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BQD 青岛银行

Bank of Qingdao Co., Ltd.*
青島銀行股份有限公司*

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

(H Shares Stock Code: 3866)

(Preference Shares Stock Code: 4611)

Annual Results for the year ended 31 December 2019

The board of directors (the "**Board**") of Bank of Qingdao Co., Ltd. (the "**Bank**" or "**Bank of Qingdao**") is pleased to announce the audited annual results (the "**Annual Results**") of the Bank and its subsidiaries (the "**Company**") for the year ended 31 December 2019 (the "**Reporting Period**") prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

Unless otherwise stated, the currency of the amounts referred to in this annual results announcement is Renminbi ("**RMB**").

SECTION 1 CORPORATE BASIC INFORMATION

1.1 Corporate Basic Information

Legal name in Chinese:	青島銀行股份有限公司 (Abbreviation: 青島銀行)
Legal name in English:	BANK OF QINGDAO CO., LTD. (Abbreviation: BANK OF QINGDAO)
Legal representative:	Guo Shaoquan
Authorised representatives:	Guo Shaoquan, Lu Lan

Class of Shares	Stock Abbreviation	Stock Code	Listing Exchange
A shares	BQD	002948	Shenzhen Stock Exchange
H shares	BQD	3866	The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**")
Offshore preference shares	BQD 17USDPREF	4611	Hong Kong Stock Exchange

1.2 Contact Persons and Contact Details

Secretary to the Board:	Lu Lan
Joint company secretaries:	Lu Lan, Yu Wing Sze
Registered and office address:	Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, China Postal code: 266061
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Company website:	http://www.qdccb.com/

SECTION 2 FINANCIAL HIGHLIGHTS

Item	**2019**	2018	Year-on-year	2017	2016	2015
Business Performance (RMB'000)			**Change (%)**			
Net interest income	**6,846,055**	4,464,029	53.36	4,802,408	5,007,955	4,114,054
Net non-interest income	**2,776,054**	2,900,809	(4.30)	765,185	988,190	891,454
Operating income	**9,622,109**	7,364,838	30.65	5,567,593	5,996,145	5,005,508
Operating expenses	**(3,166,762)**	(2,505,650)	26.38	(1,818,922)	(2,213,521)	(2,076,578)
Credit losses/Impairment losses [1]	**(3,626,792)**	(2,383,172)	52.18	(1,378,904)	(1,108,874)	(579,894)
Profit before taxation	**2,828,555**	2,476,016	14.24	2,369,767	2,673,750	2,349,036
Net profit	**2,335,522**	2,043,389	14.30	1,903,607	2,088,605	1,813,776
Net profit attributable to shareholders of the Bank	**2,284,815**	2,023,352	12.92	1,900,252	2,088,605	1,813,776
Per share (RMB/share)			**Change (%)**			
Basic earnings per share[2]	**0.39**	0.37	5.41	0.47	0.51	0.58
Diluted earnings per share [2]	**0.39**	0.37	5.41	0.47	0.51	0.58
Dividend per share[3]	**0.20**	0.20	–	0.20	0.20	0.20

Item	**31 December 2019**	31 December 2018	Year-on-year	31 December 2017	31 December 2016	31 December 2015
Scale indicators (RMB'000)			**Change (%)**			
Total assets[4]	**373,622,150**	317,658,502	17.62	306,276,092	277,988,106	187,235,254
Loans and advances to customers:						
Total loans to customers[4]	**172,795,443**	126,386,870	36.72	98,061,379	87,168,295	72,695,518
Add: Accrued interest	**772,480**	521,250	48.20	N/A	N/A	N/A
Less: Provision for impairment on loans and advances to customers measured at amortized cost[1]	**(4,409,632)**	(3,541,229)	24.52	(2,546,699)	(2,303,446)	(2,040,297)
Loans and advances to customers	**169,158,291**	123,366,891	37.12	95,514,680	84,864,849	70,655,221
Provision for loan impairment[1]	**(4,422,549)**	(3,557,806)	24.31	(2,546,699)	(2,303,446)	(2,040,297)
Of which: Impairment provision for loans and advances to customers at fair value through other comprehensive income[1]	**(12,917)**	(16,577)	(22.08)	N/A	N/A	N/A
Total liabilities[4]	**343,144,232**	290,161,778	18.26	280,152,883	260,352,133	170,621,602
Deposits from customers:						
Total deposits from customers[4]	**212,790,909**	175,675,849	21.13	160,083,783	141,604,761	115,321,997
Add: Accrued interest	**2,634,494**	2,235,398	17.85	N/A	N/A	N/A
Deposits from customers	**215,425,403**	177,911,247	21.09	160,083,783	141,604,761	115,321,997
Share capital	**4,509,690**	4,058,713	11.11	4,058,713	4,058,713	4,011,533
Equity attributable to equity shareholders of the Bank	**29,915,460**	26,984,973	10.86	25,629,854	17,635,973	16,613,652
Equity attributable to shareholders	**30,477,918**	27,496,724	10.84	26,123,209	17,635,973	16,613,652
Net capital base	**39,252,505**	36,021,656	8.97	33,806,113	20,783,634	19,824,257
Of which: Net core tier-one capital	**22,224,697**	19,268,600	15.34	17,733,763	17,464,312	16,448,021
Other tier-one capital	**7,901,623**	7,894,330	0.09	7,874,674	–	–
Tier-two capital	**9,126,185**	8,858,726	3.02	8,197,676	3,319,322	3,376,236
Total risk-weighted assets	**265,908,365**	229,776,495	15.72	203,708,884	173,267,933	131,824,697
Per share (RMB/share)			**Change (%)**			
Net assets per share attributable to shareholders of the Bank[5]	**4.89**	4.71	3.82	4.38	4.35	4.14

Item	2019	2018	Year-on-year	2017	2016	2015
Profitability indicators (%)			**Change**			
Return on average total assets[6]	**0.68**	0.66	0.02	0.65	0.90	1.06
Weighted average return on net assets[2]	**8.27**	8.36	(0.09)	10.80	12.22	14.69
Net interest spread[7]	**2.10**	1.67	0.43	1.57	2.05	2.23
Net interest margin[8]	**2.13**	1.63	0.50	1.72	2.23	2.36
Net fee and commission income to operating income	**12.65**	11.76	0.89	14.89	14.81	14.98
Cost-to-income ratio[9]	**31.86**	33.01	(1.15)	31.68	34.71	35.80

Item	**31 December 2019**	31 December 2018	Year-on-year	31 December 2017	31 December 2016	31 December 2015
Asset quality indicators (%)			**Change**			
Non-performing loan ratio	**1.65**	1.68	(0.03)	1.69	1.36	1.19
Provision coverage ratio	**155.09**	168.04	(12.95)	153.52	194.01	236.13
Loan provision ratio	**2.56**	2.82	(0.26)	2.60	2.64	2.81
Indicators of capital adequacy ratio (%)			**Change**			
Core tier-one capital adequacy ratio[10]	**8.36**	8.39	(0.03)	8.71	10.08	12.48
Tier-one capital adequacy ratio[10]	**11.33**	11.82	(0.49)	12.57	10.08	12.48
Capital adequacy ratio[10]	**14.76**	15.68	(0.92)	16.60	12.00	15.04
Total equity to total assets ratio	**8.16**	8.66	(0.50)	8.53	6.34	8.87
Other indicators (%)			**Change**			
Liquidity coverage ratio	**142.27**	125.95	16.32	173.05	101.24	132.06
Liquidity ratio	**68.84**	60.55	8.29	56.36	53.48	60.04

Notes:

(1) After the adoption of International Financial Reporting Standard 9 Financial Instruments ("**IFRS 9**") in 2018, the expected credit loss model has replaced incurred loss model for the measurement of impairment of financial instruments. "Credit losses" reflect the credit loss recognized by the provision for credit losses of financial instruments as required. "Provision for loan impairment" includes "provision for impairment on loans and advances to customers measured at amortized costs" and "impairment provision for loans and advances to customers measured at fair value through other comprehensive income".

(2) Earnings per share and weighted average return on net assets were calculated in accordance with the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號—淨資產收益率和每股收益的計算及披露》(2010年修訂)). Weighted average return on net assets decreased by 0.09 percentage point compared with the previous year, mainly due to the Bank's initial public offering of 451,000,000 A shares in the first half of 2019, raising net proceeds of RMB1.963 billion, which resulted in a significant increase in the weighted average net assets for the period. The Bank issued offshore preference shares in 2017. Therefore, in calculating earnings per share and weighted average return on net assets, the dividends for preference shares have been deducted from the "net profit attributable to shareholders of the Bank" and the effect from preference shares has been deducted from the "weighted average net assets".

(3) Dividend per share represents dividend per share attributable to ordinary shareholders of the Bank, and the dividend per share of 2019 is subject to approval by the general meeting.

(4) For details of the structure of total assets, total liabilities, total loans to customers and total deposits from customers, please refer to "4. Analysis of Major Items of the Statement of Financial Position" in Section 3 Management Discussion and Analysis of this results announcement.

(5) Net assets per share attributable to shareholders of the Bank = (equity attributable to equity shareholders of the Bank – other equity instruments)/the number of ordinary shares at the end of the period.

(6) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period, of which total assets at the beginning of 2018 is the balance after the adoption of IFRS 9, and total assets at the beginning of 2019 is the balance after the adoption of International Financial Reporting Standard 16 Lease ("**IFRS 16**").

(7) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities.

(8) Net interest margin = net interest income/average interest-earning assets.

(9) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.

(10) The relevant indicators of capital adequacy ratio were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory regulations.

(11) The Company has applied IFRS 16 since 1 January 2019. For details of the changes in accounting policies and impacts, please refer to Note 2(2) "Changes in accounting policies" to the financial statements of this results announcement.

SECTION 3 MANAGEMENT DISCUSSION AND ANALYSIS

1. Summary

In 2019, the growth of the global economy slowed down as affected by cyclical factors and negative impacts such as the escalation of global trade frictions. In response to the downward pressure on the economy, the central banks of major developed economies cut interest rates one after another and the world entered a period of accommodative monetary policies. Faced with the complicated and severe internal and external environment, China continued to further the supply-side structural reform and made great efforts to ensure the "Stabilization of Six Aspects". In terms of fiscal policies, tax cuts and fee reduction have been implemented to reduce the operating costs of enterprises; in terms of monetary policies, counter-cyclical adjustment measures have been enhanced, thereby strengthened the financial support for the real economy, and effectively ensured the smooth operation of the economy and financial markets.

In 2019, the economy of Shandong Province remained generally stable, while accelerating the replacement of old drivers of growth with new ones, scaling down overcapacity, shutting down outdated production facilities, promoting the development of advanced manufacturing industry, and continuously increasing the investment in the "Top Ten" industries. Qingdao has steadily pushed forward and implemented the "Fifteen Offenses", while continuously gathering high-quality development momentum and promoting economic growth potential.

2. Summary of Overall Operations

2.1 Status of Key Operational Indicators Achievements

(1) Total assets amounted to RMB373.622 billion, representing an increase of RMB55.964 billion or 17.62% as compared with that at the end of the previous year, achieving steady growth;

(2) Total loans to customers amounted to RMB172.795 billion, representing an increase of RMB46.409 billion or 36.72% as compared with that at the end of the previous year, maintaining rapid growth;

(3) Total deposits from customers amounted to RMB212.791 billion, representing an increase of RMB37.115 billion or 21.13% as compared with that at the end of the previous year, achieving the goal of "RMB200 billion";

(4) Operating income amounted to RMB9.622 billion, representing a year-on-year increase of RMB2.257 billion or 30.65%, maintaining rapid growth; net profit amounted to RMB2.336 billion, representing a year-on-year increase of RMB292 million or 14.30%;

(5) Non-performing loan ratio was 1.65%, representing a decrease of 0.03 percentage point as compared with that at the end of the previous year; provision coverage ratio was 155.09%; capital adequacy ratio was 14.76%, representing a decrease of 0.92 percentage point as compared with that at the end of the previous year. Net proceeds of RMB1.963 billion was raised from the Bank's initial public offering of A shares. Profit grew steadily and replenish the capital. Meanwhile, a considerable increase in risk-weighted assets and a slight decrease in the indicators of capital adequacy ratio were recorded given the faster business development.

(6) Return on average total assets was 0.68%, representing an increase of 0.02 percentage point as compared with that in the previous year;

(7) Basic earnings per share was RMB0.39, representing a year-on-year increase of RMB0.02; weighted average return on net assets was 8.27%, representing a year-on-year decrease of 0.09 percentage point, mainly due to the Bank's initial public offering of A shares and the significant increase in weighted average net assets for the current period.

2.2 Major Tasks of Operational Management

(1) With the listing of A shares, the Bank has embarked on a new journey of development. On 16 January 2019, the Bank was successfully listed on the Shenzhen Stock Exchange, becoming the first bank in Shandong Province with its A shares listed as well as the second city commercial bank in the PRC with its A shares and H shares listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively. With the "A+H" dual listing, the Bank enriched its capital replenishment channels, diversified its capital structure, and promoted its social reputation and brand image comprehensively.

(2) The Bank achieved comprehensive development and new breakthroughs in its businesses amid challenges. Furthering the "Enhancement Plan" continuously, local branches in Qingdao and other branches in Shandong Province made great efforts and increased their share of local deposits. Accordingly, the Bank's general deposits broke through and stood firm at the goal of RMB200 billion, credit card issuance in the year exceeded 1 million, the balance of wealth management products exceeded RMB100 billion, and its market share remained No. 1 in Shandong Province.

(3) The Bank developed a new comprehensive service system to optimize the specialization of financial business. While maintaining its advantages in public finance, the Bank spared no effort in building up its characteristic professional expertise in investment banking, technology, port financing, and cultural and creative segments. The Bank continuously enriched the two major product systems of transaction banking and supply chain financing, and improved its customers' comprehensive operating capabilities significantly.

(4) The Bank opened up new channels for online customers and achieved remarkable results in the transformation of retail business. Furthermore, the Bank enriched the product lines and improved customer's operating abilities, the retail financial assets thus grew rapidly. On the basis of the traditional off-line customer acquisition model, the Bank established online customer acquisition channel leveraging credit card and cloud payment services, as a result of which the customer base grew rapidly.

(5) The Bank took various measures for disposal of non-performing loans and opened up a new horizon for risk management. The Bank comprehensively promoted the integrated management of credit risks, adopted a vertical approval structure, and improved the approval efficiency. Furthermore, the Bank increased the write-off and clearance of non-performing loans and took more prudent measures in risk asset classification, with loans overdue for more than 60 days all included in non-performing loan management. Asset quality remained stable with upward tendency, while non-performing loan ratio continued to decline.

(6) The Bank strengthened support capacity of the mid-end and back-end, and opened up a new vista for smart operation. With the centralized operation center's ability of the systematic workflow of the headquarters and under the guidance of centralized account opening, authorizing and dealing with settlement business, the Bank integrated and reshaped its business procedures, hence effectively reduced the burden on the front-line and released the workload of outlets and enhanced the efficiency of its single business. Meanwhile, the Bank successfully promoted the smart outlet project and provided its customers with a brand new financial service experience through light tablet devices and innovative consulting services, setting the Bank apart from other traditional banking business procedure modes.

3. Analysis of Major Items of the Statement of Profit or Loss and Other Comprehensive Income

3.1 Financial Performance Summary

During the year 2019, the Company's profit before taxation amounted to RMB2.829 billion, representing a year-on-year increase of RMB353 million or 14.24%; net profit amounted to RMB2.336 billion, representing a year-on-year increase of RMB292 million or 14.30%; and effective income tax rate was 17.43%, representing a slight year-on-year decrease of 0.04 percentage point. The following table sets forth the changes in the Company's major profit items during the periods indicated.

Unit: RMB'000

Item	**2019**	2018	**Change in amount**	**Change (%)**
Net interest income	**6,846,055**	4,464,029	2,382,026	53.36
Net fee and commission income	**1,216,880**	865,757	351,123	40.56
Net trading gains, net gains arising from investments and other operating income, net	**1,559,174**	2,035,052	(475,878)	(23.38)
Operating expenses	**(3,166,762)**	(2,505,650)	(661,112)	26.38
Credit impairment losses	**(3,626,792)**	(2,383,172)	(1,243,620)	52.18
Profit before taxation	**2,828,555**	2,476,016	352,539	14.24
Income tax expense	**(493,033)**	(432,627)	(60,406)	13.96
Net profit	**2,335,522**	2,043,389	292,133	14.30
Of which: Net profit attributable to shareholders of the Bank	**2,284,815**	2,023,352	261,463	12.92
Net profit attributable to non-controlling interests	**50,707**	20,037	30,670	153.07

3.2 Operating Income

During the year 2019, the Company's operating income amounted to RMB9.622 billion, representing a year-on-year increase of RMB2.257 billion or 30.65%, mainly due to the increase in the scale of the Company, the optimization of structure and the decrease in cost of funds, resulting in the rapid increase in net interest income; and a good development in wealth management business, resulting in the rapid growth in net fee and commission income. Among the operating income, net interest income accounted for 71.15%, representing a year-on-year increase of 10.54 percentage points, and net fee and commission income accounted for 12.65%, representing a year-on-year increase of 0.89 percentage point. The following table sets forth the principal components of the Company's operating income and the changes during the periods indicated.

Unit: RMB'000

Item	**2019** Amount	**2019** Percentage (%)	2018 Amount	2018 Percentage (%)	**Percentage changes (percentage point)**
Net interest income	**6,846,055**	**71.15**	4,464,029	60.61	10.54
Interest income	**14,515,004**	**150.85**	11,886,901	161.40	(10.55)
Among which: Loans and advances to customers	**7,686,778**	**79.89**	5,384,339	73.11	6.78
Financial investments	**5,400,084**	**56.12**	5,336,522	72.46	(16.34)
Deposits with banks and other financial institutions	**13,005**	**0.14**	16,443	0.22	(0.08)
Placements with banks and other financial institutions	**257,712**	**2.68**	192,311	2.61	0.07
Deposits with central bank	**352,657**	**3.67**	372,106	5.05	(1.38)
Financial assets held under resale agreements	**306,078**	**3.18**	250,380	3.40	(0.22)
Long-term receivables	**498,690**	**5.18**	334,800	4.55	0.63
Interest expense	**(7,668,949)**	**(79.70)**	(7,422,872)	(100.79)	(21.09)
Net non-interest income	**2,776,054**	**28.85**	2,900,809	39.39	(10.54)
Among which: Net fee and commission income	**1,216,880**	**12.65**	865,757	11.76	0.89
Net trading gains, net gains arising from investments and other operating income, net	**1,559,174**	**16.20**	2,035,052	27.63	(11.43)
Operating income	**9,622,109**	**100.00**	7,364,838	100.00	–

3.3 Net Interest Income

During the year 2019, the Company's net interest income amounted to RMB6.846 billion, representing a year-on-year increase of RMB2.382 billion or 53.36%, mainly due to increase in the scale of the Company, the optimization of structure and the decrease in cost of funds, resulting in the increase in net interest margin. The following table sets forth the average balance of interest-earning assets and interest-bearing liabilities items, interest income/expense and average yield/cost rate of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB'000

	2019			2018		
Item	**Average balance**	**Interest income/ expense**	**Average yield/ cost rate**	Average balance	Interest income/ expense	Average yield/ cost rate
Interest-earning assets						
Loans and advances to customers	**149,808,054**	**7,686,778**	**5.13%**	110,426,678	5,384,339	4.88%
Financial investment	**118,470,086**	**5,400,084**	**4.56%**	116,649,833	5,336,522	4.57%
Deposits and placements with banks and other financial institutions [1]	**21,038,678**	**576,795**	**2.74%**	16,958,926	459,134	2.71%
Deposits with central bank	**22,895,654**	**352,657**	**1.54%**	24,295,572	372,106	1.53%
Long-term receivables	**8,720,607**	**498,690**	**5.72%**	6,176,869	334,800	5.42%
Total	**320,933,079**	**14,515,004**	**4.52%**	274,507,878	11,886,901	4.33%
Interest-bearing liabilities						
Deposits from customers	**187,244,159**	**3,434,379**	**1.83%**	165,231,398	2,985,319	1.81%
Deposits and placements from banks and other financial institutions [2]	**48,344,197**	**1,386,247**	**2.87%**	50,988,694	1,703,250	3.34%
Debt securities issued	**72,417,074**	**2,588,388**	**3.57%**	55,646,320	2,446,785	4.40%
Others	**8,436,605**	**259,935**	**3.08%**	7,274,229	287,518	3.95%
Total	**316,442,035**	**7,668,949**	**2.42%**	279,140,641	7,422,872	2.66%
Net interest income	**/**	**6,846,055**	**/**	/	4,464,029	/
Net interest spread	**/**	**/**	**2.10%**	/	/	1.67%
Net interest margin	**/**	**/**	**2.13%**	/	/	1.63%

Notes: (1) Deposits and placements with banks and other financial institutions include financial assets held under resale agreements.

(2) Deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

In 2019, the average balance of interest-earning assets was RMB320.933 billion, representing a year-on-year increase of RMB46.425 billion or 16.91%, mainly due to the rapid growth in loans. Net interest margin was 2.13%, representing a year-on-year increase of 0.50 percentage point, and net interest spread was 2.10%, representing a year-on-year increase of 0.43 percentage point, which was mainly due to the Company's successful structural adjustment, resulting in a rapid growth in loans and increase in the yield of interest-earning assets; and the decrease in cost rate of the interbank bonds and debt securities issued while the scale of liabilities increased.

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

Unit: RMB'000

	2019 vs. 2018		
Item	**Due to volume**	**Due to rate**	**Net increase (decrease)**
Assets			
Loans and advances to customers	2,026,372	276,067	2,302,439
Financial investment	75,227	(11,665)	63,562
Deposits and placements with banks and other financial institutions	112,573	5,088	117,661
Deposits with central bank	(21,879)	2,430	(19,449)
Long-term receivables	145,359	18,531	163,890
Interest income changes	2,337,652	290,451	2,628,103
Liabilities			
Deposits from customers	416,014	33,046	449,060
Deposits and placements from banks and other financial institutions	(77,356)	(239,647)	(317,003)
Debt securities issued	603,467	(461,864)	141,603
Others	35,703	(63,286)	(27,583)
Interest expense changes	977,828	(731,751)	246,077
Net interest income changes	1,359,824	1,022,202	2,382,026

3.4 Interest Income

In 2019, the Company's interest income was RMB14.515 billion, representing a year-on-year increase of RMB2.628 billion or 22.11%, mainly due to the rapid growth in loans and an increase in the yield on interest-earning assets. The interest income from loans and advances to customers and from financial investments constituted major components of the interest income of the Company.

Interest income of loans and advances to customers

In 2019, the Company's interest income from loans and advances to customers amounted to RMB7.687 billion, representing a year-on-year increase of RMB2.302 billion or 42.76%, mainly due to the Company's successful structural adjustment, resulting in a rapid growth in loans and increase in overall return. The following table sets forth the average balance, interest income and average yield of each component of the Company's loans and advances to customers for the periods indicated.

