of Deposit	-	11,653	-	11,653
- ABS	-	9,093	-	9,093
- Fund trust and asset management plan	-	344	2,481	2,825
- Equity	397	-	4,586	4,983
- Fund	-	-	811	811
Loans and advances to customers measured at:				
FVOCI				
- Discounted bills	-	412,900	-	412,900
- Trade financing	-	35	-	35
FVTPL				
- Discounted bills	-	2,080	-	2,080
- Trade financing	-	1,100	-	1,100
Derivative financial assets	-	38,719	-	38,719
Total financial assets	416,441	979,460	67,553	1,463,454
Derivative financial liabilities	-	41,503	-	41,503
Financial liabilities measured at FVTPL				
- Financial liabilities related to precious metals	18,464	-	-	18,464
- Interest of other unit holders in consolidated structured entities	2,929	45	1,857	4,831
Total financial liabilities	21,393	41,548	1,857	64,798

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial investments:				
Financial investments measured at FVTPL				
- Fund	260,117	-	3,074	263,191
- Fund trust and asset management plan	-	18,531	52,600	71,131
- Bonds	174	54,158	-	54,332
- Equity	345	-	783	1,128
- Wealth management products	-	-	208	208
- Other	-	-	5,678	5,678
Financial investments measured at FVOCI				
- Bonds and other debt instruments	35	376,338	-	376,373
- Fund trust and asset management plan	-	1,274	1,213	2,487
- Equity	398	-	3,640	4,038
Loans and advances to customers measured at:				
FVOCI				
- Discounted bills	-	249,153	-	249,153
FVTPL				
- Discounted bills	-	482	-	482
Derivative financial assets	-	43,274	-	43,274
Total financial assets	261,069	743,210	67,196	1,071,475
Derivative financial liabilities	-	42,793	-	42,793
Financial liabilities measured at FVTPL				
- Financial liabilities related to precious metals	23,563	941	-	24,504
- Interest of other unit holders in consolidated structured entities	1,107	19	9,282	10,408
Total financial liabilities	24,670	43,753	9,282	77,705

The Group takes the date of the event that caused the transfer between levels as the date of the transfer. There is no transfer between the first and second levels this year.

(i) Level 2 Financial Instruments

The fair value of financial instruments that are not traded in an active market (such as OTC derivatives) is determined using valuation techniques. Valuation techniques use observable market data (if any) as much as possible, and rely as little as possible on the entity's specific estimates. If all significant inputs required to calculate the fair value of a financial instrument are observable data, the financial instrument is included in level 2. If one or more significant inputs are not based on observable market data, the financial instrument is included in level 3.

The financial instruments classified by the Group as level 2 mainly include bonds, foreign exchange forwards and swaps, interest rate swaps and foreign exchange options. The fair value of RMB bonds is determined according to the valuation results of China Central Depository & Clearing Co., Ltd., and the fair value of foreign currency bonds is determined according to Bloomberg's valuation results. Foreign exchange forwards and swaps, interest rate swaps, foreign exchange options are valued using cash flow discounts and the Blair-Scholes model. All significant valuation parameters are obtained from observable market information.

(ii) Level 3 Financial Instruments

The changes in the Group's Level 3 assets and liabilities as follows:

	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial liabilities measured at FVTPL	Total
1 Janurary 2019	62,343	4,853	(9,282)	57,914
Additions	20,152	4,479	(819)	23,812
Disposals and settlements	(23,946)	(2,168)	8,371	(17,743)
Total gains / (losses) recorded in profit or loss	1,126	386	(127)	1,385
Total gains / (losses) recorded in other comprehensive income	-	328	-	328
31 December 2019	59,675	7,878	(1,857)	65,696
Unrealised gains or losses recognised in profit or loss for the year ended 31 December 2019 for the positions held at 31 December 2019	(756)	-	(22)	(778)