Unit: RMB'000

		2019			2018	
Item	**Average balance**	**Interest income**	**Average yield**	Average balance	Interest income	Average yield
Corporate loans	**93,398,927**	**4,917,025**	**5.26%**	70,943,467	3,478,800	4.90%
Discounted bills	**9,968,639**	**386,911**	**3.88%**	6,001,728	289,740	4.83%
Personal loans	**46,440,488**	**2,382,842**	**5.13%**	33,481,483	1,615,799	4.83%
Total loans	**149,808,054**	**7,686,778**	**5.13%**	110,426,678	5,384,339	4.88%

Interest income from financial investments

In 2019, the Company's interest income from financial investments was RMB5.4 billion, representing a year-on-year increase of RMB64 million or 1.19%, mainly due to the steady financial investment strategies of the Company, moderate control on the scale of investment and adjustment to the investment structure, resulting in steady operation of the investment business.

Interest income from deposits and placements with banks and other financial institutions

In 2019, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB577 million, representing a year-on-year increase of RMB118 million or 25.63%, mainly attributable to the flexible capital allocation strategy of the Company, which moderately increased the capital scale of high-yield placements with banks and other financial institutions based on the situation of the capital market.

3.5 Interest Expense

In 2019, the Company's interest expenses amounted to RMB7.669 billion, representing a year-on-year increase of RMB246 million or 3.32%, mainly due to the fact that the Company optimized its debt structure and lowered the cost rate of interbank bonds and debt securities issued while its debt scale expanded, resulting in a lower increase in interest expenses. Interest expenses on deposits from customers and debt securities issued were major components of the interest expense of the Company.

Interest expense on deposits from customers

In 2019, the Company's interest expense on deposits from customers was RMB3.434 billion, representing a year-on-year increase of RMB449 million or 15.04%, mainly due to the fact that the Company enhanced pricing management while deposits grew at a faster speed, with cost rate remaining generally stable.

The following table sets forth the average balance, interest expense and average cost rate of each component of the Company's deposits from customers for the periods indicated.

Unit: RMB'000

		2019			2018	
Item	**Average balance**	**Interest expense**	**Average cost rate**	Average balance	Interest expense	Average cost rate
Corporate deposits						
Demand	**74,841,714**	**583,655**	**0.78%**	64,148,692	462,778	0.72%
Time	**52,643,822**	**1,426,135**	**2.71%**	46,602,161	1,293,864	2.78%
Sub-total	**127,485,536**	**2,009,790**	**1.58%**	110,750,853	1,756,642	1.59%
Personal deposits						
Demand	**18,674,429**	**56,418**	**0.30%**	17,782,346	55,330	0.31%
Time	**41,084,194**	**1,368,171**	**3.33%**	36,698,199	1,173,347	3.20%
Sub-total	**59,758,623**	**1,424,589**	**2.38%**	54,480,545	1,228,677	2.26%
Total deposits from customers	**187,244,159**	**3,434,379**	**1.83%**	165,231,398	2,985,319	1.81%

Interest expense on deposits and placements from banks and other financial institutions

In 2019, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB1.386 billion, representing a year-on-year decrease of RMB317 million or 18.61%, mainly due to the fact that the Company enhanced daily management of interbank liabilities and moderately controlled daily average scale and structure, with decrease in both cost rate and scale.

Interest expense on debt securities issued

In 2019, the Company's interest expense on debt securities issued amounted to RMB2.588 billion, representing a year-on-year increase of RMB142 million or 5.79%, mainly due to the fact that the Company actively grasped the interest rate downward trend in financial markets, optimized the structure of active liabilities and increased the issuance of low-cost certificates of interbank deposit while increasing the issuance of financial bonds, resulting in a lower increase in interest expenses.

3.6 *Net Non-interest Income*

In 2019, the Company's net non-interest income was RMB2.776 billion, representing a year-on-year decrease of RMB125 million or 4.30%. The following table sets forth the components of the Company's net non-interest income for the periods indicated.

Unit: RMB' 000

Item	**2019**	2018
Fee and commission income	**1,346,116**	943,582
Less: Fee and commission expense	**(129,236)**	(77,825)
Net fee and commission income	**1,216,880**	865,757
Net trading gains, net gains arising from investments and other operating income, net	**1,559,174**	2,035,052
Total net non-interest income	**2,776,054**	2,900,809

3.7 Net Fee and Commission Income

In 2019, the Company's net fee and commission income amounted to RMB1.217 billion, representing a year-on-year increase of RMB351 million or 40.56%, mainly due to an increase in income of service fees as a result of the rapid development of wealth management, agency service, bank card and other businesses. The following table sets forth the components of the Company's net fee and commission income for the periods indicated.

Unit: RMB' 000

Item	**2019**	2018
Fee and commission income	**1,346,116**	943,582
Of which: Wealth management service fees	**695,313**	486,879
Agency service fees	**339,855**	239,702
Custody and bank card service fees	**131,056**	34,716
Financial leasing fees	**118,743**	114,702
Settlement fees	**41,057**	30,921
Others	**20,092**	36,662
Less: Fee and commission expense	**(129,236)**	(77,825)
Net fee and commission income	**1,216,880**	865,757

In 2019, the Company's wealth management service fees amounted to RMB695 million, representing a year-on-year increase of RMB208 million or 42.81%, mainly due to profitability improvement resulting from increase in the Company's wealth management scale; agency service fees amounted to RMB340 million, representing a year-on-year increase of RMB100 million or 41.78%, mainly due to an increase in commission fee from the sales agency business for trust products and underwriting fees for bond financing instruments; custody and bank card service fees amounted to RMB131 million, representing a year-on-year increase of RMB96 million or 277.51%, mainly due to an increase in credit card service fees income; settlement fees amounted to RMB41 million, representing a year-on-year increase of RMB10 million or 32.78%, mainly due to the increase of income from bank acceptances service fees and trade settlement fees; income from other service fees amounted to RMB20 million, representing a year-on-year decrease of RMB17 million or 45.20%, mainly due to the decrease of income from the service fees of the factoring financing business.

3.8 Net Trading Gains, Net Gains Arising from Investments and Other Operating Income, Net

In 2019, the Company's net trading gains, net gains arising from investments and other operating income, net amounted to RMB1.559 billion, representing a year-on-year decrease of RMB476 million or 23.38%, mainly due to the decrease in both yield and scale of the financial investments measured at fair value through profit or loss resulting from the Company's implementation of national policy guidance and steady financial investment strategy, as well as the effects brought by market exchange rate fluctuations. The following table sets forth the components of the Company's net trading gains, net gains arising from investments and other operating income, net for the periods indicated.

Unit: RMB' 000

Item	**2019**	2018
Net trading gains	**152,464**	410,807
Net gains arising from investments	**1,380,437**	1,617,354
Other operating income, net	**26,273**	6,891
Total	**1,559,174**	2,035,052

3.9 Operating Expenses

In 2019, the Company's operating expenses amounted to RMB3.167 billion, representing a year-on-year increase of RMB661 million or 26.38%. In particular, staff costs increased by RMB368 million or 27.83% on a year-on-year basis, mainly due to the increase in staff number and personnel expenses resulting from business development. Tax and surcharges increased by RMB26 million or 35.19% on a year-on-year basis, mainly due to an increase in tax bases resulting from business growth. Other general and administrative expenses increased by RMB224 million or 44.59% on a year-on-year basis, mainly due to an increase in advertising expenses and other business development fees resulting from business development. The following table sets forth the components of the Company's operating expenses for the periods indicated.

Unit: RMB' 000

Item	**2019**	2018
Staff costs	**1,691,541**	1,323,271
Property and equipment expenses	**646,952**	604,676
Tax and surcharges	**101,186**	74,848
Other general and administrative expenses	**727,083**	502,855
Total operating expenses	**3,166,762**	2,505,650

3.10 Credit Impairment Losses

In 2019, the Company's credit impairment losses amounted to RMB3.627 billion, representing a year-on-year increase of RMB1.244 billion or 52.18%. Credit impairment losses from loans and advances to customers constituted the largest component of the credit impairment losses. The following table sets forth the components of the Company's credit impairment losses for the periods indicated.

Unit: RMB' 000

Item	**2019**	2018
Deposits with banks and other financial institutions	**(98)**	178
Placements with banks and other financial institutions	**4,945**	9,927
Financial assets held under resale agreements	**820**	(1,689)
Loans and advances to customers	**3,026,604**	2,213,707
Financial investments measured at amortized cost	**401,784**	87,746
Financial investments at fair value through other comprehensive income	**61,177**	26,963
Long-term receivables	**130,299**	64,512
Credit commitments	**(5,249)**	(36,086)
Others	**6,510**	17,914
Total credit impairment losses	**3,626,792**	2,383,172

In 2019, credit impairment losses from loans and advances to customers amounted to RMB3.027 billion, representing a year-on-year increase of RMB813 million or 36.72%, mainly due to the fact that the Company stepped up efforts in disposing of risk assets and increased provision for impairment to adapt to the loan risk conditions in response to an overall faster growth in loans and an increase in risk of borrowers in certain regions.

4. Analysis of Major Items of the Statement of Financial Position

4.1 Assets

As at the end of the year 2019, the Company's total assets amounted to RMB373.622 billion, representing an increase of RMB55.964 billion or 17.62% as compared with that at the end of last year. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB'000

Item	31 December 2019		31 December 2018		Change from the end of last year		31 December 2017	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Loans and advances to customers[1]	**169,158,291**	**45.28**	123,366,891	38.84	37.12	6.44	95,514,680	31.19
Financial investments measured at amortized cost	**64,491,058**	**17.26**	70,032,056	22.05	(7.91)	(4.79)	N/A	N/A
Financial investments measured at fair value through other comprehensive income	**54,973,781**	**14.71**	53,002,751	16.69	3.72	(1.98)	N/A	N/A
Financial investments measured at fair value through profit or loss	**22,912,561**	**6.13**	22,361,816	7.04	2.46	(0.91)	179,078	0.06
Cash and deposits with central bank	**39,704,840**	**10.63**	29,554,430	9.30	34.34	1.33	27,097,814	8.85
Deposits with banks and other financial institutions	**1,312,468**	**0.35**	1,542,437	0.49	(14.91)	(0.14)	1,107,946	0.36
Placements with banks and other financial institutions	**3,313,603**	**0.89**	4,110,464	1.29	(19.39)	(0.40)	2,882,727	0.94
Derivative financial assets	**12,436**	**–**	–	–	12,436	–	–	–
Financial assets held under resale agreements	**2,325,771**	**0.62**	300,262	0.09	674.58	0.53	3,584,200	1.17
Available-for-sale financial assets	**N/A**	**N/A**	N/A	N/A	N/A	N/A	79,086,556	25.82
Held-to-maturity investments	**N/A**	**N/A**	N/A	N/A	N/A	N/A	38,644,926	12.62
Receivables	**N/A**	**N/A**	N/A	N/A	N/A	N/A	46,678,869	15.24
Long-term receivables	**9,037,819**	**2.42**	7,766,698	2.44	16.37	(0.02)	4,076,396	1.33
Property and equipment	**3,048,813**	**0.82**	3,124,355	0.98	(2.42)	(0.16)	3,089,017	1.01
Right-of-use assets	**818,928**	**0.22**	N/A	N/A	N/A	N/A	N/A	N/A
Deferred tax assets	**1,581,905**	**0.42**	1,152,778	0.36	37.23	0.06	1,084,286	0.35
Other assets	**929,876**	**0.25**	1,343,564	0.43	(30.79)	(0.18)	3,249,597	1.06
Total assets	**373,622,150**	**100**	317,658,502	100.00	17.62	–	306,276,092	100.00

Note:

(1) In accordance with the Notice on the Revision and Issuance of the Format of the Financial Statements of Financial Enterprises for 2018 (Cai Kuai [2018] No. 36) released by the Ministry of Finance, the book balances of financial instruments including loans and advances to customers as of the end of the years 2019 and 2018 include interest not yet matured measured using the effective interest rate method.

4.1.1 *Loans and advances to customers*

As at the end of the year 2019, the Company's loans and advances to customers amounted to RMB169.158 billion, representing an increase of RMB45.791 billion or 37.12% as compared with that at the end of last year; accounting for 45.28% of the Company's total assets, representing an increase of 6.44 percentage points as compared with that at the end of last year. During the Reporting Period, following the Central Bank's monetary policy, the Company actively expanded the scale of credit supply to support economic development, loans maintained rapid growth, which accounted for a continuously increased percentage in the total assets and further optimized asset structure. The following table sets forth the components of the loans and advances to customers of the Company by product type as at the dates indicated.

Unit: RMB'000

	31 December 2019		31 December 2018		**Change from the end of last year**		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total	**Change in amount (%)**	**Change in % of total**	Amount	% of total
Corporate loans	**112,036,804**	**64.83**	78,264,271	61.92	43.15	2.91	64,363,848	65.64
Discounted bills	**6,249,822**	**3.62**	6,772,625	5.36	(7.72)	(1.74)	2,951,203	3.01
Personal loans	**54,508,817**	**31.55**	41,349,974	32.72	31.82	(1.17)	30,746,328	31.35
Total customer loans	**172,795,443**	**100.00**	126,386,870	100.00	36.72	–	98,061,379	100.00
Add: Accrued interest	**772,480**	/	521,250	/	48.20	/	N/A	N/A
Less: Provision for impairment on loans and advances to customers measured at amortized cost	**(4,409,632)**	/	(3,541,229)	/	24.52	/	(2,546,699)	/
Loans and advances to customers	**169,158,291**	/	123,366,891	/	37.12	/	95,514,680	/

Corporate loans

As of the end of the year 2019, the Company's corporate loans amounted to RMB112.037 billion, representing an increase of RMB33.773 billion or 43.15% as compared with that at the end of last year, and accounted for 64.83% of the total customer loans (excluding accrued interest, the same hereinafter), representing an increase of 2.91 percentage points as compared with that at the end of last year. In 2019, in accordance with the requirements of the Central Bank's counter-cyclical adjustments, the Company seized the opportunity of replacing old drivers with new ones, implemented differentiated credit policies and lent greater support for the real economy in aspects such as supporting private economy and small and micro enterprises. Meanwhile, the Company continued to support significant strategic projects such as infrastructure construction, supporting financing areas such as inclusive finance, green finance and technology finance on a priority basis.

Discounted bills

As at the end of the year 2019, the Company's discounted bills amounted to RMB6.250 billion, representing a decrease of RMB523 million or 7.72% as compared with that at the end of last year, and accounted for 3.62% of the total customer loans, representing a decrease of 1.74 percentage points as compared with that at the end of last year. This was mainly due to the Company's optimization of asset and liability structure with taking into account the needs of profitability and liquidity management and moderate adjustments on the scale of discounted bills.

Personal loans

As at the end of the year 2019, the Company's personal loans amounted to RMB54.509 billion, representing an increase of RMB13.159 billion or 31.82% as compared with that at the end of last year, and accounted for 31.55% of the total customer loans, representing a decrease of 1.17 percentage points as compared with that at the end of last year. In 2019, under the premise of effective risk management and control, the Bank steadily developed housing loans, actively promoted inclusive finance, and explored the development of consumer loans. The Bank has implemented a series of measures such as adjustment of credit structure, adjustment and control of supply pace, and prevention and control of substantial risks to enhance the "quality, scale and efficiency" of retail loans simultaneously.

4.1.2 Financial investments

As at the end of the year 2019, the Company's carrying value of financial investments amounted to RMB142.377 billion, representing a decrease of RMB3.019 billion or 2.08% as compared with that at the end of last year. The following table sets forth the components of the Company's financial investment portfolio as at the dates indicated.

Unit: RMB'000

	31 December 2019		31 December 2018	
Item	**Amount**	**% of total**	Amount	% of total
Financial investments measured at fair value through profit or loss	**22,912,561**	**16.09**	22,361,816	15.38
Financial investments measured at fair value through other comprehensive income	**54,973,781**	**38.61**	53,002,751	36.45
Financial investments measured at amortized cost	**64,491,058**	**45.30**	70,032,056	48.17
Financial investments	**142,377,400**	**100.00**	145,396,623	100.00

Financial investments measured at fair value through profit or loss

As at the end of the year 2019, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB22.913 billion, representing an increase of RMB551 million or 2.46% as compared with that at the end of last year. The increase was mainly due to increased investment in bond mutual funds with tax-exempt advantages and relatively higher returns, and the compression of non-standard assets under entrusted management. The following table sets forth the components of the Company's financial investments measured at fair value through profit or loss as at the dates indicated.

Unit: RMB'000

Item	**31 December 2019**	31 December 2018
Debt securities issued by banks and other financial institutions	**676,304**	206,985
Debt securities issued by corporate entities	**124,557**	30,295
Asset management plans	**9,240,047**	9,354,611
Investment funds	**9,008,256**	7,467,620
Trust fund plans	**2,829,424**	3,221,359
Wealth management products	**1,033,973**	2,080,946
Financial investments measured at fair value through profit or loss	**22,912,561**	22,361,816

Financial investments measured at fair value through other comprehensive income

As at the end of the year 2019, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB54.974 billion, representing an increase of RMB1.971 billion or 3.72% as compared with that at the end of last year. The increase was mainly due to the appropriate reduction in exposure to policy financial bonds and the increase in the scale of investment in government bonds and non-financial corporate bonds according to overall market conditions and taking into account trading strategies. The following table sets forth the components of the Company's financial investment measured at fair value through other comprehensive income as at the dates indicated.

Unit: RMB'000

Item	31 December 2019	31 December 2018
Government bonds	**12,412,488**	7,116,493
Debt securities issued by policy banks	**4,776,962**	11,799,812
Debt securities issued by banks and other financial institutions	**8,027,292**	10,117,686
Debt securities issued by corporate entities	**20,848,475**	17,828,393
Asset management plans	**7,128,140**	5,062,908
Other investments	**705,543**	–
Equity investments	**23,250**	23,250
Add: Accrued interest	**1,051,631**	1,054,209
Financial investments measured at fair value through other comprehensive income	**54,973,781**	53,002,751

Financial investments measured at amortized cost

As at the end of the year 2019, the Company's carrying value of financial investments measured at amortized cost amounted to RMB64.491 billion, representing a decrease of RMB5.541 billion or 7.91% as compared with that at the end of last year. The decrease was mainly due to the fact that the Company implemented macro-policy guidance, strengthened market research and judgment, and ceased to expand the scale after the expiry of a large number of asset management plans of securities brokers under entrusted management, and only moderately increased local bonds and non-financial corporate bond investments. The following table sets forth the components of the Company's financial investments measured at amortized cost as at the dates indicated.

Unit: RMB'000

Item	**31 December 2019**	31 December 2018
Government bonds	**11,196,072**	9,431,022
Debt securities issued by policy banks	**13,143,054**	13,887,327
Debt securities issued by banks and other financial institutions	**11,288,474**	11,296,117
Debt securities issued by corporate entities	**2,475,729**	1,229,620
Asset management plans	**16,285,720**	23,529,175
Trust fund plans	**5,052,516**	4,850,229
Other investments	**4,800,000**	5,170,000
Total financial investments measured at amortized cost	**64,241,565**	69,393,490
Add: Accrued interest	**1,118,779**	1,106,068
Less: Provision for impairment losses	**(869,286)**	(467,502)
Carrying value of financial investments measured at amortized cost	**64,491,058**	70,032,056

Investment in securities

Set out below are the financial bonds held by the Company which are considered significant in terms of nominal value as at the end of the Reporting Period:

Unit: RMB'000

Name of bond	Maturity date	Interest rates (%)	Nominal value	Impairment data
16 Guo Kai 05	2036-01-25	3.80	4,270,000	422
16 Jin Chu 10	2026-09-05	3.18	2,780,000	273
18 Nong Fa 06	2028-05-11	4.65	1,920,000	197
15 Jin Chu 19	2036-01-12	3.88	1,500,000	157
17 Guo Kai 10	2027-04-10	4.04	1,492,000	149
17 Nong Fa 05	2027-01-06	3.85	1,440,000	140
17 Nong Fa 15	2027-09-08	4.39	1,330,000	132
16 Nong Fa 10	2036-02-26	3.95	1,200,000	120
17 Jin Chu 03	2027-03-20	4.11	1,170,000	116
15 Jin Chu 14	2025-09-14	3.87	1,000,000	101

4.2 Liabilities

As at the end of the year 2019, the Company's total liabilities amounted to RMB343.144 billion, representing an increase of RMB52.982 billion or 18.26% as compared with that at the end of last year. The increase was mainly due to a faster increase in deposits from customers. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

Unit: RMB'000

	31 December 2019		31 December 2018		**Change from the end of last year**		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total	**Change in amount (%)**	**Change in % of total**	Amount	% of total
Deposits from customers[1]	**215,425,403**	**62.78**	177,911,247	61.31	21.09	1.47	160,083,783	57.14
Deposits from banks and other financial institutions	**16,462,527**	**4.80**	11,632,982	4.01	41.52	0.79	24,901,934	8.89
Borrowings from central bank	**5,536,650**	**1.61**	10,878,835	3.75	(49.11)	(2.14)	584,215	0.21
Placements from banks and other financial institutions	**9,916,257**	**2.89**	7,207,066	2.48	37.59	0.41	5,774,299	2.06
Derivative financial liabilities	**8,805**	**–**	–	–	8,805	–	353,220	0.13
Financial assets sold under repurchase agreements	**16,027,082**	**4.67**	14,850,333	5.12	7.92	(0.45)	11,899,583	4.25
Income tax payable	**187,027**	**0.05**	13,174	0.01	1,319.67	0.04	57,167	0.02
Debt securities issued	**76,858,899**	**22.40**	65,240,507	22.48	17.81	(0.08)	68,632,691	24.50
Lease liabilities	**427,429**	**0.12**	N/A	N/A	N/A	N/A	N/A	N/A
Other liabilities	**2,294,153**	**0.68**	2,427,634	0.84	(5.50)	(0.17)	7,865,991	2.8
Total liabilities	**343,144,232**	**100.00**	290,161,778	100.00	18.26	–	280,152,883	100.00

Note: (1) In accordance with the Notice on the Revision and Issuance of the Format of the Financial Statements of Financial Enterprises for 2018 (Cai Kuai [2018] No. 36) released by the Ministry of Finance, the book balances of financial instruments such as deposits from customers as of the end of the years 2019 and 2018 include interest not yet matured measured using the effective interest rate method.

4.2.1 Deposits from customers

As at the end of the year 2019, the Company's deposits from customers amounted to RMB215.425 billion, representing an increase of RMB37.514 billion or 21.09% as compared with that at the end of last year; accounting for 62.78% of the Company's total liabilities, representing an increase of 1.47 percentage points as compared with that at the end of last year, further consolidating its fundamental position as a major source of operating funds. The following table sets forth the components of Company's deposits from customers by product type and customer type as at the dates indicated.

Unit: RMB'000

	31 December 2019		31 December 2018		**Change from the end of last year**		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total	**Change in amount (%)**	**Change in % of total**	Amount	% of total
Corporate deposits	**147,880,817**	**69.50**	118,644,749	67.54	24.64	1.96	107,274,155	67.01
Demand deposits	**92,593,934**	**43.51**	72,852,694	41.47	27.10	2.04	65,421,504	40.87
Time deposits	**55,286,883**	**25.98**	45,792,055	26.07	20.73	(0.09)	41,852,651	26.14
Personal deposits	**64,796,343**	**30.45**	56,898,658	32.39	13.88	(1.94)	52,225,500	32.62
Demand deposits	**20,622,060**	**9.69**	18,313,340	10.43	12.61	(0.74)	17,935,483	11.20
Time deposits	**44,174,283**	**20.76**	38,585,318	21.96	14.48	(1.20)	34,290,017	21.42
Outward remittance and remittance payables	**100,697**	**0.05**	131,519	0.07	(23.44)	(0.02)	566,193	0.36
Fiscal deposits to be transferred	**13,052**	**0.01**	923	0.00	1,314.08	0.01	17,935	0.01
Total customer deposits	**212,790,909**	**100.00**	175,675,849	100.00	21.13	0.00	160,083,783	100.00
Add: Accrued interests	**2,634,494**	/	2,235,398	/	17.85	/	N/A	N/A
Deposits from customers	**215,425,403**	/	177,911,247	/	21.09	/	160,083,783	/

As at the end of the year 2019, the Company's demand deposits accounted for 53.20% of the total deposits from customers (excluding accrued interest, the same hereinafter), representing an increase of 1.30 percentage points as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 62.61% of corporate deposits, representing an increase of 1.21 percentage points as compared with that at the end of last year; and personal demand deposits accounted for 31.83% of personal deposits, representing a decrease of 0.36 percentage point as compared with that at the end of last year.

4.2.2 Deposits from banks and other financial institutions

As at the end of the year 2019, the Company's deposits from banks and other financial institutions amounted to RMB16.463 billion, representing an increase of RMB4.830 billion or 41.52% as compared with that at the end of last year, mainly due to the Company's strengthened management on active interbank liability, appropriate increase in scale of deposits from banks in light of the capital market situation and the demands for liquidity management.

4.2.3 Borrowings from Central Bank

As at the end of the year 2019, the Company's borrowing from central bank amounted to RMB5.537 billion, representing a decrease of RMB5.342 billion or 49.11% as compared with that at the end of last year, mainly due to a decrease in the scale of mid-term lending facilities.

4.2.4 Financial assets sold under repurchase agreements

As at the end of the year 2019, the Company's financial assets sold under repurchase agreements amounted to RMB16.027 billion, representing an increase of RMB1.177 billion or 7.92% as compared with that at the end of last year, mainly due to Company's strengthened management on liquidity of funds and appropriate increase in the business scale of bonds sold under repurchase agreements.

4.2.5 Debt securities issued

As at the end of the year 2019, the Company's debt securities issued amounted to RMB76.859 billion, representing an increase of RMB11.618 billion or 17.81% as compared with that at the end of last year, mainly due to the fact that market recognition has increased and finance costs of bond issuance have decreased after the Company's "A+H" dual listing, therefore, the issuance of financial bonds was appropriately increased. For details of the bonds, please refer to Note 34 "Debt Securities Issued" to the financial statements of this results announcement.

4.3 Equity Attributable to Shareholders

As at the end of the year 2019, the shareholders' equity of the Company amounted to RMB30.478 billion, representing an increase of RMB2.981 billion or 10.84% as compared with that at the end of last year. Equity attributable to equity shareholders of the Bank amounted to RMB29.915 billion, representing an increase of RMB2.930 billion or 10.86% as compared with that at the end of last year, mainly due to the fact that the Bank completed the initial public offering of 451,000,000 A shares in the first half of the year 2019, raised proceeds of RMB1.963 billion, and increased accrued and retained earnings. The following table sets forth the components of the Company's shareholders' equity as at the dates indicated.

Unit: RMB'000

Item	**31 December 2019**	31 December 2018
Share capital	**4,509,690**	4,058,713
Other equity instruments		
Including: Preference shares	**7,853,964**	7,853,964
Capital reserve	**8,337,869**	6,826,276
Other comprehensive income	**658,230**	553,193
Surplus reserve	**1,626,662**	1,403,575
General risk reserve	**4,400,258**	3,969,452
Retained earnings	**2,528,787**	2,319,800
Total equity attributable to equity shareholders of the Bank	**29,915,460**	26,984,973
Non-controlling interests	**562,458**	511,751
Total equity	**30,477,918**	27,496,724

4.4 Assets and Liabilities Measured at Fair Value

Unit: RMB'000

Main item	31 December 2018	Changes in fair value included in profit or loss for the current period	Cumulative changes in fair value recognized in equity	Impairment provided during the current period	31 December 2019
Financial investments measured at fair value through profit or loss	22,361,816	230,340	N/A	N/A	**22,912,561**
Loans and advances to customers measured at fair value through other comprehensive income	6,772,625	N/A	(1,300)	(3,660)	**6,249,822**
Financial investments measured at fair value through other comprehensive income	53,002,751	N/A	763,173	61,177	**54,973,781**
Derivative financial assets	–	12,436	N/A	N/A	**12,436**
Derivative financial liabilities	–	(8,805)	N/A	N/A	**(8,805)**

4.5 Derivative Financial Instruments

Unit: RMB'000

Item	31 December 2019 Nominal amount	Fair value of assets	Fair value of liabilities
Interest rate swaps and others	**33,896,438**	**12,436**	**(8,805)**

4.6 Restricted Asset Rights as at the End of the Reporting Period

Please refer to Note 46(7) "Pledged Assets" to the financial statements of this results announcement.

5. Analysis of Quality of Loans

During the Reporting Period, the Company strengthened the quality management and control of credit assets. While the credit assets grew steadily, the quality of credit assets continued to optimize and the non-performing loan ratio decreased. As at the end of the Reporting Period, total loans of the Company (excluding accrued interest) amounted to RMB172.795 billion, representing an increase of 36.72% as compared with that at the end of last year; total non-performing loans amounted to RMB2.852 billion, representing an increase of RMB734 million as compared with that at the end of last year; non-performing loan ratio was 1.65%, representing a decrease of 0.03 percentage point as compared with that at the end of last year. For the purpose of discussion and analysis, unless otherwise specified, the amount of loans presented in the analysis below excludes accrued interest.

5.1 Distribution of Loans by Five Categories

Unit: RMB'000

	31 December 2019		31 December 2018	
Item	**Amount**	**% of total**	Amount	% of total
Normal loan	**163,910,475**	**94.86**	117,153,054	92.69
Special mention loan	**6,033,401**	**3.49**	7,116,638	5.63
Substandard loan	**965,897**	**0.56**	1,158,565	0.92
Doubtful loan	**1,743,364**	**1.01**	806,110	0.64
Loss loan	**142,306**	**0.08**	152,503	0.12
Total loans to customers	**172,795,443**	**100.00**	126,386,870	100.00
Total non-performing loans	**2,851,567**	**1.65**	2,117,178	1.68

Under the five-category classification system for loan supervision, the non-performing loans of the Company included substandard, doubtful and loss loans. As at the end of the Reporting Period, the non-performing loan ratio of the Company decreased by 0.03 percentage point as compared with that at the end of the previous year to 1.65%. Among which, the proportion of substandard loans decreased by 0.36 percentage point as compared with that at the end the previous year to 0.56%, the proportion of doubtful loans increased by 0.37 percentage point as compared with that at the end of the previous year to 1.01%, and the proportion of loss loans decreased by 0.04 percentage point as compared with that at the end of the previous year to 0.08%.

5.2 Distribution of Loans and Non-performing Loans by Product Type

Unit: RMB'000

Item	31 December 2019 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio (%)	31 December 2018 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	**118,286,626**	**68.45**	**2,600,568**	**2.20**	85,036,896	67.28	1,804,412	2.12
Working capital loans	**61,383,532**	**35.52**	**2,408,158**	**3.92**	51,737,819	40.94	1,582,176	3.06
Fixed asset loans	**49,681,134**	**28.75**	**100,000**	**0.20**	25,903,427	20.50	139,275	0.54
Import and export bills transactions	**879,728**	**0.51**	**–**	**–**	517,563	0.41	–	–
Discounted bills	**6,249,822**	**3.62**	**–**	**–**	6,772,625	5.36	–	–
Others	**92,410**	**0.05**	**92,410**	**100.00**	105,462	0.08	82,961	78.66
Retail loans	**54,508,817**	**31.55**	**250,999**	**0.46**	41,349,974	32.72	312,766	0.76
Personal housing loans	**36,762,232**	**21.28**	**38,882**	**0.11**	30,229,094	23.92	22,906	0.08
Personal consumption loans	**9,470,211**	**5.48**	**19,387**	**0.20**	3,827,588	3.03	12,503	0.33
Personal business loans	**6,869,644**	**3.98**	**185,561**	**2.70**	5,836,058	4.62	265,325	4.55
Others	**1,406,730**	**0.81**	**7,169**	**0.51**	1,457,234	1.15	12,032	0.83
Total loans to customers	**172,795,443**	**100.00**	**2,851,567**	**1.65**	126,386,870	100.00	2,117,178	1.68

5.3 Distribution of Loans and Non-performing Loans by Industry

Unit: RMB'000

Item	31 December 2019 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio (%)	31 December 2018 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	**118,286,626**	**68.45**	**2,600,568**	**2.20**	85,036,896	67.28	1,804,412	2.12
Manufacturing	**23,033,775**	**13.32**	**2,029,615**	**8.81**	18,805,454	14.88	1,243,740	6.61
Construction	**19,902,351**	**11.52**	**65,677**	**0.33**	10,788,346	8.54	93,000	0.86
Real estate	**19,673,198**	**11.39**	**102,600**	**0.52**	8,849,735	7.00	102,600	1.16
Water conservancy, environment and public utility management	**12,287,741**	**7.11**	**39,000**	**0.32**	10,802,398	8.55	–	–
Wholesale and retail trade	**11,628,689**	**6.73**	**288,677**	**2.48**	9,654,849	7.64	198,476	2.06
Renting and business services	**11,228,367**	**6.50**	**9,850**	**0.09**	8,169,559	6.46	33,309	0.41
Financial services	**6,677,300**	**3.86**	**–**	**–**	5,456,155	4.32	–	–
Production and supply of electricity, heating power, gas and water	**4,443,352**	**2.57**	**–**	**–**	4,711,898	3.73	5,000	0.11
Transportation, storage and postal services	**3,247,547**	**1.88**	**–**	**–**	2,911,253	2.30	28,000	0.96
Others	**6,164,306**	**3.57**	**65,149**	**1.06**	4,887,249	3.86	100,287	2.05
Retail loans	**54,508,817**	**31.55**	**250,999**	**0.46**	41,349,974	32.72	312,766	0.76
Total loans to customers	**172,795,443**	**100.00**	**2,851,567**	**1.65**	126,386,870	100.00	2,117,178	1.68

5.4 Distribution of Loans and Non-performing Loans by Region

Unit: RMB'000

Region	31 December 2019 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio (%)	31 December 2018 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio (%)
Shandong Province	**172,795,443**	**100.00**	**2,851,567**	**1.65**	126,386,870	100.00	2,117,178	1.68
Of which: Qingdao City	**92,363,443**	**53.46**	**739,064**	**0.80**	72,941,750	57.72	624,440	0.86

5.5 Distribution of Loans and Non-performing Loans by Type of Collateral

Unit: RMB'000

Item	31 December 2019 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio (%)	31 December 2018 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio (%)
Unsecured loans	**27,881,658**	**16.14**	**34,345**	**0.12**	15,753,945	12.46	140,184	0.89
Guaranteed loans	**46,794,567**	**27.08**	**2,415,504**	**5.16**	36,502,920	28.88	1,596,311	4.37
Mortgage loans	**75,145,703**	**43.48**	**401,718**	**0.53**	54,738,421	43.32	375,969	0.69
Pledged loans	**22,973,515**	**13.30**	**–**	**–**	19,391,584	15.34	4,714	0.02
Total loans to customers	**172,795,443**	**100.00**	**2,851,567**	**1.65**	126,386,870	100.00	2,117,178	1.68

5.6 Loans to the Top Ten Single Borrowers

Unit: RMB'000

Top ten borrowers	Industry	Amount of loans as at the end of the Reporting Period	Percentage in net capital %	Percentage in total loans %
A	Renting and business services	2,300,000	5.86	1.33
B	Renting and business services	2,000,000	5.10	1.16
C	Financial services	2,000,000	5.10	1.16
D	Real estate	1,600,000	4.08	0.93
E	Renting and business services	1,500,000	3.82	0.87
F	Water conservancy, environment and public utility management	1,280,000	3.26	0.74
G	Water conservancy, environment and public utility management	1,215,000	3.10	0.70
H	Construction	1,109,900	2.83	0.64
I	Real estate	1,014,400	2.58	0.59
J	Construction	1,000,000	2.53	0.57
Total		15,019,300	38.26	8.69

5.7 Distribution of Loans by Overdue Period

Unit: RMB'000

	31 December 2019		31 December 2018	
Overdue period	**Amount of loans**	**% of total**	Amount of loans	% of total
Overdue for 3 months (inclusive) or less	**711,091**	**0.41**	2,271,784	1.80
Overdue for over 3 months to 1 year (inclusive)	**1,061,050**	**0.61**	1,229,240	0.97
Overdue for over 1 year to 3 years (inclusive)	**563,866**	**0.33**	638,094	0.50
Overdue for over 3 years	**159,443**	**0.09**	214,698	0.17
Total overdue loans	**2,495,450**	**1.44**	4,353,816	3.44
Total loans to customers	**172,795,443**	**100.00**	126,386,870	100.00

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB2.495 billion, representing a decrease of RMB1,858 million as compared with that at the end of last year; the overdue loans accounted for 1.44% of the total loans of the Company, representing a decrease of 2.00 percentage points as compared with that at the beginning of the year. In particular, the loans overdue for 90 days or less amounted to RMB711 million, accounting for 0.41% of the total loans, representing a decrease of 1.39 percentage points as compared with that at the beginning of the year. The ratio of loans overdue for more than 90 days to non-performing loans was 0.63, representing a decrease of 0.35 as compared with that at the end of last year.

5.8 Repossessed Assets and Provision for Impairment

As at the end of 2019, the total amount of the repossessed assets of the Company was RMB111.3449 million with no provision for impairment, and the net amount of repossessed assets was RMB111.3449 million.

5.9 Changes in Provision for Impairment of Loans

From 1 January 2018, the Company has performed impairment accounting and confirmed loss provision based on expected credit losses. If the credit risk of a financial instrument is low on the balance sheet date or has not increased significantly since initial recognition, the Company measures its loss provisions based on next-12-month expected credit losses; otherwise, the Company measures its loss provisions based on lifetime expected credit losses.

The Company re-measures expected credit losses on each balance sheet date. In addition, the Company regularly reviews a number of key parameters and assumptions involved in the process of determining impairment provision based on the expected credit loss model, including parameter estimation such as division of loss stages, probability of default, loss given default, exposure at default and discount rate, forward-looking adjustment and other adjustment factors. The following table sets forth the changes in the Company's provision for impairment of loans.

Unit: RMB'000

Item	**2019**	2018
Balance at the beginning of the year	**3,557,806**	3,127,265
Charge for the year	**3,026,604**	2,213,707
Write-offs for the year	**(2,251,771)**	(1,764,332)
Recovery of write-offs for the year	**146,481**	36,725
Other changes	**(56,571)**	(55,559)
Balance at the end of the year	**4,422,549**	3,557,806

The Company adhered to a stable and prudent policy in respect of making provisions. As at the end of 2019, the balance of provision for impairment of loans (including discounted bills) amounted to RMB4.423 billion, representing an increase of RMB865 million or 24.31% as compared with that at the end of last year. The provision coverage ratio reached 155.09%, representing a decrease of 12.95 percentage points as compared with that at the end of last year; the provision rate of loans reached 2.56%, representing a decrease of 0.26 percentage point as compared with that at the end of last year. Both provision indicators satisfied regulatory requirements.

5.10 Countermeasures Taken against Non-performing Assets

In 2019, under the backdrop of a complicated and ever-evolving macroeconomic situation and a severe situation of credit risks prevention and control, the Bank viewed the disposal of non-performing assets as one of the key tasks in the credit risk management throughout the Bank; the Bank enhanced the quality and efficiency of disposal and achieved effective management and control of non-performing assets by way of strict discipline and regulations as well as gradually devolving implementation plan and progress downwards along the corporate hierarchy.

Firstly, the Bank strengthened quality monitoring and risk screening of assets and further improved a pre-warning and emergency defusion mechanism on risks to improve response speed and efficiency in adopting preservation measures against risk loans through litigation, and took the initiative on the disposal of non-performing assets.

Secondly, the Bank implemented multiple measures for the disposal of non-performing loans and on the basis of relying on the traditional means of collection through litigation, increased disposal efficiency and effectiveness by comprehensively using various means, such as asset write-off, asset transfer, reorganization and conversion and others.

Thirdly, the Bank continuously advanced and enhanced the establishment of an asset preservation system, implemented the working philosophy of "marketization" and the collaboration between the internal departments of the Bank and between the external institutions to significantly increase the efficiency of collection of non-performing assets.

Fourthly, the Bank laid emphasis on strengthening communication and collaboration with government departments at all levels, legal institutions and fellow banks in the industry, fully capitalized on the advantage of the working mechanism of creditor committees in the banking industry and proactively participated in joint resolution and disposal of credit extension risk to holistically safeguard and protect its own legitimate rights.

Fifthly, the Bank strengthened subsequent management as well as the collection of written-off non-performing assets to tap the potential arising from the disposal of non-performing assets.

5.11 Credit Extension to Group Customers and Risk Management

The Bank adhered to the principles of "implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system" in extending credit to group customers. With continuous improvement on the management of corporate family trees of group customers, the Bank reviewed the solvency, business characteristics, financing habits, capital usage and actual demand of each member with taking into account, among others, the credit standing, credit extension risk, credit demand and debts of group customers. In the principle of priority to leading industries, advantageous industries and quality enterprises, the overall credit limit of group customers was verified with the core enterprises that are engaged in the principal businesses of their group considered as the financing entities, and a unified credit extension proposal for group customers was formulated and executed. To enhance centralized management of group customers for preventing the risk of large-sum credit extension, the Bank established the Large-sum Credit Extension Review Committee composed of senior management at the headquarter level, which was in charge of reviewing and approving the credit extension business that meets the standards of large-sum credit extension bankwide. The Bank constantly improved the pre-warning mechanism of group customer risk, setting risk warning thresholds for group customers in pre-loan and approval process based on the industry where the group customers operate and their operating capability, which was a key reference for post-loan inspection, to continuously and effectively monitor, prevent and defuse risks, so that the control of overall credit extension risk of group customers was ensured.

5.12 Soft Loans Accounting for 20% (inclusive) or more of the Total Loans as at the End of the Reporting Period

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

5.13 Rescheduled Loans

Unit: RMB'000

Item	**31 December 2019** Amount of loans	% of total	31 December 2018 Amount of loans	% of total
Rescheduled loans	**426,588**	**0.25**	317,536	0.25
Total loans and advances to customers	**172,795,443**	**100.00**	126,386,870	100.00

The Company implemented strict management and control on rescheduled loans. As at the end of the Reporting Period, the proportion of rescheduled loans of the Company was 0.25%, remaining flat as compared with that at the end of the previous year.

6. Analysis of Capital Adequacy Ratio and Leverage Ratio

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

In terms of internal capital management, the Company reinforced the allocation and management functions of economic capital, coordinated the development of assets business and capital saving, and raised capital saving awareness of operating agencies. In the performance appraisal scheme, it considered the capital consumption status and earnings of various institutions, gradually optimized the risk-adjusted performance appraisal scheme, and guided its branches and management departments to carry out more capital-saving businesses and businesses of high capital returns. Moreover, the Company set up a sound mechanism to balance and restrict capital occupancy and risk assets and ensured that the capital adequacy ratio continued to meet the standard.

6.1 Capital Adequacy Ratio

The Company calculates capital adequacy ratio in accordance with the "Regulation Governing Capital of Commercial Banks (Provisional)" (《商業銀行資本管理辦法(試行)》) issued by the China Banking and Insurance Regulatory Commission (the "**CBIRC**") and other relevant regulatory provisions. The on-balance sheet weighted risk assets are calculated with different risk weights determined in accordance with each asset, credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee. The same method is also applied to the calculation of off-balance sheet exposure. Market risk-weighted assets are calculated with the standard approach, and the operational risk-weighted assets are calculated with the basic indicator approach. During the Reporting Period, the Company complied with the capital requirements prescribed by the regulators.

As at the end of the Reporting Period, the Company's capital adequacy ratio was 14.76%, representing a decrease of 0.92 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.36%, representing a decrease of 0.03 percentage point as compared with that at the end of last year. Net proceeds of RMB1.963 billion was raised from the Bank's initial public offering of A shares. Profit grew steadily and replenish the capital. Meanwhile, a considerable increase in risk-weighted assets and a slight decrease in the indicators of capital adequacy ratio were recorded given the faster business development.

Relevant information on the Company's capital adequacy ratio as at the dates indicated is listed in the following table:

Unit: RMB'000

The Company	31 December 2019	31 December 2018
Total core tier-one capital	**22,418,940**	19,433,753
Of which: Share capital	**4,509,690**	4,058,713
Qualifying portion of capital reserve	**8,337,869**	6,826,276
Other comprehensive income	**658,230**	553,193
Surplus reserve	**1,626,662**	1,403,575
General reserve	**4,400,258**	3,969,452
Retained earnings	**2,528,787**	2,319,800
Qualifying portion of non-controlling interests	**357,444**	302,744
Deductions from core tier-one capital	**(194,243)**	(165,153)
Net core tier-one capital	**22,224,697**	19,268,600
Other tier-one capital	**7,901,623**	7,894,330
Net tier-one capital	**30,126,320**	27,162,930
Tier-two capital	**9,126,185**	8,858,726
Net capital base	**39,252,505**	36,021,656
Total risk-weighted assets	**265,908,365**	229,776,495
Of which: Total credit risk-weighted assets	**218,075,573**	187,513,305
Total market risk-weighted assets	**33,723,233**	30,410,807
Total operational risk-weighted assets	**14,109,559**	11,852,383
Core tier-one capital adequacy ratio	**8.36%**	8.39%
Tier-one capital adequacy ratio	**11.33%**	11.82%
Capital adequacy ratio	**14.76%**	15.68%

As at the end of the Reporting Period, at the level of the Bank, the capital adequacy ratio was 14.77%, representing a decrease of 0.99 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.29%, representing a decrease of 0.03 percentage point as compared with that at the end of last year.