	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial liabilities measured at FVTPL	Total
1 Janurary 2018	76,991	3,008	(13,194)	66,805
Additions	24,792	2,347	(961)	26,178
Disposals and settlements	(40,263)	(1,221)	4,985	(36,499)
Total gains / (losses) recorded in profit or loss	823	211	(112)	922
Total gains/(losses) recorded in other comprehensive income	-	508	-	508
31 December 2018	62,343	4,853	(9,282)	57,914
Unrealised gains or losses recognised in profit or loss for the year ended 31 December 2018 for the positions held at 31 December 2018	823	-	(112)	711

The relevant information of Level 3 of fair value measurement using important unobservable input values is as follows:

31 December 2019	Fair value	Valuation method	Unobservable inputs
Financial investment:			
Financial investments measured at FVTPL			
- Fund trust and asset management plan	47,227	Income approach	Discount rate
	813	Refer to recent transactions	NA
- Equity	1,619	Income approach	Discount rate
- Fund	2,485	Refer to recent transactions	NA
- Bonds	407	Income approach	Discount rate
- Wealth management products	90	Income approach	Discount rate
- Other	7,034	Note 1	Note 1
	59,675		
Financial investments measured at FVOCI			
- Fund trust and asset management plan	2,481	Income approach	Discount rate
- Equity	1,149	Refer to recent transactions	NA
	3,287	Market approach	Liquidity discount P/B ratio
	150	Market approach	Liquidity discount P/E ratio
- Fund	763	Refer to recent transactions	NA
	48	Market approach	Liquidity discount P/B ratio
	7,878		
Financial liabilities measured at FVTPL			
- Interest of other unit holders in consolidated structured entities	1,857	Note 2	Note 2

31 December 2018	Fair value	Valuation method	Unobservable inputs
Financial investment			
Financial investments measured at FVTPL			
- Fund trust and asset management plan	52,600	Income apporoach	Discount rate
- Fund	3,074	Refer to recent transaction	NA
- Equity	783	Income apporoach	Discount rate
- Wealth management products	208	Income apporoach	Discount rate
- Other	5,678	Note 1	Note 1
	62,343		
Financial investments measured at FVOCI			
- Fund trust and asset management plan	1,213	Income apporoach	Discount rate
- Equity			
	1,985	Refer to recent transaction	NA
	1,346	Market approach	Liquidity discount P/B ratio
	309	Market approach	Liquidity discount P/E ratio
	4,853		
Financial liabilities measured at FVTPL			
- Interest of other unit holders in consolidated structured entities	9,282	Note 2	Note 2

Note1: Financial investments at fair value through profit and loss are products entrusted by the Group to manage by Changjiang Pension Insurance Co., Ltd. The product is ultimately invested in financial assets, and the total fair value of these financial assets equals to the fair value of the product. The calculation method of the fair value of these financial assets is as follows:

- Investment in money market funds: using market quotes as fair value;
- Investment in bonds: based on the yield of bonds with similar remaining maturity, using discounted cash flow method to determine the fair value;
- Financial investments measured at amortized cost: using discounted cash flow model with discount rate as unobservable input value.

Note2: The fair value of the interest of other unit holders in consolidated structured entities is the amount attributable to the investor of the structured entity based on the net value of the structured entity.

5 Offsetting of financial assets and financial liabilities

Some financial assets and financial liabilities in the Group follow executable net amount settlement arrangements or similar agreements. Such arrangements with the Group and counterparties normally allow the net amount settlement under agreements of both parties. If no agreement is reached, it would be settled in full amount. But one party could choose to settle in net amount under the condition that the other party violates the agreement. According to the requirements of the Accounting Standards for Business Enterprises, the Group did not offset these financial assets and financial liabilities.

As at 31 December 2019, the amount of the Group's financial assets and financial liabilities following executable net amount settlement arrangements or similar agreements is not significant.

6 Capital management

The objectives of the Group's capital management are to:

(1) Satisfy regulatory requirements for capital adequacy ratio on an ongoing basis, ensure operational compliance to ultimately optimise capital stock and structure.
(2) Ensure adequate capital for resisting corresponding risks, realise the operational safety, and keep capital at an adequate and reasonable level.
(3) Establish a capital allocation and management system that focuses on economic capital, optimise the resource allocation and management control mechanism at the group level, achieve capital intensive management to ultimately maximise shareholders' value.