Relevant information on the Bank's capital adequacy ratio as at the dates indicated is listed in the following table:

Unit: RMB'000

The Bank		**31 December 2019**	31 December 2018
Total core tier-one capital		**21,984,910**	19,108,373
Of which:	Share capital	**4,509,690**	4,058,713
	Qualifying portion of capital reserve	**8,337,869**	6,826,276
	Other comprehensive income	**658,230**	553,193
	Surplus reserve	**1,626,662**	1,403,575
	General reserve	**4,400,258**	3,969,452
	Retained earnings	**2,452,201**	2,297,164
Deductions from core tier-one capital		**(701,986)**	(672,533)
Net core tier-one capital		**21,282,924**	18,435,840
Other tier-one capital		**7,853,964**	7,853,964
Net tier-one capital		**29,136,888**	26,289,804
Tier-two capital		**8,770,981**	8,640,628
Net capital base		**37,907,869**	34,930,432
Total risk-weighted assets		**256,725,689**	221,581,329
Of which:	Total credit risk-weighted assets	**209,289,525**	179,519,234
	Total market risk-weighted assets	**33,723,233**	30,410,807
	Total operational risk-weighted assets	**13,712,931**	11,651,288
Core tier-one capital adequacy ratio		**8.29%**	8.32%
Tier-one capital adequacy ratio		**11.35%**	11.86%
Capital adequacy ratio		**14.77%**	15.76%

6.2 Leverage Ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the "Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)" (《商業銀行槓桿率管理辦法(修訂)》) of the CBIRC. As at the end of the Reporting Period, the Company's leverage ratio was 7.46% as calculated according to the "Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)", which was above the regulatory requirements of CBIRC, representing a decrease of 0.46 percentage point as compared with that at the end of last year, mainly due to the increase in the size of the Bank's assets and the total consolidated assets increased at the end of this year.

The following table sets out the Company's related accounting items corresponding with the regulatory items of leverage ratio and the differences between regulatory items and accounting items.

Unit: RMB'000

No.	**Item**	**31 December 2019**	31 December 2018
1	Total consolidated assets	**373,622,150**	317,658,502
2	Consolidated adjustments	**–**	–
3	Customer assets adjustments	**–**	–
4	Derivative adjustments	**117,777**	–
5	Securities financing transactions adjustments	**–**	–
6	Off-balance sheet items adjustments	**30,479,440**	25,314,087
7	Other adjustments	**(194,243)**	(165,153)
8	Balance of assets on and off balance sheet after adjustments	**404,025,124**	342,807,436

The following table sets out information of the Company's leverage ratio level, net tier-one capital, assets on and off balance sheet after adjustments and relevant details.

Unit: RMB'000

No.	**Item**	**Balance as at 31 December 2019**	Balance as at 31 December 2018
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	**371,283,943**	317,358,240
2	Less: tier-one capital deductions	**(194,243)**	(165,153)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	**371,089,700**	317,193,087
4	Replacement cost of various types of derivatives (net of qualified margins)	**12,436**	–

No.	Item	**Balance as at 31 December 2019**	Balance as at 31 December 2018
5	Potential risk exposure in various types of derivatives	**115,239**	–
6	The sum of collaterals deducted from the balance sheet	**–**	–
7	Less: Assets receivables formed due to qualified margins provided	**–**	–
8	Less: The balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	**–**	–
9	Notional principal for sold credit derivatives	**2,538**	–
10	Less: The balance of sold credit derivatives assets which can be deducted	**–**	–
11	The balance of derivatives assets	**130,213**	–
12	The balance of accounting assets for securities financing transactions	**2,325,771**	300,262
13	Less: The balance of securities financing transactions assets which can be deducted	**–**	–
14	Counterparty credit risk exposure to securities financing transactions	**–**	–
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	**–**	–
16	The balance of securities financing transactions assets	**2,325,771**	300,262
17	The balance of items off balance sheet	**30,479,440**	25,314,087
18	Less: The balance of items off balance sheet reduced due to credit conversion	**–**	–
19	The balance of items off balance sheet after adjustments	**30,479,440**	25,314,087
20	Net tier-one capital	**30,126,319**	27,162,930
21	The balance of assets on and off balance sheet after adjustments	**404,025,124**	342,807,436
22	Leverage ratio	**7.46%**	7.92%

Relevant information on the Company's leverage ratio as at the dates indicated is listed in the following table.

Unit: RMB'000

Item	**31 December 2019**	30 September 2019	30 June 2019	31 March 2019
Leverage ratio (%)	**7.46**	7.71	7.98	8.45
Net tier-one capital	**30,126,319**	29,818,915	29,689,648	29,819,904
The balance of assets on and off balance sheet after adjustments	**404,025,124**	386,887,353	372,198,506	352,899,833

According to the "Regulatory Requirements in the Information Disclosure Regarding the Capital Composition of the Commercial Banks" (《關於商業銀行資本構成信息披露的監管要求》) issued by the CBIRC, the information concerning the capital composition, explanation on development of relevant items and the main characteristics of the capital instruments of the Company will be further disclosed in the "Investor Relations" on the website of the Bank (www.qdccb.com).

7. Segment Reporting

The following segment operating performance is presented by business segment. The Company's main businesses include corporate banking, retail banking, financial market business, un-allocated items and others. The following table shows a summary of the operating performance of each business segment of the Company during the periods presented.

Unit: RMB'000

	2019		2018	
Item	**Segment operating income**	**Ratio (%)**	Segment operating income	Ratio (%)
Corporate banking	**5,266,469**	**54.73**	3,862,580	52.45
Retail banking	**2,085,547**	**21.67**	1,581,825	21.48
Financial market business	**1,927,237**	**20.03**	1,731,932	23.52
Un-allocated items and others	**342,856**	**3.57**	188,501	2.55
Total	**9,622,109**	**100.00**	7,364,838	100.00

Unit: RMB'000

Item	**2019** Segment profit before taxation	**2019** Ratio (%)	2018 Segment profit before taxation	2018 Ratio (%)
Corporate banking	**858,721**	**30.36**	816,737	32.99
Retail banking	**639,456**	**22.61**	492,904	19.91
Financial market business	**1,182,302**	**41.80**	1,104,597	44.61
Un-allocated items and others	**148,076**	**5.23**	61,778	2.49
Total	**2,828,555**	**100.00**	2,476,016	100.00

8. Other Financial Information

8.1 Analysis of Off-balance Sheet Items

The Company's off-balance sheet items include credit commitments, operating lease commitments and capital commitments, etc. Credit commitments are the most important parts, and as at the end of the Reporting Period, the balance of credit commitments reached RMB29.658 billion. For details, please refer to Note 46 to the financial statement "Commitments and Contingency" of this results announcement.

8.2 Overdue and Outstanding Debts

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

8.3 Pledge of Assets

As at the end of the Reporting Period, the Company pledged part of its assets as collaterals under repurchase agreements, deposits from banks and other financial institutions, borrowings from the central bank and deposits from customers. For details, please refer to Note 46(7) to the financial statement "Pledged Assets" of this results announcement.

8.4 Analysis of Cash Flows Statement

In 2019, net cash flows used in operating activities of the Company was RMB7.006 billion, representing a decrease of RMB13.849 billion as compared with the previous year, which was mainly due to an increase in net increase in deposits from customers of RMB21.523 billion and an increase in net increase in interbank lending and borrowing of RMB19.530 billion, while the above impact was partially offset by an increase in net increase in loans and advances to customers of RMB18.334 billion and an increase in net cash outflow of borrowings from the central bank of RMB15.466 billion. Among which, cash outflows generated from operating assets increased by RMB49.523 billion and cash inflows generated from operating liabilities increased by RMB40.041 billion.

Net cash flows generated from investing activities was RMB9.812 billion, representing a decrease of RMB19.178 billion as compared with the previous year, which was mainly due to a decrease in proceeds from disposal and redemption of investments of RMB38.202 billion, while the above impact was partially offset by a decrease in cash payments on investments of RMB19.236 billion.

Net cash flows generated from financing activities was RMB9.475 billion, representing an increase of RMB17.092 billion as compared with the previous year, which was mainly due to a decrease in cash paid by the Company for repayment of debt of RMB28.310 billion, while the above impact was partially offset by a decrease in cash received by the Company for issuance of debt securities of RMB13.120 billion.

8.5 *Major Statement Items and Financial Indicators with a Change Rate of over 30% and Its Main Reasons*

Unit: RMB' 000

Item	For the year 2019	For the year 2018	Changes (%)	Main reasons
Net interest income	**6,846,055**	4,464,029	53.36	Increased scale of interest-earning assets of the Company, structure optimization, decreased cost of capital and increase in net interest margin
Fee and commission income	**1,346,116**	943,582	42.66	Significant increase in fee income due to rapid development of wealth management, agency service and bank card businesses
Fee and commission expense	**(129,236)**	(77,825)	66.06	Increased expense in credit card business fees
Net fee and commission income	**1,216,880**	865,757	40.56	Increase in fee and commission income
Net trading gains	**152,464**	410,807	(62.89)	The impact of exchange rate fluctuations
Other operating income, net	**26,273**	6,891	281.27	Increase in government grants
Operating income	**9,622,109**	7,364,838	30.65	Significant increase in net interest income due to increased scale of interest-earning assets of the Company, structure optimization, decreased cost of capital; significant increase in net fee and commission income through positive development in wealth management business

Unit: RMB' 000

Item	For the year 2019	For the year 2018	Changes (%)	Main reasons
Credit impairment losses	**(3,626,792)**	(2,383,172)	52.18	Increase in provision for impairment by the Company to adapt to the loan risk conditions and strengthen disposals of risk assets, in response to the significant increase in total loan and increased risk of individual regional borrowers
Net profit attributable to non-controlling interests	**50,707**	20,037	153.07	Increase in profit of subsidiaries
Other comprehensive income, net of tax	**105,037**	1,016,364	(89.67)	Decrease in changes in fair value of debt investments measured at fair value through other comprehensive income
Net interest margin	**2.13%**	1.63%	30.67	Rapid increase in loans and increase in yield on interest-earning assets through advanced structure adjustment of the Company, the cost rate of interbank liabilities and debt securities issued decreased with the expansion of scale of liabilities
Cash and deposits with the central bank	**39,704,840**	29,554,430	34.34	Increase in surplus deposit reserves
Derivative financial assets	**12,436**	–	N/A	Fair value of interest rate swaps and other derivative financial instruments
Financial assets held under resale agreements	**2,325,771**	300,262	674.58	Increased debt securities held under resale agreements
Loans and advances to customers	**169,158,291**	123,366,891	37.12	Increase the scale of credit supply within policy permission to support economic development and maintain rapid growth in loans, in order to increase percentage in total assets and further optimize asset structures

Unit: RMB' 000

Item	For the year 2019	For the year 2018	Changes (%)	Main reasons
Right-of-use assets	**818,928**	N/A	N/A	Newly added item after adopting new lease standard
Deferred tax assets	**1,581,905**	1,152,778	37.23	Increase in deferred tax assets arising from provision for impairment assets
Other assets	**929,876**	1,343,564	(30.79)	Adjustment to right-of-use assets from prepaid rent originally measured in other assets after adopting new lease standard
Borrowings from central bank	**5,536,650**	10,878,835	(49.11)	Decrease in volume of mid-term lending facility
Deposits from banks and other financial institutions	**16,462,527**	11,632,982	41.52	Strengthened active liability management, appropriate increase in scale of deposits from banks on the basis of the need of capital market situation and liquidity management
Placements from banks and other financial institutions	**9,916,257**	7,207,066	37.59	Increase in interbank lending and borrowing and borrowing
Derivative financial liabilities	**8,805**	–	N/A	Fair value of interest rate swaps and other derivative financial instruments
Income tax payable	**187,027**	13,174	1,319.67	Increase in income tax for the period
Lease liabilities	**427,429**	N/A	N/A	Newly added item after adopting new lease standards

8.6 Changes in Interest Receivables

Unit: RMB' 000

Item	31 December 2018	Increase during the period	Recovery during the period	31 December 2019
Loans and advances to customers	37,299	321,706	342,180	16,825
Total	37,299	321,706	342,180	16,825

Notes: Interest receivables are interests overdue but not yet received on the balance sheet date.

8.7 Provision for Bad Debts

Unit: RMB' 000

Item	31 December 2019	31 December 2018	Changes
Other receivables	148,142	333,728	(185,586)
Less: Bad debt provision	(1,005)	(792)	(213)

9. Investment Analysis

Unit: RMB'000

Investees	At the beginning of the period	At the end of the period	Percentage of shareholding in investees (%)	Cash dividend for the current period
China UnionPay Co., Ltd.	13,000	13,000	0.34	1,500
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	10,000	2.15	–
Clearing Center for City Commercial Banks	250	250	0.81	–
Total	23,250	23,250	N/A	1,500

Note: The investments above were included in the balance sheet as the financial investments measured at fair value through other comprehensive income.

As at the end of the Reporting Period, for details of other information concerning the Company's investments, please refer to "4.1.2 Financial Investments" and "11. Analysis of Main Shares Holding Companies and Joint Stock Companies" in Section 3 Management Discussion and Analysis of this results announcement.

10. Material Disposal of Assets and Equity Interest

During the Reporting Period, there was no material disposal of assets and equity interest of the Bank.

11. Analysis of Main Shares Holding Companies and Joint Stock Companies

11.1 Major Subsidiaries and Investees Accounting for Over 10% of the Net Profit of the Company

Unit: RMB in 100 million

Name of company	Type of company	Main business	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
BQD Financial Leasing Company Limited	Subsidiary	Finance leasing business; transferring in and out assets under a finance lease; fixed income securities investment business; accepting guaranteed deposit of the lessee; absorbing fixed deposits over 3 months (inclusive) from non-bank shareholders; interbank lending and borrowing; obtaining loans from financial institutions; lending loans to offshore borrowers; disposal of and dealing with leased articles; economic consulting, etc.	10.00	94.51	11.48	3.14	1.17	1.03

11.2 Acquisition and Disposal of Subsidiaries During the Reporting Period

During the Reporting Period, there was no acquisition and disposal of subsidiaries of the Bank.

11.3 Particulars of Major Companies Controlled or Invested in by the Company

BQD Financial Leasing Company Limited ("**BQD Financial Leasing**") was established on 15 February 2017, with a registered capital of RMB1.00 billion, and was registered in Qingdao, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. Under the guidance of the national industrial policy, BQD Financial Leasing was committed to realize the original intent of leasing and serve the real economy. BQD Financial Leasing focused on the financing leasing of large and medium-sized equipment in medical and health care, cultural tourism, public utilities industries as its main lines of business development, and adhered to the business philosophy of "specialization, differentiation and marketization" to satisfy the specific needs of tenants in equipment purchase, sales boosting, assets revitalization, tax burden balancing, and the improvement of financial structure, etc., and to provide new financial lease services such as financing, asset management and economic consulting.

12. Overview of Business Development

12.1 Business Development Strategy

During the Reporting Period, the Bank took "building on customers and employees, taking on social responsibilities and shareholders' return, pursuing better lives with happiness" as its core values, and achieved sound and effective development for the three major business segments, including retail banking, corporate banking and financial market, through customer base expansion, financial technology empowerment, cultivation of featured advantages and transformation of management mechanisms.

Expanding customer base and solidifying the foundation of retail business. The Bank viewed building customer base as its core and supported the core of "customer base" with improved customer experience and concrete actions in customer base management to solidify the foundation of retail business. For offline operations, the Bank insisted on operating retail business using a wholesale approach and obtained customers in batches through "three agencies and one linkage" (i.e. agencies for payroll, tax payment, relocation compensation and public-private linkage), which focused on finance of urban communities and rural villages across counties, to create new ways of achieving business growth. For online operations, the Bank continued improving the Meituan credit card, internet loans and other digital channels to steadily expand the scale of retail customer base and attracted young customers via new media such as WeChat to increase customer loyalty.

Focusing on key areas and enhancing consolidation capabilities in corporate banking. The Bank fully leveraged on advantages as a local bank corporation to strengthen its foothold in public finance by constantly improving its capabilities and reputation in serving governmental and civil customers. The Bank established an ecosystem in which it built a model to attain customers through platforms and specialized in finance of listed enterprises. The Bank also utilized supply chain finance to explore the advantages of customers in batches and steadily developed inclusive finance. Moreover, the Bank formulated professional solutions for industries and customers by giving full play to its industry research and service capabilities for selected featured industries such as port, technology, cultural and creative and hygiene and health to accomplish growth in featured businesses.

Improving service ability and strengthening synergy with the financial market. The Bank continuously enhanced product lines in the financial market, increased synergy between product centers and customer centers, improved customer base management and asset organization capabilities and strengthened the ability to integrate resources. On one hand, the Bank capitalized on the value of underwriting license, expanded coverage of the bond underwriting business, increased the type of bond products and improved its influence on the bond market. On the other hand, the Bank used investment and liability, direct-investment and agency, self-investment and underwriting linkages as well as various means such as credit, investment, underwriting and agency to form a united marketing force. The Bank strictly implemented new regulations and requirements on asset management, steadily promoted transformation of net-worth products, established market risk management systems and cultivated talent teams at different levels.

12.2 Overview of Business Development

12.2.1 Retail banking

During the Reporting Period, with "customer base construction" as the core, the Bank strengthened the product system construction of retail banking, enhanced its service efficiency, solidified and expanded its customer base, improved its retail financial assets, and increased the comprehensive contribution of its retail banking. On this basis, the Bank actively promoted the construction of smart outlet projects, enriched and improved its online channels, promoted the intelligent transformation of outlets, so as to fully satisfy the diversified financial needs of our customers. During the Reporting Period, the Company recorded operating income of RMB2.086 billion in respect of retail banking, representing a year-on-year increase of 31.84%, and accounting for 21.67% of the Company's operating income.

1. Retail customers and customer asset management

The number of retail customers of the Bank reached 4,582.0 thousand, representing an increase of 503.7 thousand or 12.35% as compared with that at the end of the previous year. The assets retained by retail customers in the Bank reached a total of RMB162.306 billion, representing an increase of 23.63% as compared with that at the end of the previous year. The number of customers with financial assets of over RMB200,000 amounted to 200.2 thousand, representing an increase of 39.5 thousand as compared with that at the end of the previous year, with a total assets scale of RMB136.312 billion retained in the Bank. They accounted for 83.98% in its total retail banking customers, representing an increase of 3.03 percentage points as compared with that at the end of the previous year.

As at the end of the Reporting Period, the Bank's balance of retail deposits reached RMB64.796 billion, representing an increase of RMB7.897 billion or 13.88% as compared with that at the end of the previous year and accounting for 30.45% of the total deposits from customers. In particular, demand deposits reached RMB20.622 billion, representing an increase of RMB2.309 billion or 12.61% as compared with that at the end of the previous year.

The Bank continued to carry forward the construction of smart outlet projects. With the development direction of "focusing on services with lightweight equipment, promoting the transformation of outlets", the Bank constructed customer-centered and lightweight smart outlets, with "mobilized services, transaction scenarios, intelligent processes, intuitive marketing" as the development goals. Large machines are no longer the Bank's core intelligent equipment. Instead, the use of tablets as the main platform to communicate with customers has truly achieved a "one-stop service" for customers. Bank hall services have also transformed from window services to accompany-and-consulting services, with 75% of business in the category of personal counter service undertaken with tablets. The transformation of the service model allows the Bank a closer touch with customers, effectively increasing the efficiency of handling businesses and the success rate of cross-marketing. As at the end of the Reporting Period, a total of 90 outlets of our sub-branches has adopted the smart outlet service model.

The Bank focused on exploring the payroll agency business. By leveraging the customer resources of payroll companies, the Bank realized the linkage between public and private businesses, handled mobile banking, fast payment and other businesses for corporate employees, and increased customer loyalty. The Bank launched 64 tranches of exclusive wealth management products for employees of enterprises which enjoyed our payroll agency service and raised RMB5.282 billion of wealth management funds. As at the end of the Reporting Period, the payroll agency business led to an increase of 68.5 thousand retail customers and the retail deposits related to the payroll agency business reached RMB12.790 billion, representing an increase of RMB995 million or 8.43% as compared with that at the end of the previous year.

The cloud payment business was further expanded. The cloud payment platform switched the offline payment life scene to an online one and provided a convenient living service for customers with the "rigid-demand and high-frequency" payment scene. The payment access to tuition fees, property fees, Party membership dues, meals, and other scenarios has been successively available, becoming an effective channel for connecting various groups of customers such as parents, community residents, and entity employees. During the Reporting Period, the Bank opened 72 new contracted units for cloud payment and cloud recharge businesses, with the number of payments made of 924.4 thousand and a total payment amount of RMB445 million during the year.

2. Retail loans

As at the end of the Reporting Period, the balance of retail loans (including credit cards) of the Bank amounted to RMB54.509 billion, representing an increase of RMB13.159 billion or 31.82% as compared with that at the end of the previous year, with the increase exceeding RMB10 billion for two consecutive years. The balance of retail loans accounted for 31.55% of the total balance of loans (excluding accrued interest), representing a decrease of 1.17 percentage points as compared with that at the end of the previous year. During the Reporting Period, the Bank seized market opportunities, steadily developed housing loans, actively promoted inclusive finance, and strived to explore consumption loans under the premise of efficient risk control. Through measures such as adjusting its credit structure, arranging the extension progress and preventing material risks, the Bank achieved the coordinative development of retail loans in terms of "quality, scale, and efficiency".

The Bank realized the "double decrease" of both non-performing retail loans as well as the non-performing loan ratio. As at the end of the Reporting Period, the Bank adopted the standard of "including all loans overdue for more than 60 days in non-performing loans". Hence, the non-performing balance of retail loans (including credit cards) was RMB251 million, representing a decrease of RMB62 million or 19.75% as compared with that at the beginning of the year; the non-performing ratio of retail loans (including credit cards) was 0.46%, representing a decrease of 0.30 percentage point as compared with that at the beginning of the year.

The interest income derived from retail loans has gradually increased. During the Reporting Period, the Bank realized interest income from retail loans of RMB2.383 billion, representing a year-on-year increase of RMB767 million or 47.47%, accounting for 32.79% of the Bank's total interest income from loans. The average yield of retail loans was 5.13%, representing a year-on-year increase of 31 basis points.

The bank steadily developed personal housing loans. During the Reporting Period, the Bank strictly adhered to the position of "Housing is for people to live in, not for speculation". Under the guidance of supporting residents' reasonable self-occupancy needs to purchase housing, the Bank placed great emphasis on marketing quality developers, quality projects and quality customers, facilitating steady growth of personal housing loans business. As at the end of the Reporting Period, the balance of personal housing loans of the Bank reached RMB36.762 billion, representing an increase of RMB6.533 billion as compared with that at the beginning of the year, accounting for 67.44% of the total personal credit balance (including credit cards) of the Bank.