The Group manages its capital structure and adjust it based on the changes in economic condition and the risk characteristics. Generally, the mechanism of adjusting the capital structure comprises dividend distribution policies and issuance of additional capital instruments such as tier 1 capital instruments and tier 2 capital instruments, etc.

In China, commercial banks should meet the requirements for capital adequacy ratio set out in the Administrative Measures on the Capital of Commercial Banks (for Trial Implementation). Specifically, for domestic systematically important banks, capital adequacy ratio of core tier 1 capital shall not be less than 8.50%, capital adequacy ratio of tier 1 capital shall not be less than 9.50% and capital adequacy ratio shall not be less than 11.50%. For banks not classified as systemically important banks, capital adequacy ratio of core tier 1 capital shall not be less than 7.50%, capital adequacy ratio of tier 1 capital shall not be less than 8.50% and capital adequacy ratio shall not be less than 10.50%.

	The Group	
	31 December 2019	31 December 2018
Core tier 1 capital - net	485,260	435,120
Tier 1 capital - net	545,555	465,398
Capital - net	655,695	589,308
Total risk weighted assets	4,731,354	4,311,886
Core tier 1 capital adequacy ratio	10.26%	10.09%
Tier 1 capital adequacy ratio	11.53%	10.79%
Capital adequacy ratio	13.86%	13.67%

(1) The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratios includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.

(2) The Group's Core Tier 1 Capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserve, general risk reserve, retained earnings, minority interests (to the extent permitted in the Core Tier 1 Capital under the Regulation).

(3) The Group's Deductible Items from Core Tier 1 Capital include other intangible assets (excluding land use rights) after deducting the related deferred tax liabilities.

(4) The Group's other Tier 1 Capital includes preference shares and minority interests to the extent permitted by the capital rules.

(5) The Group's Tier 2 Capital includes: Tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests to the extent permitted by the capital rules.

(6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardised approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk weighted Assets and Operational Risk-weighted Assets respectively.

IX ASSET PLEDGED

Certain assets of the Group are pledged as collateral for financial liabilities, and the analysis of these assets are as follows:

	31 December 2019
Financial investments	473,693
Discounted bills	90,791
Bank loans	414
Total	564,898

X EVENTS AFTER THE REPORTING DATE

1 Profit distribution plan

The Bank convened the board of directors on 23 April 2020, approved the profit distribution plan for 2019 and submitted it to the annual general meeting for consideration and approval.

2 Matters concerning the disposal of equity in investment companies

According to the arrangements of the State Council and the China Securities Regulatory Commission, the foreign ownership cap on fund management companies will be removed nationwide since 1 April 2020. Shanghai International Trust, a subsidiary of the Bank, received a notice from JPMorgan Asset Management that JPMorgan Asset Management intends to acquire the remaining shares held by Shanghai International Trust in China International Fund Management Co., Ltd. As of the reporting date, Shanghai International Trust held 51% of China International Fund Management Co., Ltd. and JPMorgan Asset Management (UK) Limited held 49% of China International Fund Management Co., Ltd. The Bank will initiate communication, negotiation, evaluation and listing of the above equity transfer based on regulatory requirements, state-owned asset management requirements and the *Articles of Association* based on mutually beneficial business principles.

3 Evaluation of the impact of COVID-19

Since the outbreak of COVID-19 in January 2020, prevention and control efforts are continuing nationally. The Bank will effectively implement the requirements of relevant regulatory agencies and strengthen financial support for epidemic prevention and control. The pneumonia epidemic will have a certain impact on the operations of global economic and business, which may affect the asset quality and asset return level of the Bank's credit assets and investment assets to a certain extent. The degree of impact will depend on the progress of epidemic prevention and control, duration of the epidemic situation and implementation of relevant regulations and policies by government. The Bank will continuously pay close attention to the development of pneumonia, assess and actively respond to its impact on the Bank's financial situation and financial performance, etc. As of the reporting date, the assessment is still in progress.

XI COMPARATIVE FIGURES

In order to be consistent with the presentation of financial statements for the current year, a number of comparative figures have been reclassified.