The Bank vigorously developed its inclusive finance business. During the Reporting Period, the Bank solidly promoted the implementation of national policies and regulatory requirements to support the real economy through measures including carrying out stricter assessment, holding competitions, innovating projects and products as well as establishing a green approval channel. As at the end of the Reporting Period, the balance of the Bank's personal business loans reached RMB6.870 billion, representing an increase of RMB1.034 billion or 17.71% as compared with that at the beginning of the year.

The Bank continued its development for micro-loan financing business. During the Reporting Period, it continued to push forward its "Chain e-loan" (鏈E貸) business and cooperated with giants from the domestic fast-moving consumer goods sector with an aim to facilitate the implementation of new projects, hence successfully securing a sizable number of customers nationwide. The Bank also proactively promoted the establishment of online lending platform, and vigorously developed consumer finance by taking full advantage on advanced technologies such as big data and cloud computing. During the Reporting Period, advanced loans from the Bank's micro-loan financing business amounted to RMB19.048 billion in aggregate, with the balance of RMB10.831 billion at the end of the Reporting Period, representing an increase of RMB3.850 billion as compared with that at the beginning of the year. In particular, the number of advanced loans from the Bank to co-branding corporate distributors reached 6,758, amounting to RMB1.476 billion in aggregate. The number of personal online micro-loans reached 1,736.2 thousand, amounting to RMB11.683 billion in aggregate.

3. Credit card business

The Bank continuously improved the channels of credit card issuance, and combined offline promotion and online customer acquisition. As at the end of the Reporting Period, the cumulative number of credit cards issued reached 1,304.5 thousand, representing an increase of 1,124.0 thousand as compared with that at the end of the previous year. The maximum monthly number of credit cards issued exceeded 150 thousand, with a transaction amount of RMB18.869 billion. As at the end of the Reporting Period, overdraft balance reached RMB3.550 billion, representing an increase of RMB2.971 billion as compared with that at the end of the previous year.

The Bank built up in-depth cooperation with internet technology enterprises to enhance the efficiency in customer acquisition and operation. The marketing platform has been established to integrate the resource from offline merchants, so as to realize the closed-loop ecosystem of online application for credit cards on the Internet and offline instant discounts. By focusing on the scenes of "eating, drinking and pleasure seeking", which align closely with the users' daily needs, a differentiated brand image has been developed. In addition, intelligent audit, anti-fraud and credit policies have been strengthened to build an intelligent risk management system.

The Bank implemented full life cycle management and enhanced credit card operation. The Bank continued to upgrade the service capability on mobile channels and refined the service progress, so as to improve activation experience in all aspects and solved problems faced by customers during activation. Additionally, interest-earning product systems such as cash installments and balance installments have been launched to optimize the establishment of sales channels and enhance interest-earning operation, thus further increasing the profitability of credit cards.

4. Wealth management and private banking business

The wealth management and private banking business of the Bank adhered to the operation and service philosophy of "customer-centered and market-oriented", and constantly enriched investment instruments. Currently, a multi-level product system covering cash, fixed income, equity, guarantee, and alternative investments has been established. At the same time, the Bank continued to enhance its professional capabilities in wealth management business and customer service, implemented efficiency improvement projects across the Bank, established the training system of wealth efficiency academy (財富效能學院), and strengthened the performance efficiency and cooperation capability of staff in retail business lines, thus laying a solid professional foundation for business development.

During the Reporting Period, the Bank actively seized market opportunities and grasped the window period of sales agency business for trust products, optimized the product strategy and structure, strengthened the marketing efforts to high net-worth customers, and refined marketing progress management as well as compliant operation, thus achieving a significant increase in fee and commission income from wealth management.

As at the end of the Reporting Period, customers with assets under management of over RMB2.00 million reached 8,885, representing an increase of 1,823 as compared with that at the end of the previous year, and the assets retained in the Bank amounted to RMB38.122 billion, representing an increase of RMB6.864 billion as compared with that at the end of the previous year. The growth rate reached 30.55% and 25.88%, respectively.

During the Reporting Period, the Bank newly commenced the sales agency business for trust products, and recorded sales of RMB5.813 billion in agency for trust products, RMB420 million in agency for insurance premiums, and sales of RMB3.145 billion in agency for open-ended funds.

During the Reporting Period, the Bank realized wealth management fee and commission income of RMB104 million, representing a year-on-year increase of 203.73%, of which income from agency for collective trust program amounted to RMB69 million, representing a year-on-year increase of over 100%. Income from agency for insurance amounted to RMB27 million, representing a year-on-year increase of 74.32%. Income from agency for funds amounted to RMB8 million, representing a year-on-year decrease of 50.00%.

5. Customer service management

During the Reporting Period, the Bank firmly focused on "target customer groups" to conduct a series of upgrades on service value, so as to manage customer groups by improving customer experience. On the basis of standardized service and attentive service management, we achieved advantages of retail operations in attracting customers and expanding our customers through implementation of service standards, improvement of service experience and creation of service value, thus enhancing the experience and efficiency of service marketing.

With regard to the implementation of service standards, we are in strict compliance with national standardized systems to ensure high level of basic service quality. All outlets of the Bank have passed the certification inspection of "Basic Service Requirements for Bank Outlets" and "Service Evaluation Criteria for Bank Outlets", the two national standards for financial service.

With regard to the improvement of service experience, we insisted on the responsibility of consumer rights protection and raised the awareness on consumer rights protection. As the pilot bank for the financial consumer complaint monitoring data reporting system of the People's Bank of China and the pilot bank for applying the complaints classification standards and the "Guidelines on Complaint Handling" (《投訴處理指引》), the Bank has become a bank that utilized digital data transmission under the national complaints classification standards.

With regard to the creation of service value, we transferred excellent service into customer-acquisition capability from the perspective of customer acquisition awareness and customer acquisition skills of our employees, so as to develop new service capabilities and transform service experience into new advantages of retail operations in attracting customers and expanding our customers. In 2019, the Bank was once again listed in the "China's 500 Most Valuable Brands", ranking 386th with RMB10.589 billion of brand value, and moving forward 21 places as compared with that of the previous year, which made it the only financial enterprise from Shandong Province ranking in the list for three consecutive years. In an effort to promote brand influence, we continued to gain direct feedback and recognition from customers for the brand of the Bank, enhanced brand loyalty, and constantly expanded customer base as well as market share.

12.2.2 Corporate banking

During the Reporting Period, the corporate banking business of the Bank focused on the strategy of expanding its customer base, persisted in exploring innovation, strengthened marketing efforts and product support, accelerated credit supply, improved integrated service capabilities, continued to build corporate financial professional bank, and realized steady growth in both scale and efficiency of corporate banking business. During the Reporting Period, the operating income from the corporate banking business was RMB5.266 billion, representing a year-on-year increase of 36.35%, accounting for 54.73% of the Company's operating income.

1. Corporate deposits

During the Reporting Period, led by the strategy of interface banking and transaction banking, the Bank strengthened the market competitiveness of the corporate banking business. In terms of cash management, we launched the custom's summary tax guarantee online system. As the first city commercial bank in Shandong Province to launch the first electronic summary tax guarantee, we have obtained the qualification of Qingdao Provident Fund business to become the only bank in Qingdao to support units' provident funds deposit with online banking service; in terms of supply chain finance, five major projects including the "Belt and Road" supply chain finance in Europe and Asia were accomplished, and the business model was replicated in batches and experienced a continuous optimization; in terms of international business, the first bank-customs cooperation product promotion meeting was held to vigorously promote the development of international settlement business, and the international settlement volume has exceeded US$6 billion; in terms of bill business, we leveraged the bill business's advantage of attracting deposits, and improved the bill pool business process. The number of new contracted accounts for the year was 95, which contributed to the growth of the Company's demand deposit.

As at the end of the Reporting Period, the balance of corporate deposits (excluding accrued interest) reached RMB147.881 billion, accounting for 68.65% of the balance of various deposits (excluding accrued interest), representing an increase of RMB29.236 billion or 24.64% as compared with that at the end of the previous year. Among them, demand corporate deposit amounted to RMB92.594 billion, accounting for 62.61% of corporate deposits. The average cost rate of corporate deposits was 1.58%, representing a decrease of 0.01 percentage point as compared to that at the end of the previous year.

2. Corporate loans

During the Reporting Period, the Bank implemented the spirit of the Central Economic Work Conference, actively supported supply-side reforms, adapted to new requirements for the continuous replacement of old growth drivers with new ones, implemented differentiated credit policies, strengthened the support for the real economy in aspects such as supporting private economy, small and micro enterprises, and the manufacturing industry, etc. and giving priority to financing of projects in the areas of inclusive finance, green finance, technology finance and the blue economy. Also, the Bank continued to support key engineering and construction projects, strengthened its support for the port economy through multiple channels, satisfied the demand for loans of traditional enterprises in respect of industrial upgrading, technological transformation and energy conservation and environmental protection projects.

As at the end of the Reporting Period, the balance of corporate loans of the Bank (including discounted bills and excluding accrued interest) reached RMB118.287 billion, representing an increase of RMB33.250 billion or 39.10% as compared with that at the end of the previous year, accounting for 68.45% of the total loans. Among them, the balance of green credit was RMB11.587 billion, representing an increase of RMB2.102 billion or 22.16% as compared with that at the beginning of the year, accounting for 9.80% of the total corporate loans. The balance of technology credit was RMB6.345 billion, representing an increase of RMB997 million or 18.64% as compared with that at the beginning of the year, accounting for 5.36% of the total corporate loans.

As at the end of the Reporting Period, the balance of loans to small and micro enterprises was RMB14.011 billion, average interest rate of loans to small and micro enterprises was 6.12%, customers which are small and micro enterprises of the Bank amounted to 13,933 and featured branches serving small and micro enterprises totalled 13.

3. Corporate customers

As at the end of the Reporting Period, the Bank had 172.4 thousand corporate customers, representing an increase of 23.8 thousand or 16.02% as compared with that at the end of the previous year. The number of corporate customers with an average daily deposit of RMB5 million or more reached 2,270, representing an increase of 275 from the beginning of the year.

The Bank is led by interface banking, and has acquired customers in batches through supply chain core enterprises, government departments, and third-party strategic cooperation units. During the Reporting Period, there were 601 new transaction banking customers, including 48 cash management customers, 511 international business settlement customers, and 42 supply chain finance customers. In addition, the Bank issued marketing guidelines for key customer groups such as inclusive finance and listed finance. During the Reporting Period, the number of customers of the listed enterprises finance increased by 58 throughout the year, representing an increase of 120%, and the number of loans to inclusive small and micro enterprises was 13,933, representing an increase of 3,916 as compared with the corresponding period of the previous year.

4. Corporate products

During the Reporting Period, the Bank continued to promote the optimization and upgrading of transaction banking and continuously improved the research and development system of product innovation. The Bank strengthened its employees' capacity of utilizing product portfolio to achieve comprehensive marketing results and further enhanced the competitiveness of the Company's business products. The Bank continuously improved product systems, comprehensively upgrading service efficiency and customer experience. The Bank launched business functions of cash management system such as account keeping, corporate online interface banking and corporate account overdraft business, and it also launched entrepreneurship guarantee loan business for small and micro enterprises and "Loan Business Guaranteed by Government (政銀保)". The Bank researched and developed technology-featured products such as subsidy loans for high-tech enterprises and subsidy loans for blue-ocean listed enterprises. The Bank launched "Investment-Loan-Link (投貸通)" and "Science and Technology Road Show Loan (科創路演貸)" which are based on specific event scenarios, realizing the first Singapore dollars financing business under the China-Singapore currency swap project across the country.

12.2.3 Financial market business

During the Reporting Period, in the face of the complicated macroeconomic situation and the tough financial market environment, the Bank's financial market business took advantage of its own strength, tapped into its potentials to improve efficiency, made comprehensive breakthroughs, continued to optimize the structure of assets and liabilities, and strived to improve asset returns and capital efficiency. During the Reporting Period, the operating income of financial market business was RMB1.927 billion, representing a year-on-year increase of 11.28%, accounting for 20.03% of the Company's operating income.

1. Proprietary investment

During the Reporting Period, the Bank continued to optimize its investment structure, reducing the proportion of investments and special purpose vehicle investment, improving asset liquidity and supporting the development of the real economy. As at the end of the Reporting Period, the Bank's proprietary investment (including accrued interests) reached RMB143.247 billion, representing a year-on-year decrease of RMB2.617 billion or 1.79%. Among them, the scope of bond investment (excluding accrued interests) reached RMB84.969 billion, representing a year-on-year increase of RMB2.026 billion or 2.44%, which was mainly attributable to the increase in investment in central government bonds as well as local government bonds and corporate entity bonds. The scope of non-standard debt investment (excluding accrued interests) reached RMB56.084 billion, representing a year-on-year decrease of RMB4.653 billion or 7.66%, which was mainly attributable to the reduction of asset management plans and wealth management investments of commercial banks.

2. Interbank business

During the Reporting Period, the Bank actively utilized different types of interbank liabilities with reasonable match of term structure to not only reduce the cost of interbank liabilities effectively but also meet the bank's needs for liquidity management. As at the end of the Reporting Period, the balance of interbank deposits (excluding accrued interests) was RMB16.667 billion, representing an increase of 43.77% as compared with that at the end of the previous year. Interbank deposits accounted for 4.97% of total liabilities. Among them, the interbank demand deposit accounted for 31.60%, up by 15.49 percentage points as compared with that at the end of the previous year. The balance of interbank deposit certificates issued amounted to RMB51.740 billion, representing an increase of 4.09% as compared with that at the end of the previous year. Interbank deposit certificates issued accounted for 15.43% of total liabilities.

During the Reporting Period, the delivery amount of bonds of the Bank in the interbank market nationwide was RMB11,570 billion. In the ranking of delivery amount of bonds issued by China Central Depository & Clearing Co., Ltd. in 2019, the Bank ranked No. 31 among national financial institutions and No. 10 among city commercial banks. The Bank was awarded the title of "Core Dealer" and "Outstanding Currency Market Dealer" issued by the National Interbank Funding Center, and the titles of "Outstanding Dealer", "Best Progressive Agency for Local Bond Banking Underwriters" issued by China Central Depository & Clearing Co., Ltd.

Given the general pressure on the urban commercial banks' liquidity and unfavorable market conditions, the Bank successfully issued a total of RMB16 billion of ordinary financial bonds and small and micro enterprise financial bonds with interest rates lower than market valuations, reflecting the market's confidence in the Bank and recognition of the BQD brand. On 20 May and 29 May 2019, the Bank issued two tranches of ordinary financial bonds with a total amount of RMB8 billion (RMB4 billion for each tranche) in the national interbank bond market, including three-year bonds and five-year bonds, with an amount of RMB3 billion and RMB1 billion respectively. On 3 December and 12 December 2019, the Bank issued two tranches of small and micro enterprise financial bonds with a total amount of RMB8 billion (RMB4 billion for each tranche) in the national interbank bond market, including three-year bonds and five-year bonds, with an amount of RMB3 billion and RMB1 billion respectively.

3. Asset management

The Bank's asset management business adhered to the principle of "compliant operation and robust transformation" and continued to promote the transformation of asset management business according to regulatory requirements, and made achievements in facilitating the expansion of scale, improving profitability, strengthening product innovation, expanding sales channels, and consolidating market position, etc.

The scale of asset management grew rapidly and steadily, exceeding RMB100 billion for the first time, and income from the wealth management business continued to grow. As at the end of the Reporting Period, wealth management products of the Bank reached 852, with a balance of RMB100.969 billion, and the scale of off-balance sheet wealth management increased by 41.15% over the previous year, becoming the first local corporate bank in Shandong Province with wealth management balance of over RMB100 billion. Among them, principal-guaranteed wealth management products have all been settled, while interbank wealth management products have not been issued. Non-principal-guaranteed wealth management products have all met the performance benchmark. During the Reporting Period, the Bank realized service fee revenue from wealth management products of RMB695 million, representing an increase of RMB208 million or 42.81% over the previous year.

During the Reporting Period, wealth management products issued by the Bank reached 2,034, raising a total amount of RMB413.777 billion. Among them, non-principal-guaranteed wealth management products issued was 1,958, with an amount of RMB411.125 billion raised, representing a year-on-year increase of 15.72% and accounting for 99.36% of the total amount raised by the wealth management products. Principal-guaranteed wealth management products issued was 76, with an amount of RMB2.652 billion raised, representing a year-on-year decrease of 90.64% and accounting for 0.64% of the total amount raised by the wealth management products.

At the end of the Reporting Period, the balance of the Bank's wealth management products amounted to RMB117.886 billion, and asset types directly and indirectly invested mainly include fixed return type, non-standard debt assets type and capital market assets type, etc. Among them, fixed return assets amounted to RMB100.716 billion, accounting for 85.44%. Non-standard debt assets amounted to RMB10.427 billion, accounting for 8.84%. Capital market assets amounted to RMB3.468 billion, accounting for 2.94%. Public funds amounted to RMB3.275 billion, accounting for 2.78%.

We continued to promote the net-worth transformation of products and channel expansion, and our market position continued to improve. The newly issued open-end "Tiantiankaixin" net-worth type and open-end "Caiyuangungun" series of wealth management products had won favorable comments from the market. As at the end of the Reporting Period, the scale of net-worth wealth management products of the Bank was RMB74.512 billion, accounting for 73.80% of the total product scale. During the Reporting Period, the Bank's wealth management products realized commission sale business on the national deposits financial institutions, achieving the first commission sales of the Bank's wealth management products through online platforms and institutions outside the province. The Bank also promoted the coordinated development of business across regions. The Bank was awarded the "Wealth Management Product of Commercial Bank of the Year of

China" in the China award ceremony at the Global Wealth and Society Awards 2019 held by The Asian Banker magazine. The Bank was awarded the "2018 Gold Bull Wealth Management Bank Award" and the "Gold Bull Bank Wealth Management Product of the Year Award" in the selection campaign for the 2018 "Gold Bull Wealth Management Product" held by China Securities Journal and jnlc.com. According to the Bank Wealth Management Capabilities Ranking Report (the Year of 2018) published by PY Standard, the Bank ranked 7th in comprehensive capabilities of wealth management business among city commercial banks.

4. Investment banking

As the only legal-person financial institution in Shandong Province with the qualification of Class B independent lead underwriter, the Bank insisted on understanding market dynamics and developed innovative market instruments that would enhance its competitive edges in the financial market, built a service brand of the Bank in the debt capital market and provided comprehensive financing solutions for quality corporate customers in Shandong Province.

During the Reporting Period, credit risk events occurred frequently in the bond market, and credit spread and spread between ratings continued to expand. The Bank deeply explored the local market in Shandong, developed corporate customers, flexibly utilized products such as debt financing instruments, direct financing instruments for wealth management, and debt financing plans. The Bank helped create credit risk mitigation warrants for financing the bond issuance by enterprises through multiple channels to serve the real economy. During the Reporting Period, the Bank underwrote and issued 41 bonds of various types, with RMB19.060 billion raised in total, representing a year-on-year increase of 30.37%. Among them, the Bank underwrote and issued the country's first ex-situ poverty alleviation bill, and the funds raised were mainly used for infrastructure construction in impoverished areas, providing strong financial support for poverty alleviation.

12.2.4 *Distribution channels*

1. Physical distribution channels

The business outlets of the Bank are based in Qingdao with its footprint covering all corners of Shandong Province. As at the end of the Reporting Period, the Bank has 141 business outlets including 14 branches in 14 cities in Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Linyi, Jining and Taian. The Bank had its head office, a branch and 79 sub-branches located in the vicinity of Qingdao. BQD Financial Leasing, the Company's holding subsidiary, is based in Qingdao and has set up an office in Shanghai.

2. Self-service banking channels

As at the end of the Reporting Period, the Bank had 107 in-bank self-service banks and 450 self-service devices including 75 self-service ATMs, 257 self-service Cash Deposit and Teller machines (CTM), and 118 self-service terminals. These units provide services such as withdrawal, deposit, transfer, account enquiry, and payment. As at the end of the Reporting Period, the Bank had recorded 4.9395 million transactions through self-service banks with a total transaction amount of RMB20.941 billion.

3. Electronic banking channels

The Bank regards electronic banking as a significant breakthrough in innovation and development, and continuously optimizes online service channels such as mobile banking and online banking so as to "enhance customers' experience". The Bank also enhanced its comprehensive channel service capabilities through more utilization of financial technology. The Bank also sought to open its doors to further cooperation, and promoted rapid update of its products and services.

(1) Mobile finance

The Bank continued to accelerate the intelligent and personalized construction of mobile banking. During the Reporting Period, the Bank cooperated with a well-known Internet giant to jointly develop and introduce its mobile application development platform, and successfully released the version 4.0 of mobile banking, and made revolutionary upgrade and replacement of the mobile banking infrastructure, which improved the efficiency of the mobile banking product updates, functional development, fault repairing and other works, laying a solid foundation for the online digital operation based on big data analysis.

The Bank established a specialized online digital operation team and designed an operational workflow for online customer base focusing on "data analysis-marketing planning-customer base screening-users reach-marketing implementation-strategy review" to enhance the level of targeted operational services. During the Reporting Period, the Bank reached out to approximately 4.92 million users effectively by carrying out online marketing activities and deploying precise marketing strategies.

During the Reporting Period, number of users of the Bank's mobile banking service and the volume of mobile banking transactions were in constant and rapid growth. The number of existing mobile banking users reached 2,356.2 thousand, representing a year-on-year growth of 50.63%, with an accumulated transaction volume of 69,383.0 thousand, representing a year-on-year growth of 14.09%, while total transaction amounted to RMB396.044 billion, representing a year-on-year growth of 20.72%.

During the Reporting Period, the sales volume of wealth management products on the mobile banking channel continued to rise to RMB181.998 billion, representing a year-on-year growth of 144.16%. The proportion of mobile banking sales to that in the whole channel reached 77.49%, which represented a year-on-year growth of 24.17 percentage points.

(2) Internet banking

As at the end of the Reporting Period, the Bank had a total of 117.3 thousand online corporate banking customers, representing a year-on-year increase of 31.97%. The Bank's accumulated number of transactions totaled 20,811.0 thousand, representing a year-on-year decrease of 10.80%, while the value of total transaction amounted to RMB1,269.741 billion, representing a year-on-year decrease of 8.26%. The decrease in the number of online corporate banking transactions was mainly due to the enhanced control over online banking transfer business in order to improve the anti-money laundering risk prevention and control capability in accordance with regulatory requirements.

Number of online retail banking customers totaled 732.9 thousand, representing a year-on-year increase of 1.30%, and accumulated a total of 79,128.1 thousand transactions, representing a year-on-year decrease of 38.96%. Total transaction amounted to RMB355.452 billion, representing a year-on-year decrease of 40.11%. The decrease in the number of online retail banking transactions was mainly due to the development of mobile finance and the change in consumer habits shifting towards the use of mobile banking.

4. Information technology

During the Reporting Period, the Bank comprehensively implemented the strategy of scientific and technological innovations, combined with the new financial concept of "Finance + Technology + Scenarios", accelerated the application and innovation of digital technology, focused on strengthening the construction of key projects in areas such as mobile internet, smart operation and wealth management and asset management and continued to enhance the overall ability of prevention and control of information technology risks, hence effectively supporting the achievement of business strategic objectives during the Reporting Period.

(1) Promoted the construction of key projects and strived to achieve key breakthroughs in mobile finance, data application and other aspects

During the Reporting Period, the Bank stepped up its efforts in the construction of technology projects, launched 17 new IT projects, and successfully completed the launch of 27 major projects, including mobile banking 4.0, the smart outlets, corporate mobile banking, foreign currency projects of Comstar, the modification of ancillary measures for new regulations on asset management, the upgrade of operation decision analysis platforms of BDP and asset management agency sales, and fully promoted the construction of 53 projects under construction.

During the Reporting Period, the smart outlet project was launched successfully. The project integrated marketing services into "close" business services to customers, deepened the exploration and enhanced the value of customer services from our counters, and comprehensively performed various functions such as business guidance, operation and product marketing in outlet services to achieve one-stop financial services for customers.

The successful commencement of production of major projects, including corporate mobile banking, foreign currency projects of Comstar, the modification of ancillary measures for new regulations on asset management, the upgrade of operation decision analysis platforms of BDP, asset management agency sales, the corporate intelligent CRM project and real-time monitoring of transactions further diversified the financial products of the Bank and effectively enhanced its internal management capability.

(2) Strengthened information technology risk management and fully safeguarded the security of information system

The Bank attached great importance to information security management and control and kept on improving its ability to prevent and control IT risks, enhance IT governance system and internal control construction and Internet security protection, and effectively prevent external threats.

During the Reporting Period, the Bank carried out local and city-wide high-availability switching drills for disaster recovery in the core business system, continuously improved the high availability of the Internet channel system, continuously enhanced the operation and maintenance management capability and level, passed recertification audit for the information security management system (ISO27001) to ensure the reliable, stable, continuous and efficient operation of the information system, and successfully completed the essential safety and security works during major national events.

(3) Carried out in-depth research on the application of cutting-edge technologies and continued to integrate business technology resources

With cutting-edge technology research as the guidance, the Bank continued to conduct research on the application of cloud computing, big data, artificial intelligence and 5G technologies in the financial sector, and continued to enhance its independent control and independent innovation capabilities. During the Reporting Period, the Bank's self-developed elastic load balancing method in the cloud environment was awarded the invention patent by the State Patent Office, which realized the flexible expansion of application system resources, enhanced business continuity and formed a centralized data center for banks and a standardized IT structure. During the Reporting Period, technological investment of the Bank on innovative research and application amounted to a total of RMB29.4884 million.

The Bank continued to optimize its internal organizational structure, continued to absorb outstanding scientific and technological talents, focused on improving the overall quality of employees and the independent research and development capability of the team, strengthened the in-depth integration of technology business, and effectively responded to the new requirements of market competition and business development under the trend of digitalization. As at the end of the Reporting Period, the Bank had a total of 152 technological personnel, accounting for 3.75% of the Bank's employees.

13. Structured Entities Controlled by the Company

Structured entities controlled by the Company are mainly principal-guaranteed wealth management products issued by the Company. Please refer to "12.2.3 Financial market business – 3. Asset Management" in Section 3 Management Discussion and Analysis of this results announcement.

14. Risk Management

14.1 Credit Risk Management

Credit risk refers to the risk arising from the failure by the obligating party or a party concerned to meet its obligations in accordance with agreed upon terms. The Company's credit risks are mainly derived from loan portfolios, investment portfolios, guarantees and commitments.

The Company is committed to the establishment of a credit risk management system with comprehensive functions, controlled and balanced risks, streamlined structure and high efficiency as well as well-delegated authorities and duties. The risk management procedures and methods are constantly being improved and the policy system is being optimized. The Company continued to build an accurate and efficient risk-monitoring system and a quick-response mechanism through enhanced risk warning and anti-fraud measures with technical methods. During the Reporting Period, the Company focused on the following areas to strengthen its credit risk management:

1. Continuing to enhance risk exposure management. Based upon its persistent implementation of unified credit extension, the Company has been actively promoting the inclusion of large sum risk exposure management into the works of the comprehensive risk management system. By adopting a top-level design and with focuses on improving relevant rules and regulations, the Company moved forward with the construction of a multi-level unified credit extension system covering full range of customers, assets and the entire institution and the construction of a large sum risk exposure management system. Through targeting systems and assisted by manual checks, the Bank has included those businesses bearing substantial credit risks into the unified risk management system, and carried out tasks comprising risk identification, measurement, monitoring and control in accordance with the see-through principle, realizing concentrated risk management.

2. Adhering to the vertical approval structure and continuing to optimize the business process. The Bank adhered to the centralized approval mechanism of its corporate credit business, continued to optimize the approval process and business aspects, and constantly enhanced the validity and pertinence of the risk identification before credit extension.

3. Innovating and establishing the post-inspection models and enhancing post-loan management levels. Building on the regular models of post-loan inspection work, the Company established post-loan inspection for key institutions, key links, key customers and key industries, which further enhanced the quality and efficiency of post-loan management and promoted the sustainable and steady development of the credit business.

4. Continuing to strengthen the research and assessment of macro-economic conditions and examining various potential risk hazards in a timely manner. During the Reporting Period, the Company focused on Sino-US trade friction, the refinery industry, the real estate industry and government financing platform to pre-assess the potential credit risk; the Bank carried out risk examination for chemical, food and industries which were easily affected by economic situation and regional environment, and established risk mitigation protocols in advance, aiming to achieve early warning and early preparation, and continuously improve risk identification capabilities.

5. Continuously improving the pre-warning management of group customer risk. Additional risk warning thresholds were set up for credit extension to group customers. The Bank put up risk warning thresholds for group customers in pre-loan and approval processes based on the industry where the group customers operate and their operating capability, which was a key reference for post-loan inspection, followed by close supervision of customers' post-credit extension risks.

6. Enhancing risk management of non-local organizations and raising overall risk management and control levels. The Bank improved the assessment and evaluation system of credit risk management of branches and enhanced regulation against and accountability for misconduct occurred in running credit business. At the same time, the Bank stepped up business counselling for branches and enhanced their risk management capabilities through a number of ways including case sharing and on-site communication.

7. Advancing the build-up of the asset preservation system and strengthening the collection of non-performing assets. The Bank continued to advance and improve the building of the asset preservation system, specifying all the duties and responsibilities as well as objectives of the asset preservation department to enable more effective collection of non-performing assets.

   During the Reporting Period, the Company further improved its asset quality and put its credit risks under effective management and control through the above measures.

14.2 Liquidity risk management

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain sufficient funds at a reasonable cost to sustain its asset growth or pay debts due even if the bank's solvency remains strong.

The objective of the Company's liquidity risk management is to ensure that the Company has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. The objective of the Company's liquidity risk management is based on development strategy of the Company so as to continuously improve its level of liquidity risk management and measures, strengthen its capability of identifying, monitoring, measuring and refining the management and control of liquidity risks, and maintain a reasonable balance between liquidity and profitability. The Company monitors future cash flows according to its liquidity risk management policy, and ensures an appropriate level of high liquid assets is maintained.

The Company has established a liquidity risk management governance structure in accordance with the principle of the segregation of the formulation, implementation and supervision of its liquidity risk management policies, specifying the roles, responsibilities and reporting lines of the Board, the board of supervisors, senior management, special committees and the relevant departments of the Bank in liquidity risk management in order to enhance the effectiveness thereof. The Company has established a prudent risk appetite in respect of liquidity risks, which better suits the current development stage of the Company. The current liquidity risk management policy and system basically meet the regulation requirements and the Company's own management needs.

The Company measures, monitors, and identifies liquidity risks from the perspectives of short-term provision and structure as well as emergency, closely monitors every indicator of the quota according to fixed frequency and conducts regular stress tests to evaluate its ability to meet liquidity requirements under extreme conditions. In addition, the Company has enacted a liquidity emergency plan and would conduct tests and evaluations thereon on a regular basis.

The Company's internal control system for liquidity risk management is sound and compliant. The Company conducts special internal audits on liquidity risks annually and prepares and submits an independent audit report to the Board.

The Company closely monitors changes in liquidity patterns and market expectations, and deploys in advance and dynamically adjusts its liquidity management strategy based on changes in its asset and liability business and the liquidity gap to ensure that its liquidity risk is within a reasonable and controllable range. During the Reporting Period, the Company focused on strengthening its liquidity risk management in the following areas:

1. Optimizing its asset and liability allocation structure. As for assets, the Company increased the allocation proportion of loans. As for liabilities, the Company drove sustainable growth of its proprietary deposits through various measures;

2. Strengthening active liability management, coordinating the active liability instruments such as central bank financing instruments and the issuance of financial bonds, and flexibly arranging active liability strategies according to its own liquidity needs and market changes;

3. Constantly strengthening liquidity risk management on a daily basis, realizing a centralized management and control of RMB and foreign-currency positions and further improving its efficiency in position management;

4. Strictly implementing liquidity risk limit management, fulfilling obligations from all business lines and dynamically monitoring the operation of liquidity risk limit indicators;

5. As for stress tests, the Company has been in strict compliance with the relevant provisions in "Measures for the Liquidity Risk Management of Commercial Banks" (《商業銀行流動性風險管理辦法》) issued by the CBIRC, the Company designed various stress test scenarios including mild, moderate and severe scenarios, single bank level and market level according to its own business scale, nature, complexity and risk status, so as to quarterly conduct a stress test on liquidity risks. The Company formulated corresponding emergency plans based on the results of such stress tests. As at the end of the Reporting Period, the stress tests conducted by the Company for RMB and foreign currency at mild, moderate and severe levels all reached their minimum sustainable requirements of no less than 30 days, leading to a favorable contingency buffer capacity for both RMB and foreign currency.

For more details on the Company's liquidity risk management, please refer to "Notes to the Financial Statements".

14.3 Market risk management

Market risk refers to the potential risk of causing losses to the Company's future income or future cash flows due to adverse changes in market factors such as interest rates, exchange rates, commodity prices and stock prices. The market risks faced by the Company mainly include interest rate risk and exchange rate risk.

In accordance with the relevant requirements formulated by regulatory authorities on market risk management with reference to the relevant provisions of the New Basel Capital Accord, the Company continued to improve its market risk management system during the Reporting Period, optimized its market risk management policy system, and deepened the construction of the market risk management information system. The Company continued to manage its interest rate risk and exchange rate risk and has established a market risk management system through measures such as the stipulation, monitoring and reporting of authorization, credit and risk limits, aiming to constantly improve the efficiency of its risk management.

The Company's internal control system for market risk management is sound and compliant, with clear duties and responsibilities defined for the Board, senior management and various departments. Meanwhile, the Company regularly inspects the policies and systems in relation to market risk management, so as to regulate the identification, monitoring and control process of market risks. The Company carries out special internal audits on market risks annually and regularly reports the status of market risk management to the senior management and the Board and prepares an independent report.

The Company comprehensively utilizes information systems including the Banking Financial Institutions Supervision Information System and the China Bond Integrated Operation Platform to monitor the appropriation of market risk capital in strict accordance with the requirements of the New Basel Capital Accord.

14.3.1 Analysis of interest rate risk

The Company distinguishes its banking book and trading book according to the regulations of the regulatory authorities and the banking management traditions, and adopts the corresponding approaches for the identification, measurement, monitoring and control of market risks according to different natures and characteristics of its banking book and trading book. The trading book records the freely traded financial instruments and commodity positions held by the Bank for trading purposes or for hedging the risks of other items in the trading book. Positions recorded in the trading book must not be subject to any terms on the transaction, or can be fully hedged to avert risks, accurately valued, and actively managed. Corresponding to the trading book, other banking businesses are included in the banking book.

For the interest rate risk exposure in its banking book, the Company adopts measurement approaches suitable for the scale and structure of its assets and liabilities in accordance with the regulatory requirements, which employ various techniques such as repricing gap analysis, duration analysis, and net interest income simulation analysis to quantify and assess the impact of changes in interest rate on the Company's net interest income and economic value respectively according to different risk sources, and puts forward management recommendations and business adjustment strategies based on report arrived from the analysis results. For the interest rate risk exposure in its trading book, the Company mainly adopts techniques such as sensitivity analysis and scenario simulation to measure and monitor it. Risk exposure limits, such as interest rate sensitivity, risk exposure and stop-loss are set, and the implementation of these limits is also effectively monitored, managed and reported on a regular basis with market risk stress tests carried out. During the Reporting Period, the Company realized a rapid growth in net interest income by proactively adjusting business pricing and structure strategies of its asset and liability, and ensured that the interest rate risk as a whole was within the control.

14.3.2 Analysis of interest rate sensitivity

The Company uses sensitivity analysis to measure the potential impact of changes in interest rates on the Company's net interest income. The following table sets forth the results of the interest rate sensitivity analysis based on the current assets and liabilities on 31 December 2019 and 31 December 2018.

Unit: RMB'000

Item	**31 December 2019 Increase/ (Decrease)**	31 December 2018 Increase/ (Decrease)
Change in annualized net interest income		
Interest rate increase by 100 bps	**(438,707)**	(635,421)
Interest rate decrease by 100 bps	**438,707**	635,421

Above sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The relevant analysis only measures the changes in the interest rates within one year, reflecting how annualized interest income would have been affected by the repricing of the Company's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

1. All assets and liabilities that are repriced or matured within three months and after three months but within one year are repriced or matured at the beginning of the respective periods (i.e. all the assets and liabilities that are repriced or matured within three months are repriced or matured immediately, and all the assets and liabilities that are repriced or matured after three months but within one year are repriced or matured immediately after three months);

2. There is a parallel shift in the yield curve and in interest rates;

3. There are no other changes to the portfolio of assets and liabilities, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. The actual changes in the Company's net interest income resulting from increases or decreases in interest rates may differ from the results of the sensitivity analysis based on the above assumptions.

14.3.3 Analysis of exchange rate risk

The Company's exchange rate risk mainly arises from the risk exposures of non-RMB assets held in the banking book of the Company. The Company manages to control the exchange rate risk in its banking book at a reasonable level by means of strict management and control of its foreign currency exposures. Methods such as foreign exchange exposure analysis, scenario simulation analysis and stress test are mainly adopted for the measurement and analysis of the Company's exchange rate risks in its banking book.

14.3.4 Analysis of exchange rate sensitivity

The following table sets forth the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 31 December 2019 and 31 December 2018.

Unit: RMB'000

Item	**31 December 2019 Increase/ (Decrease)**	31 December 2018 Increase/ (Decrease)
Increase/(decrease) in annualized net profit		
Foreign exchange rate increase by 100 bps	**9,511**	9,358
Foreign exchange rate decrease by 100 bps	**(9,511)**	(9,358)

Above sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

1. The foreign exchange sensitivity is the gain or loss recognized as a result of 100 basis points fluctuation in the foreign currency exchange rates against the average of the central parity rates of RMB on the reporting date;

2. The exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

3. The foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by the management. The actual changes in the Company's net foreign exchange gain or loss resulting from change in foreign exchange rates may differ from the results of the sensitivity analysis based on the above assumptions.

14.4 Operational risk management

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees, information technology systems, and external events. The Company's operational risk mainly arises from four types of risk factors, including personnel risk, process risk, information system risk and external event risk.

The Company focuses on the work of preventing systematic operational risks and major losses from operational risks. The Board explicitly sets an acceptable operational risk level and supervises the senior management's monitoring of and evaluation on the adequacy and effectiveness of the internal control system; the senior management works out systematic systems, processes and methods and adopts corresponding risk control measures according to the acceptable risk level determined by the Board, so as to prevent and control operational risks in a comprehensive manner.

During the Reporting Period, the Company actively improved operational risk management system, effectively identified, evaluated, monitored, controlled and minimized operational risks, vigorously promoted the improvement of operational risk management capacity, and its operational risks had been well contained. During the Reporting Period, the Company focused on enhancing its operational risk management in the following areas:

1. Improving inspection and supervision to strictly control the occurring of operational risks. Focusing on key businesses and key areas of the Bank, combined with the rectification of irregularities in 2019 and risk screening in certain key areas, the Bank carried out various forms of self-examination and inspections, rectified problems through self-knowledge and self-autonomy process, addressed operation and management loopholes, and eliminated risks in the early stage.

2. Upgrading the operational risk management tools in order to systematically prevent the operational risk. The Bank comprehensively monitored operational risks through integrating various means such as system monitoring, risk screening, internal inspection, and business line supervision, and properly collected and analyzed key indicators of operational risk, and losses of data and issued early warning, improved the construction of internal procedures, and prevented operational risks in an all-round manner.

3. Improving the information technology security measures in order to effectively control the operational risks. The Bank strengthened the security protection of information technology system and outsourcing risk management, analyzed the operation of key systems, the launch of IT projects and external IT risk events, strengthened information security management and control, conducted risk assessment on the contents of outsourcing services, and strengthened the control and inspection of the risks during the process of outsourcing projects implementation.

4. Enhancing business continuity management and improving risk control and management ability. The Bank continued to promote business continuity management, improved the system construction of emergency plans, organized business continuity drills, and enhanced the relevant personnel's ability to respond to emergencies and their ability to work collaboratively.

15. Outlook on Future Development of the Company

15.1 Operating situation analysis for the new year

In 2020, the downward pressure on China's economy will remain strong, but the basic trends of stable positive momentum and positive long-term prospects will remain unchanged. Economic opportunities outweigh challenges in Shandong Province and Qingdao. In 2020, the counter-cyclical adjustment of macro policies will be intensified, and active fiscal policies and prudent monetary policies will continue to be implemented and regulatory authorities will continue to strengthen and adopt strict measures. The industrial division of the banking industry will continue to intensify, the integration of technology and finance will continue to expand, and fintech's integration into the financial service scenarios will be further accelerated.

15.2 Development guiding principle for the new year

In 2020, the Bank will uphold "adopting to changing times, strengthening characteristics, overcoming challenges and developing steadily" as its basic operating guiding principle, continue to focus on management and promote enhancement, and open up new vistas through the "A+H" dual listing of Bank of Qingdao.

To adapt to changing times, we will seize the favorable opportunity of credit easing during the period of counter-cyclical adjustment, grab high-quality assets, and increase the scale of credit delivery while maintaining risks under control;

To strengthen our characteristic, we will complete the community finance, strengthen the agricultural finance starting from the community sub-branches and the agricultural support service station. We will develop sub-branches with special characteristics to cultivate special advantages in the industry. Furthermore, we will spare no effort in key business areas such as public finance, inclusive finance, new economy and high-quality traditional economy;

To overcome challenges, we will build on our confidence, rise above the difficulties and make development as our top priority. In addition, we will improve management, resolve risks and optimize the structure in development;

To develop steadily, we will develop a relationship between development and risk with an accurate understanding, stick to the bottom-line of risk in development, and ensure coordinated development in terms of scale, efficiency and quality.

15.3 Main measures to be adopted for the new year

In 2020, the Bank will focus on the following eight aspects to promote and carry out our work:

1. Focus on key areas and improve the wholesale business ability;

2. Expand the customer base and strengthen the retail business base;

3. Improve service capability and enhance financial market coordination;

4. Improve the efficiency of outlet optimization and strengthen virtual channels functions;

5. Build a governance system and enhance data governance capabilities;

6. Improve asset quality and overall risk management;

7. Centralize application of smart technologies and improve operation support capabilities;

8. Continue to strengthen Party building and push forward with relevant agenda.

SECTION 4 OTHER EVENTS

4.1 Use of Proceeds Raised

The proceeds raised from issuance of H shares of the Bank had been used in accordance with the intended usage as disclosed in the prospectus. The net proceeds raised from the global offering (after deduction of the underwriting commissions and estimated expenses payable by the Bank in relation to the global offering) had been used to replenish the capital of the Bank to meet the needs of the continuous growth of its business.

The proceeds raised from issuance of offshore preference shares of the Bank, after deduction of the issuance expenses, were used as supplement for the Bank's other tier-one capital according to the applicable laws and regulations and relevant regulatory approval.

The proceeds raised from issuance of A shares of the Bank had been used in accordance with the intended usage as disclosed in the A share prospectus. All the proceeds raised from the A share issuance of the Bank (after deduction of the issuance expenses) had been used to replenish the capital of the Bank to support the continuous and healthy growth of its business.

4.2 Corporate Governance Code

During the Reporting Period, the Bank strictly complied with the code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**"), and, where appropriate, adopted the recommended best practices therein.

4.3 Securities Transactions by Directors and Supervisors

The Bank has adopted the standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors and supervisors of the Bank. Having made specific enquiries to all directors and supervisors, each of the directors and supervisors confirmed that he/she has complied with the above Model Code during the Reporting Period.

4.4 Changes in Directors, Supervisors and Senior Management

Pursuant to the resolutions passed at the 2019 first extraordinary general meeting of the Bank, Mr. Tingjie Zhang was newly elected as an independent non-executive director, and the qualification of Mr. Tingjie Zhang as an independent non-executive director was approved by the Qingdao Office of CBIRC in February 2020, and he began to perform his duties at the same time. Mr. Wong Tin Yau, Kelvin, a former independent non-executive director, ceased to be the independent non-executive director since February 2020.

Pursuant to the resolutions passed at the 2019 first extraordinary general meeting of the Bank, Mr. He Liangjun was newly elected as a shareholder supervisor in October 2019. Ms. Chen Qing retired since July 2019. Mr. Zhang Lanchang, a former shareholder supervisor, ceased to be the shareholder supervisor since May 2019. Mr. Wang Jianhua, a former external supervisor, ceased to be the external supervisor since March 2019.

During the Reporting Period, pursuant to the resolutions passed at the 26th meeting of the seventh session of the Board, Mr. Liu Peng was newly appointed as the vice president, and the qualification of Mr. Liu Peng as the vice president was approved by the Qingdao Office of CBIRC on 30 October 2019, and he began to perform his duties at the same time. Mr. Yang Changde, the former vice president, ceased to be the vice president since 27 November 2019.

Save for the aforementioned matters, from the beginning of the Reporting Period to the date of this results announcement, there were no other changes in the directors, supervisors and senior management of the Bank.

4.5 Profits and Dividends

The Company's profit for the year ended 31 December 2019 and the Company's financial position as at the same date are set out in the section headed Financial Statements of this results announcement.

1. Pursuant to the relevant resolutions considered and passed at the 2018 annual general meeting on 17 May 2019, the Bank distributed to holders of A shares, whose names appeared on the A-share register of the Bank on 15 July 2019, and holders of H shares, whose names appeared on the H-share register of the Bank on 28 May 2019, dividends in cash for 2018 in an aggregate amount of RMB902,000,000 (tax inclusive), according to the dividend distribution plan to distribute a cash dividend of RMB2.00 per 10 shares (tax inclusive) on 16 July 2019.

2. On 23 August 2019, the chairman, the president and the secretary to the Board of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. for the Second Dividend Accruing Year to agree the dividend distribution plan for offshore preference shares. The Bank distributed a dividend in the total amount of US$73.5167 million for offshore preference shares at the initial dividend rate of 5.50%. Dividends shall be paid in cash, of which US$66.1650 million was paid to offshore preference shareholders and US$7.3517 million was withheld for income tax.

3. The Board has proposed to pay a final dividend in cash of RMB2.00 per 10 shares (tax inclusive) for the year ended 31 December 2019 to all ordinary shareholders of the Bank. The total cash dividends will be calculated based on the total number of the share capital as at the share registration date of the interest distribution. The dividend distribution plan will be submitted to the 2019 annual general meeting for consideration. In 2019, the Bank did not distribute bonus shares or increase share capital with provident fund.

   If the proposal is approved by the 2019 annual general meeting, the dividend will be distributed to holders of A shares and holders of H shares whose names appear on the register of members of the Bank at the close of business on their respective share registration date. The proposed dividends mentioned above will be denominated in RMB. Dividends to holders of A shares shall be paid in RMB, and dividends to holders of H shares shall be paid in Hong Kong dollars. The applicable exchange rate for dividends payable in Hong Kong dollars shall be the average of the central parity rates of RMB to Hong Kong dollars in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the 2019 annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China. The register of members of the Bank will be closed from Wednesday, 13 May 2020 to Monday, 18 May 2020 (both days inclusive), during such period no transfer of H shares will be registered. In order to be entitled to the 2019 final dividend distribution, holders of H shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents together with the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 12 May 2020.

   The Board proposes to distribute the final dividends for 2019 on or before Thursday, 2 July 2020. If there are any changes to the expected dividend payment date, an announcement will be published regarding such changes.

4.6 2019 Annual General Meeting and Closure of Register of Members

The Bank's 2019 annual general meeting is proposed to be held on Thursday, 7 May 2020. In order to determine the list of holders of H shares who are entitled to attend and vote at the 2019 annual general meeting, the H share register of members of the Bank will be closed from Tuesday, 7 April 2020 to Thursday, 7 May 2020 (both days inclusive), during such period no share transfer will be registered. Holders of H shares of the Bank who intend to attend and vote at the annual general meeting must lodge all the transfer documents accompanied by the relevant share certificates with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 6 April 2020.

4.7 Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, the Company had not purchased, sold or redeemed any listed securities of the Company.

4.8 Changes in Accounting Policies and Accounting Estimates or Correction of Significant Accounting Errors

During the Reporting Period, there was no correction of significant accounting errors of the Company. Since 1 January 2019, the Company has adopted certain revised accounting standards. For details, please refer to Note 2(2) "Changes in accounting policies" to the financial statements in this results announcement.

4.9 Review of Annual Results

KPMG Huazhen LLP and KPMG audited the 2019 annual financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises and International Financial Reporting Standards respectively, and issued unqualified auditor's reports. The audit committee of the Board has reviewed the annual results and the financial statements of the Company for the year ended 31 December 2019.

KPMG is Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance.

4.10 Subsequent Events after the Reporting Period

The Bank received the "Approval on the Establishment of Qingyin Wealth Management Company Limited by China Banking and Insurance Regulatory Commission" (Yin Bao Jian Fu [2020] No. 77) in February 2020, pursuant to which the Bank was approved to establish Qingyin Wealth Management Company Limited ("**Qingyin Wealth Management**"). Qingyin Wealth Management is established solely by the Bank with the proposed registered capital of RMB1 billion. After completion of the establishment, the Bank will apply to the Qingdao Office of CBIRC for commencement of business in accordance with relevant requirements and procedures.

SECTION 5 INDEPENDENT AUDITOR'S REPORT

to the shareholders of Bank of Qingdao Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of Bank of Qingdao Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 93 to 198, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants issued by International Ethics Standards Board for Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

1. Loss allowances of loans and financial investments measured at amortized cost

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

The Key Audit Matter

The Group uses the expected credit loss model to determinate loss allowances of financial assets in accordance with the International Financial Reporting Standards 9, *Financial Instruments*.

The determination of loss allowances of loans and financial investments using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.

How the matter was addressed in our audit

Our audit procedures to assess loss allowances of loans and financial investments measured at amortized cost included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and financial investments measured at amortized cost, the credit grading process and the measurement of provisions for impairment.

- with the assistance of our internal specialists in financial risk management, assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments.

1. Loss allowances of loans and financial investments measured at amortized cost

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

The Key Audit Matter

In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial investments measured at amortised cost are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.

Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held a collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period.

How the matter was addressed in our audit

- assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial investment list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources.

- for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development.

1. Loss allowances of loans and financial investments measured at amortized cost

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

The Key Audit Matter

We identified the impairment of loans and advances to customers and financial investments measured at amortized cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Group.

How the matter was addressed in our audit

- for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information and the operational process of the credit grading of corporate customers for selected samples.

- evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation with reference to other borrowers with potential credit risk. We checked loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses.

1. Loss allowances of loans and financial investments measured at amortized cost

Refer to the accounting policies in note 2(5), and note 19 and note 22 to the financial statements.

The Key Audit Matter	How the matter was addressed in our audit
	• for selected samples of loans and advances to customers that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms. • recalculating the amount of credit loss allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans and investments where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively. • assessing whether the disclosures in the consolidated financial statement in relation to impairment of loans and financial investments measured at amortized cost meet the requirements in the prevailing accounting standards.

2. Assessment of fair value of financial instruments

Refer to the accounting policies in note 2(5), and note 45 to the financial statements.

The Key Audit Matter

Financial instruments carried at fair value account for a significant part of the Group's assets and liabilities. The changes in fair value may affect profit or loss or other comprehensive income. The Group mainly holds level 2 and level 3 financial instruments measured at fair value.

The valuation of financial instruments measured at fair value of the Group is based on a combination of market data and valuation models which often require a considerable number of inputs. As in the case of level 2 financial instruments measured at fair value, the inputs of valuation models are mainly observable data. As in the case of level 3 financial instruments measured at fair value, where such observable data is not readily available, estimates need to be developed which can involve significant management judgment.

The Group has developed its own models to value certain level 2 and level 3 financial instruments measured at fair value, which also involves significant management judgment.

We have identified assessment of the fair value of financial instruments as a key audit matter because of the complexity involved in valuing certain financial instruments and the significant judgment exercised by management in determining the inputs used in the valuation models.

How the matter was addressed in our audit

Our audit procedures to assess the fair value of financial instruments included the following:

- Understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments.

- performing, on a sample basis, independent valuations of level 2 and level 3 financial instruments measured at fair value and comparing these valuations with the valuations of the Group. Our procedures included comparing the valuation models of the Group with our knowledge of practice, testing inputs to the fair value calculations or, with the assistance of our internal specialists in financial risk management, establishing our own valuation models to perform revaluations.

- assessing whether the disclosures in the consolidated financial statement appropriately reflect the exposure to financial instrument valuation risk and meet the requirements of the prevailing accounting standards.

3. Consolidation of structured entities

Refer to the accounting policies in note 2(27), and note 47 to the financial statements.

The Key Audit Matter

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an asset management plan, a trust plan, an asset-backed security or an investment fund.

In determining whether the Group should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions.

How the matter was addressed in our audit

Our audit procedures to assess the consolidation of structured entities included the following:

- understanding and assessing the design and implementation of key internal controls of financial reporting over consolidation of structured entities.

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

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

3. Consolidation of structured entities

Refer to the accounting policies in note 2(27), and note 47 to the financial statements.

The Key Audit Matter	How the matter was addressed in our audit
We identified the consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.	– reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity. – reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity. – assessing management's judgement over whether the structured entity should be consolidated or not. • assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

Other information

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Lok Man.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

20 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**2019**	2018
Interest income		**14,515,004**	11,886,901
Interest expense		**(7,668,949)**	(7,422,872)
Net interest income	*3*	**6,846,055**	4,464,029
Fee and commission income		**1,346,116**	943,582
Fee and commission expense		**(129,236)**	(77,825)
Net fee and commission income	*4*	**1,216,880**	865,757
Net trading gains	*5*	**152,464**	410,807
Net gains arising from investments	*6*	**1,380,437**	1,617,354
Other operating income	*7*	**26,273**	6,891
Operating income		**9,622,109**	7,364,838
Operating expenses	*8*	**(3,166,762)**	(2,505,650)
Credit losses	*11*	**(3,626,792)**	(2,383,172)
Profit before taxation		**2,828,555**	2,476,016
Income tax expense	*12*	**(493,033)**	(432,627)
Net profit for the year		**2,335,522**	2,043,389
Profit attributable to:			
Equity shareholders of the Bank		**2,284,815**	2,023,352
Non-controlling interests		**50,707**	20,037
Basic and diluted earnings per share (in RMB)	*13*	**0.39**	0.37

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**2019**	2018
Net profit for the year		**2,335,522**	2,043,389
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability		**(1,650)**	(2,498)
Items that may be reclassified subsequently to profit or loss			
– Changes in fair value of debt investments measured at fair value through other comprehensive income	*39(4)*	**63,549**	996,848
– Credit losses of debt investments measured at fair value through other comprehensive income	*39(4)*	**43,138**	22,014
Other comprehensive income, net of tax		**105,037**	1,016,364
Total comprehensive income		**2,440,559**	3,059,753
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**2,389,852**	3,039,716
Non-controlling interests		**50,707**	20,037

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**31 December 2019**	31 December 2018
Assets			
Cash and deposits with central bank	*14*	**39,704,840**	29,554,430
Deposits with banks and other financial institutions	*15*	**1,312,468**	1,542,437
Placements with banks and other financial institutions	*16*	**3,313,603**	4,110,464
Derivative financial assets	*17*	**12,436**	-
Financial assets held under resale agreements	*18*	**2,325,771**	300,262
Loans and advances to customers	*19*	**169,158,291**	123,366,891
Financial investments:			
– Financial investments measured at fair value through profit or loss	*20*	**22,912,561**	22,361,816
– Financial investments measured at fair value through other comprehensive income	*21*	**54,973,781**	53,002,751
– Financial investments measured at amortised cost	*22*	**64,491,058**	70,032,056
Long-term receivables	*24*	**9,037,819**	7,766,698
Property and equipment	*25*	**3,048,813**	3,124,355
Right-of-use assets	*26*	**818,928**	Not applicable
Deferred tax assets	*27*	**1,581,905**	1,152,778
Other assets	*28*	**929,876**	1,343,564
Total assets		**373,622,150**	317,658,502
Liabilities			
Borrowings from central bank	*29*	**5,536,650**	10,878,835
Deposits from banks and other financial institutions	*30*	**16,462,527**	11,632,982
Placements from banks and other financial institutions	*31*	**9,916,257**	7,207,066
Derivative financial liabilities	*17*	**8,805**	-
Financial assets sold under repurchase agreements	*32*	**16,027,082**	14,850,333
Deposits from customers	*33*	**215,425,403**	177,911,247
Income tax payable		**187,027**	13,174
Debt securities issued	*34*	**76,858,899**	65,240,507
Lease liabilities	*35*	**427,429**	Not applicable
Other liabilities	*36*	**2,294,153**	2,427,634
Total liabilities		**343,144,232**	290,161,778

	Note	**31 December 2019**	31 December 2018
Equity			
Share capital	*37*	**4,509,690**	4,058,713
Other equity instrument			
Including: preference shares	*38*	**7,853,964**	7,853,964
Capital reserve		**8,337,869**	6,826,276
Surplus reserve	*39(2)*	**1,626,662**	1,403,575
General reserve	*39(3)*	**4,400,258**	3,969,452
Other comprehensive income	*39(4)*	**658,230**	553,193
Retained earnings	*40*	**2,528,787**	2,319,800
Total equity attributable to equity shareholders of the Bank		**29,915,460**	26,984,973
Non-controlling interests		**562,458**	511,751
Total equity		**30,477,918**	27,496,724
Total liabilities and equity		**373,622,150**	317,658,502

Approved and authorised for issue by the board of directors on 20 March 2020.

Guo Shaoquan
Legal Representative (Chairman)

Wang Lin
President

Yang Fengjiang
Vice President in charge of finance function

Meng Dageng
Head of the Planning & Finance Department

(Company Stamp)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank									
	Note	Share capital	Other equity instrument	Capital reserve *Note 39(1)*	Surplus reserve *Note 39(2)*	General reserve *Note 39(3)*	Other comprehensive income *Note 39(4)*	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2019		**4,058,713**	**7,853,964**	**6,826,276**	**1,403,575**	**3,969,452**	**553,193**	**2,319,800**	**26,984,973**	**511,751**	**27,496,724**
Profit for the year		–	–	–	–	–	–	**2,284,815**	**2,284,815**	**50,707**	**2,335,522**
Other comprehensive income		–	–	–	–	–	**105,037**	–	**105,037**	–	**105,037**
Total comprehensive income		–	–	–	–	–	**105,037**	**2,284,815**	**2,389,852**	**50,707**	**2,440,559**
Ordinary shares insurance		**450,977**	–	**1,511,593**	–	–	–	–	**1,962,570**	–	**1,962,570**
Appropriation of profit:											
– Appropriation to surplus reserve	*40*	–	–	–	**223,087**	–	–	**(223,087)**	–	–	–
– Appropriation to general reserve	*40*	–	–	–	–	**430,806**	–	**(430,806)**	–	–	–
– Cash dividends	*40*	–	–	–	–	–	–	**(1,421,935)**	**(1,421,935)**	–	**(1,421,935)**
Balance at 31 December 2019		**4,509,690**	**7,853,964**	**8,337,869**	**1,626,662**	**4,400,258**	**658,230**	**2,528,787**	**29,915,460**	**562,458**	**30,477,918**
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(885,449)	2,603,573	25,629,854	493,355	26,123,209
Changes in accounting policies		–	–	–	–	–	422,278	(791,031)	(368,753)	(1,641)	(370,394)
Balance at 1 January 2018		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(463,171)	1,812,542	25,261,101	491,714	25,752,815
Profit for the year		–	–	–	–	–	–	2,023,352	2,023,352	20,037	2,043,389
Other comprehensive income		–	–	–	–	–	1,016,364	–	1,016,364	–	1,016,364
Total comprehensive income		–	–	–	–	–	1,016,364	2,023,352	3,039,716	20,037	3,059,753
Appropriation of profit:											
– Appropriation to surplus reserve	*40*	–	–	–	200,250	–	–	(200,250)	–	–	–
– Cash dividends	*40*	–	–	–	–	–	–	(1,315,844)	(1,315,844)	–	(1,315,844)
Balance at 31 December 2018		4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,319,800	26,984,973	511,751	27,496,724

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	2019	2018
Cash flows from operating activities		
Profit before taxation	**2,828,555**	2,476,016
Adjustments for:		
Credit losses	**3,626,792**	2,383,172
Depreciation and amortisation	**409,659**	408,470
Unrealised foreign exchange gains	**(143,159)**	(409,824)
Net losses on disposal of property and equipment, intangible assets and other assets	**777**	502
(Gains)/losses from changes in fair value	**(228,383)**	303,689
Dividend income	**(1500)**	(1,100)
Net gains arising from investment	**(1,148,597)**	(1,919,943)
Interest expense on debt securities issued	**2,588,388**	2,446,785
Interest income from financial investment	**(5,400,084)**	(5,336,522)
Others	**(56,571)**	(55,559)
	2,475,877	295,686
Changes in operating assets		
Net decrease in deposits with central bank	**1,385,277**	206,409
Net decrease/(increase) in deposits with banks and other financial institutions	**200,000**	(200,000)
Net decrease/(increase) in placements with banks and other financial institutions	**1,061,906**	(3,495,258)
Net increase in loans and advances to customers	**(48,460,968)**	(30,127,157)
Net (increase)/decrease in financial assets held under resale agreements	**(2,026,600)**	3,284,200
Net increase in long-term receivables	**(1,386,300)**	(3,688,670)
Net increase in other operating assets	**(296,162)**	(384,261)
	(49,522,847)	(34,404,737)
Changes in operating liabilities		
Net (decrease)/increase in borrowings from central bank	**(5,271,556)**	10,194,795
Net increase/(decrease) in deposits from banks and other financial institutions	**4,784,097**	(13,349,239)
Net increase in placements from banks and other financial institutions	**2,726,981**	1,330,560
Net increase in financial assets sold under repurchase agreements	**1,179,371**	2,946,548
Net increase in deposits from customers	**37,115,060**	15,592,066
Income tax paid	**(659,446)**	(884,309)
Net increase/(decrease) in other operating liabilities	**166,728**	(2,575,850)
	40,041,235	13,254,571
Net cash flows used in operating activities	**(7,005,735)**	(20,854,480)

	Note	2019	2018
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		**52,477,166**	90,679,422
Net cash received from investment gains and interest		**6,484,979**	6,690,448
Proceeds from disposal of property and equipment, intangible assets and other assets		**26,955**	4,878
Payments on acquisition of investments		**(48,872,103)**	(68,108,476)
Payments on acquisition of property and equipment, intangible assets and other assets		**(301,351)**	(276,737)
Net cash flows generated from in investing activities		**9,815,646**	28,989,535
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**1,962,570**	–
Net proceeds from debt securities issued	*41(2)*	**83,798,288**	96,917,942
Repayment of debt securities issued	*41(2)*	**(74,130,000)**	(102,440,000)
Interest paid on debt securities issued	*41(2)*	**(638,284)**	(775,930)
Dividends paid		**(1,420,742)**	(1,319,008)
Payment of lease liabilities		**(96,505)**	–
Net cash flows generated/(used in) from financing activities		**9,475,327**	(7,616,996)
Effect of foreign exchange rate changes on cash and cash equivalents		**3,329**	15,793
Net increase in cash and cash equivalents		**12,288,567**	533,852
Cash and cash equivalents as at 1 January		**10,212,182**	9,678,330
Cash and cash equivalents as at 31 December	*41(1)*	**22,500,749**	10,212,182
Net cash flows generated from operating activities include:			
Interest received		**9,309,374**	6,693,776
Interest paid		**(4,724,436)**	(4,793,050)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Bank of Qingdao Co., Ltd. (the "Bank"), formerly known as Qingdao City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on 15 November 1996 with the approval of the People's Bank of China (the "PBOC") according to the notices YinFu [1996] No. 220 "Approval upon the Preparing of Qingdao City Cooperative Bank" and YinFu [1996] No.353 "Approval upon the Opening of Qingdao City Cooperative Bank".

The Bank changed its name from Qingdao City Cooperative Bank Co., Ltd. to Qingdao City Commercial Bank Co., Ltd. in 1998 according to LuyinFu [1998] No. 76 issued by Shandong Branch of the PBOC. The Bank changed its name from Qingdao City Commercial Bank Co., Ltd. to Bank of Qingdao Co., Ltd. in 2008 according to YinJianFu [2007] No.485 issued by the formerly China Banking Regulatory Commission (the "CBRC").

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the former CBRC. The Bank obtained its business license with a unified social credit code 91370200264609602K from the Administration for Industry and Commerce of Qingdao City, and the registered office is located at Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the People's Republic of China (the "PRC"). In December 2015, the Bank's H-shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 3866). In January 2019, the Bank's A-shares were listed on the SME Board of Shenzhen Stock Exchange (Stock code: 002948). The share capital of the Bank is RMB4.510 billion as at 31 December 2019.

The Bank has 14 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi, Jining and Taian as at 31 December 2019. The principal activities of the Bank and its subsidiary (collectively the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing and other services as approved by the regulatory authority. The background information of subsidiary refers to Note 23. The Bank mainly operates in Shandong Province.

For the purpose of this report, Mainland China excludes the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and related interpretations, issued by the International Accounting Standards Board (the "IASB"), as well as with the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousands, which is the functional currency of the Group.

The preparation of the 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, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(27).

The measurement basis used in the preparation of financial statements is historical cost, with the exception of certain financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(5).

(2) Changes in accounting policies

The Group has initially adopted IFRS 16 *Lease* ("IFRS 16") from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

The Group does not adopt any issued but not yet effective international financial reporting standards, interpretation and amendments.

The main effects of adopting IFRS16 in this report are as follows:

IFRS 16 refines the definition of a lease, and the Group assesses whether the contract is or contains a lease in accordance with the lease definition in IFRS 16. For contracts existed before the date of initial application, the Group has elected not to reassess whether a contract is or contains a lease at the date of initial application and surplus.

(a) The Group as the lessee

Under International Accounting Standards No.17 – Lease ("IAS 17"), the Group classifies leases as operating or finance leases based on its assessment of whether the lease transfers significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group.

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases. The Group recognises right-of-use assets and lease liabilities for all leases (except for short-term leases and leases of low-value assets which are accounted for using practical expedient).

For a contract that contains lease and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group has elected to recognise the cumulative effect of adopting IFRS 16 as an adjustment to the opening balances of retained earnings (if any) and other related items in the financial statement in the initial year of application. Comparative information has not been restated.

For leases classified as operating leases before the date of initial application, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. Right-of-use assets are measured at:

– An amount equal to the lease liability, adjusted by the amount of any prepaid lease payments. The Group applied this approach to all leases.

The Group uses the following practical expedients to account for leases classified as operating leases before the date of initial application:

– Accounted for the leases for which the lease term ends within 12 months of the date of initial application as short-term leases;

– Applied a single discount rate to leases with similar characteristics when measuring lease liabilities;

– Excluded initial direct costs from measuring the right-of-use assets;

– Determined the lease term according to the actual implementation or other updates of options before the date of initial application if the contract contains options to extend or terminate the lease;

– Adjusted the right-of-use assets by the amount of onerous contract before the date of initial application, as an alternative to an impairment review;

– Accounted for lease modifications before the initial year of application according to the final arrangement of the change under IFRS 16 without retrospective adjustments.

(b) The Group as the lessor

The Group does not need to adjust the opening balance of retained earnings and the amount of other items in the financial statements at the beginning of the year that initially applying IFRS 16 for leases that the Group is the lessor. The Group performs accounting treatments under IFRS 16 for the date of initial application.

The Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component

(c) Effects on the financial statements arising from the adoption of IFRS 16 as at 1 January 2019

The Group recognized the lease liability of RMB459 million and the right-of-use asset of RMB897 million. Based on the cumulative effect on the date of initial application, the Group adjusted the opening retained earnings on the date of initial application while the information during the comparative period is not adjusted. The Group chose to measure the right-of-use assets in the balance of the lease liability, and made adjustments based on prepaid lease payment or provisions for lease payment related to the lease and included in the statement of financial position on the date of initial application. Changes in the standards have no effect on the opening retained earnings.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 3.91%.

	The Group
Outstanding minimum lease payments of significant operating leases disclosed in the consolidated financial statements as at 31 December 2018	519,427
Present value discounted with the Group's incremental borrowing rate on 1 January 2019	444,751
Lease liabilities on 1 January 2019 under IFRS 16	458,964
Difference between the above discounted present value and the lease liabilities	(14,213)

Note: The difference between the above discounted present value and the lease liabilities contains the present value of lease payment using practical expedient and the present value of lease payment with extension options reasonably certain to be exercised.

On 1 January 2019, the impact of IFRS 16 on the classification and carrying amount of assets and liabilities of the Group is as follows:

	31 December 2018	**1 January 2019**	Adjustment
Right-of-use assets	–	**896,765**	896,765
Other assets	1,343,564	**905,763**	(437,801)
Lease liabilities	–	**(458,964)**	(458,964)

(3) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates ruling at the transaction dates.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, such as the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the exchange rates ruling at the dates the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of equity instrument at fair value through other comprehensive income, which are recognised in other comprehensive income.

(4) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(5) Financial instruments

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

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

A financial assets (unless it is a trade receivable without a significant financing component) and financial liabilities is measured initially at fair value. For financial assets and financial liabilities measured 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. A trade receivable without a significant financing component is initially measured at the transaction price.

Measurement of fair value

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 shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date (including the condition and location of the asset; and restrictions, if any, on the sale or use of the asset, etc.), and use valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. The adopted valuation techniques mainly include market approach, income approach and cost approach.

(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, at fair value through other comprehensive income ("FVOCI"), or 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 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 financial liabilities measured at FVTPL, financial guarantee liabilities and financial liabilities measured at 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 guarantee liabilities

Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Subsequent to initial recognition, deferred income related to financial guarantee is recognised on average in profit or loss during the term of the contract. A financial guarantee liability is measured at the higher of the amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Notes 2(5)(iv)) and the amount initially recognised less the cumulative amount of income.

– Financial liabilities measured at amortised cost

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

(iv) Impairment

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

- financial assets measured at amortised cost;
- debt investments measured at FVOCI;
- lease receivables; and
- financial guarantee contracts issued and loan commitments, which are not measured at FVTPL.

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

Measurement of ECLs

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

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

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the date of statement of financial position (or a shorter period if the expected life of the instrument is less than 12 months).

The Group applies a 'three-stage model' for measuring ECL. For the measurement and segmentation of ECL of financial instruments of the Group, see Note 44(1) Credit risk.

Presentation of allowance for ECL

ECLs are remeasured at each date of statement of financial position to reflect changes in the financial instruments' credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

Write-off

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

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

(v) Offsetting

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

– The Group currently has a legally enforceable right to set off the recognised amounts; and

– The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(vi) Derecognition of financial assets and financial liabilities

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

– The Group's contractual rights to the cash flows from the financial asset expire;

– The financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or

– The financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

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

– The carrying amount of the financial asset transferred measured at the date of derecognition; and

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

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

Securitisation

As part of its operating 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. The Group continues to recognise the transferred assets to the extent of its continuing involvement and recognise related liabilities. When the 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.

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.

(vii) Derivative financial instruments

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. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

An embedded derivative and the host contract together form the hybrid instrument. If the host contract included in the hybrid instrument belongs to a financial asset, the hybrid contract as a whole applies the relevant classification requirements of financial assets.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss.

The fair values of derivative products are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves.

(viii) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognized 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 pf 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 recognized in capital reserve (share premium); otherwise, the shortfall is deducted against capital reserve (share premium), surplus reserve and retained earnings sequentially.

(ix) Preference share

At initial recognition, the Group classifies the preference shares 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 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 are redeemed according to the contractual terms, the redemption price is charged to equity.

(6) Financial assets held under resale and repurchase agreements (including securities borrowing and lending)

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are recognised and measured in the statements of financial position in accordance with the accounting policy set out in Note 2(5).

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are recognised and measured in accordance with the accounting policy set out in Note 2(5).

Interest earned on resale agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

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.

(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) Property and equipment

Property and equipment are tangible assets held by the Group for operation and administration purposes with useful lives over one year.

The cost of a purchased property and equipment asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns, each part is depreciated separately.

Any subsequent costs including the cost of replacing part of an item of property and equipment 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 servicing of property and equipment are recognised in profit or loss as incurred.

Property and equipment assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Note 2(13)).

The cost of a property and equipment, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the fixed asset is classified as held for sale. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

	Estimated useful lives	**Estimated net residual value**	**Annual depreciation rate**
Premises	20 – 50 years	3% – 5%	1.90% – 4.85%
Machinery equipment and others	5 – 10 years	3% – 5%	9.50% – 19.40%
Vehicles	5 years	3% – 5%	19.00% – 19.40%
Electronic equipment	3 – 7 years	3% – 5%	13.57% – 32.33%
Premises leased out under operating leases	20 – 50 years	3% – 5%	1.90% – 4.85%

Useful lives, residual values and depreciation methods of property and equipment are reviewed, and adjusted if appropriate, at least at each financial year end.

The carrying amount of a property and equipment is derecognised:

– When the property and equipment 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 property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

(9) Assets held for sale

The Group classified a non-current asset or disposal group as held for sale when the carrying amount of a non-current asset or disposal group will be recovered through a sale transaction rather than through continuing use.

A disposal group refers to a group of assets to be disposed of, by sale or otherwise, together as a whole in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.

A non-current asset or disposal group is classified as held for sale when all the following criteria are met:

– According to the customary practices of selling such asset or disposal group in similar transactions, the non-current asset or disposal group must be available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups; and

– Its sale is highly probable, that is, the Group has made a resolution on a sale plan and has obtained a firm purchase commitment. The sale is to be completed within one year.

Non-current assets or disposal groups held for sale are stated at the lower of carrying amount and fair value (see Note 2(27)(ii)) less costs to sell (except financial assets (see note 2(5)), deferred tax assets (see note 2(15)) initially and subsequently. Any excess of the carrying amount over the fair value (see Note 2(27)(ii)) less costs to sell is recognised as an impairment loss in profit or loss.

(10) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated in the statements of financial position at cost less accumulated amortisation and impairment losses (see Note 2(13)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives, unless the intangible asset is classified as held for sale

The amortisation period for intangible assets is as follows:

Software	3 – 10 years

(11) Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the expected benefit period and stated in "other assets" at actual cost less accumulated amortisation and impairment losses (see Note 2(13)).

(12) Repossessed assets

Repossessed assets are initially accounted 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.

(13) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the reporting period based on the internal and external sources of information to determine whether there is any indication of impairment:

– property and equipment

– right-of-use assets

– intangible assets

– investments in subsidiaries, associates and joint ventures

– long-term deferred expenses, etc.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A Cash-Generating Unit (the "CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the greater of its fair value less costs of disposal and value in use.

An asset's fair value less costs of disposal is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The value in use 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 if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss 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, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment is recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(14) Employee benefits

(i) 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 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.

(ii) 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 and unemployment insurance in the social insurance system established and managed by government organizations, and annuity plan. The Group makes contributions to basic pension insurance plans and unemployment insurance based on the applicable benchmarks and rates stipulated by the government. The Group established supplementary defined contribution – annuity plan in accordance with the national enterprise annuity policies. The contributions are recognised as liability, charged to profit or loss or recognised as part of the cost of related assets during the accounting period in which employees provide services.

(iii) Post-employment benefits – Defined benefit plans

In accordance with the projected unit credit method, the Group measures the obligations under defined benefit plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discount obligations under the defined benefit plans to determine the present value of the defined benefit liability.

The Group attributes benefit obligations under a defined benefit plan to periods of service provided by respective employees. Service cost and interest expense on the defined benefit liability are charged to profit or loss or recognised as part of the cost of assets, and remeasurements of defined benefit liability are recognised in other comprehensive income.

(iv) Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognise termination benefits in profit or loss at the earlier of:

- When the Group can no longer withdraw an offer of those benefits;

- When the Group has a specific, formal restructure plan involving payment of termination benefits, and the plan has started or been informed each affected party about the influence of the plan, therefore each party formed reasonable expectations.

(15) 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 the taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the end of the reporting period, current tax assets and liabilities are offset if the Group has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences 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 used.

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 tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the end of the reporting period, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end of the reporting period, deferred tax assets and liabilities are offset if all the following conditions are met:

– The taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

– They relate to income taxes levied by the same tax authority on either 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.

(16) Provisions and contingency

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; and

– 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.

(17) Fiduciary activities

The Group acts in fiduciary activities as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(18) Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders.

Revenue is recognised when the Group satisfies the performance obligation in the contract by transferring the control over relevant goods or services to the customers.

Where a contract has two or more performance obligations, the Group determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone selling prices. The Group recognises as revenue the amount of the transaction price that is allocated to each performance obligation.

(i) 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 amortized 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 does not include expected credit losses.

The Group recognises interest income based on the effective interest method. Interest income is calculated by applying the effective interest rate to the book value of financial assets, except for:

– 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

– Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated, in the subsequent period, by applying the effective interest rate to their amortised cost.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services which provides to the 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.

(a) The Group recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The customer controls the service provided by the Group in the course of performance; or
- The Group does not provide service with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

(b) In other cases, the Group recognises revenue at a point in time at which a customer obtains control of the promised services.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(19) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government 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 that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Grants related to income are government grants other than those related to assets. A government grant related to an asset is offset against the carrying amount of the related asset or recognised as deferred income and amortised to profit or loss over the useful life of the related asset on a reasonable and systematic manner. A grant that compensates the Group for cost, expenses or loss to be incurred in the future is recognised as deferred income and offset against the related expenses or recognised in profit or loss in the same periods in which the expenses are recognised. Or recognised in profit or loss or offset against the related expenses directly.

(20) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(21) Leases

The following leases related accounting policy applied to the year 2018.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(i) Operating leases

Lease payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent lease payments are recognised as expenses in the accounting period in which they are incurred.

(ii) Finance leases

When the Group is a lessor under finance lease, at the leasing commencement date, the minimum lease payments receivables and initial direct costs are recognised as finance lease receivables and any unguaranteed residual value is recognised at the same time. The difference between the sum of minimum lease payments receivables, initial direct costs, the unguaranteed residual value and their present value is accounted for as unearned finance income. The unearned finance income is amortised using the effective interest method over the lease period.

The following leases related accounting policy applied to the year 2019.

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.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

– The contract involves the use of an identified asset. An identified asset may be specified explicitly or implicitly specified in a contract and should be physically distinct, or capacity portion or other portion of an asset that is not physically distinct but it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from the use of the asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;

– The lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

– The lessee has the right to direct the use of the asset.

For a contract that contains more separate lease components, the lessee and the lessor separate lease components and account for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee and the lessor separate lease components from non-lease components. For a contract that contains lease and non-lease components, the lessee allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The lessor allocates the consideration in the contract in accordance with the accounting policy in Note 2(18).

(i) 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 initially measured at cost, which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is depreciated using the straight-line method. If the lessee is reasonably certain to exercise a purchase option by the end of the lease term, the right-of-use asset is depreciated over the remaining useful lives of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Impairment losses of right-of-use assets are accounted for in accordance with the accounting policy described in Note 2(13).

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.

A constant periodic rate is used to calculate the interest on the lease liability in each period during the lease term with a corresponding charge to profit or loss or included in the cost of assets where appropriate. Variable lease payments not included in the measurement of the lease liability is charged to profit or loss or included in the cost of assets where appropriate as incurred.

Under the following circumstances after the commencement date, the Group remeasures lease liabilities based on the present value of revised lease payments:

– There is a change in the amounts expected to be payable under a residual value guarantee;

– There is a change in future lease payments resulting from a change in an index or a rate used to determine those payments;

– There is a change in the assessment of whether the Group will exercise a purchase, extension or termination option, or there is a change in the exercise of the extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases in profit or loss or as the cost of the assets where appropriate using the straight-line method over the lease term.

(ii) 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.

When the Group is a sub-lessor, it assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies practical expedient described above, then it classifies the sub-lease as an operating 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 2(5). Variable lease payments not included in the measurement of net investment in the lease are recognised as income as they are earned.

Lease receipts from operating leases is recognised as income using the straight-line method 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. Variable lease payments not included in lease receipts are recognised as income as they are earned.

(22) Dividends

Dividends proposed in the profit appropriation plan which are authorised and declared after the end of the reporting period are not recognised as a liability at the end of the reporting period but disclosed separately in the notes.

(23) Related parties

The related parties of the Group include but are not limited to:

(i) A person, or a close member of that person's family, if that person:

(a) has significant influence over the Group; or

(b) is a member of the key management personnel of the Group.

(ii) An entity, if that entity:

(a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) has significant influence over the Group;

(c) controls an entity identified in (ii)(b);

(d) is controlled or jointly controlled by an entity identified in (ii)(b) and (ii)(c);

(e) is controlled or jointly controlled by a person identified in (i).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(24) 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.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding. Segment accounting policies are consistent with those for the consolidated financial statements.

(25) Subsidiaries and non-controlling interests

Subsidiaries are 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.

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 profits or loss arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

In the Bank's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(13)).

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank.

Non-controlling interests are presented in the consolidated statements 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 statements 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.

(26) Associates and joint ventures

An associate is an entity in which the Group or Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(13)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(5)).

(27) Significant accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Measurement of ECLs

The measurement of the ECLs for debt investments measured at amortized cost and measured at FVOCI, and loan commitments and financial guarantee contracts not measured at FVTPL, is subject to complex models and a number of assumptions about future economic conditions and credit conditions (for example, the possibility of customers defaulting and the resulting losses). For the descriptions of the inputs, assumptions and estimation techniques used in measuring ECLs, please refer to Note 44(1).

(ii) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, option pricing models, etc. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(iii) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reviewed periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will be available against which deductible temporary differences can be utilized.

(iv) ***Impairment of non-financial assets***

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the related operating income and expenses of the asset (the asset group) and discount rate to calculate the present value. All relevant materials which can be obtained are used for the estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumptions.

(v) ***Depreciation and amortisation***

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account their residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on the historical experiences of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

(vi) ***Determination of control over structured entities***

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement.

When assessing whether to control and consolidate structured entities, the Group considers several factors including the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management and other services, and the Group's exposure to variability of returns.

3 NET INTEREST INCOME

	2019	2018
Interest income arising from		
Deposits with central bank	**352,657**	372,106
Deposits with banks and other financial institutions	**13,005**	16,443
Placements with banks and other financial institutions	**257,712**	192,311
Loans and advances to customers		
– Corporate loans and advances	**4,917,025**	3,478,800
– Personal loans and advances	**2,382,842**	1,615,799
– Discounted bills	**386,911**	289,740
Financial assets held under resale agreements	**306,078**	250,380
Financial investments	**5,400,084**	5,336,522
Long-term receivables	**498,690**	334,800
Sub-total	**14,515,004**	11,886,901
Interest expense arising from		
Deposits from banks and other financial institutions	**(465,372)**	(752,819)
Placements from banks and other financial institutions	**(392,306)**	(388,629)
Deposits from customers	**(3,434,379)**	(2,985,319)
Financial assets sold under repurchase agreements	**(528,569)**	(561,802)
Debt securities issued	**(2,588,388)**	(2,446,785)
Others	**(259,935)**	(287,518)
Sub-total	**(7,668,949)**	(7,422,872)
Net interest income	**6,846,055**	4,464,029

Note:

(i) The above interest income and expense are related to financial instruments which are not measured at FVTPL.

4 NET FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income		
Wealth management service fees	**695,313**	486,879
Agency service fees	**339,855**	239,702
Custody and bank card service fees	**131,056**	34,716
Financial leasing service fees	**118,743**	114,702
Settlement fees	**41,057**	30,921
Others	**20,092**	36,662
Sub-total	**1,346,116**	943,582
Fee and commission expense	**(129,236)**	(77,825)
Net fee and commission income	**1,216,880**	865,757

5 NET TRADING GAINS

	Note	**2019**	2018
Net gains of foreign exchange and foreign exchange derivative financial instruments	*(i)*	**156,176**	407,921
Net gains from debt securities	*(ii)*	**2,579**	4,382
Net losses of non-foreign exchange derivative financial instruments		**(6,291)**	(1,496)
Total		**152,464**	410,807

Notes:

(i) Net gains of foreign exchange and foreign exchange derivative financial instruments include gains or losses from foreign exchange derivative financial instruments, the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into RMB, etc.

(ii) Net gains from debt securities mainly include gains or losses arising from the buying and selling of, and changes in the fair value of debt held for trading.

6 NET GAINS ARISING FROM INVESTMENTS

	2019	2018
Net gains on financial investments measured at FVTPL	**966,856**	1,503,953
Net gains on disposal of financial assets measured at FVOCI	**412,081**	112,301
Dividend income	**1,500**	1,100
Total	**1,380,437**	1,617,354

7 OTHER OPERATING INCOME

	2019	2018
Government grants	**17,071**	7,707
Rental income	**1,598**	1,835
Net losses on disposal of property and equipment, intangible assets and other assets	**(777)**	(502)
Others	**8,381**	(2,149)
Total	**26,273**	6,891

8 OPERATING EXPENSES

	2019	2018
Staff costs		
– Salaries, bonuses and allowances	**1,139,210**	907,718
– Social insurance and housing allowances	**111,196**	85,201
– Staff welfare expenses	**197,197**	123,240
– Staff education expenses	**28,798**	22,972
– Labor union expenses	**28,238**	18,378
– Post-employment benefits – defined contribution plans	**170,312**	138,262
– Supplementary retirement benefits	**16,590**	27,500
Sub-total	**1,691,541**	1,323,271
Property and equipment expenses		
– Depreciation and amortization	**409,659**	408,470
– Electronic equipment operating expenses	**134,455**	105,211
– Maintenance	**102,838**	90,995
Sub-total	**646,952**	604,676
Tax and surcharges	**101,186**	74,848
Other general and administrative expenses *(Note (i))*	**727,083**	502,855
Total	**3,166,762**	2,505,650

Note:

(i) Other general and administrative expenses include audit remunerations for auditors which amounted to RMB5.83 million for the year ended 31 December 2019 (2018: RMB3.71 million).

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax in respect of the directors and supervisors of the Bank during the reporting period are as follows:

	Year ended 31 December 2019					
Name	**Fees**	**Salaries**	**Discretionary bonuses**	**Contributions to pension schemes**	**Other benefits**	**Total emoluments before tax**
Executive directors						
GUO Shaoquan	–	1,144	1,183	194	298	2,819
WANG Lin	–	1,019	1,052	177	290	2,538
YANG Fengjiang	–	718	736	150	241	1,845
LU Lan	–	759	736	100	242	1,837
Non-executive directors						
ZHOU Yunjie	119	–	–	–	–	119
Rosario STRANO	–	–	–	–	–	–
TAN Lixia	119	–	–	–	–	119
Marco MUSSITA	–	–	–	–	–	–
DENG Youcheng	118	–	–	–	–	118
CHOI Chi Kin, Calvin	119	–	–	–	–	119
Independent non-executive directors						
WONG Tin Yau, Kelvin	182	–	–	–	–	182
CHEN Hua	188	–	–	–	–	188
DAI Shuping	182	–	–	–	–	182
Simon CHEUNG	181	–	–	–	–	181
FANG Qiaoling	206	–	–	–	–	206
Supervisors						
CHEN Qing	–	409	368	95	147	1,019
ZHANG Lanchang	39	–	–	–	–	39
WANG Dawei	–	488	983	137	236	1,844
MENG Xianzheng	–	417	710	130	212	1,469
WANG Jianhua	–	–	–	–	–	–
FU Changxiang	127	–	–	–	–	127
HU Yanjing	127	–	–	–	–	127
HE Liangjun	21	–	–	–	–	21
Total	1,728	4,954	5,768	983	1,666	15,099

	Year ended 31 December 2018					
Name	Fees	Salaries	Discretionary bonuses	Contributions to pension schemes	Other benefits	Total emoluments before tax
Executive directors						
GUO Shaoquan	–	1,047	1,292	412	257	3,008
WANG Lin	–	951	1,148	333	254	2,686
YANG Fengjiang	–	687	779	229	201	1,896
LU Lan	–	687	766	185	201	1,839
Non-executive directors						
ZHOU Yunjie	124	–	–	–	–	124
Rosario STRANO	–	–	–	–	–	–
WANG Jianhui	56	–	–	–	–	56
TAN Lixia	118	–	–	–	–	118
Marco MUSSITA	–	–	–	–	–	–
DENG Youcheng	56	–	–	–	–	56
CHOI Chi Kin, Calvin	118	–	–	–	–	118
Independent non-executive directors						
WANG Zhuquan	97	–	–	–	–	97
WONG Tin Yau, Kelvin	182	–	–	–	–	182
CHEN Hua	188	–	–	–	–	188
DAI Shuping	188	–	–	–	–	188
Simon CHEUNG	188	–	–	–	–	188
FANG Qiaoling	85	–	–	–	–	85
Supervisors						
CHEN Qing	–	687	780	229	257	1,953
ZHANG Lanchang	38	–	–	–	–	38
SUN Guoliang	43	–	–	–	–	43
WANG Dawei	–	312	410	96	103	921
MENG Xianzheng	–	266	322	82	112	782
SUN Jigang	–	151	90	58	28	327
XU Wansheng	–	147	90	53	28	318
WANG Jianhua	–	–	–	–	–	–
FU Changxiang	123	–	–	–	–	123
HU Yanjing	123	–	–	–	–	123
Total	1,727	4,935	5,677	1,677	1,441	15,457

Notes:

(1) The emoluments of non-executive directors ("NED"), independent non-executive directors ("INED"), shareholder supervisors and external supervisors were affected by the time of service during the reporting period. Directors and supervisors received emoluments since their assumption of duty until their departure. The changes in directors and supervisors in the year of 2019 and 2018 are as follows:

(i) In May 2018, Mr. WANG Dawei and Mr. MENG Xianzheng, employee supervisors of the Bank, began to assume their duty. Mr. SUN Jigang and Mr. XU Wansheng no longer served as employee supervisors of the Bank.

(ii) In May 2018, Mr. ZHANG Lanchang, shareholder supervisor of the Bank, began to assume his duty. Mr. SUN Guoliang no longer served as shareholder supervisor of the Bank.

(iii) In June 2018, Ms. FANG Qiaoling, INED of the Bank, began to assume her duty. Mr. WANG Zhuquan no longer served as INED of the Bank.

(iv) In June 2018, Mr. DENG Youcheng, NED of the Bank, began to assume his duty. Mr. WANG Jianhui no longer served as NED of the Bank.

(v) In March 2019, Mr. WANG Jianhua no longer served as external supervisor of the Bank.

(vi) In May 2019, Mr. ZHANG Lanchang no longer served as shareholder supervisor of the Bank.

(vii) In July 2019, Ms. CHEN Qing retired.

(viii) In October 2019, Mr. HE Liangjun, shareholder supervisor of the Bank, began to assume his duty.

(2) The emoluments of Mr. Rosario STRANO, Mr. Marco MUSSITA and Mr. WANG Jianhua were waived with their authorization. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the reporting period.

(3) There were no amounts paid during the reporting period to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Bank or as inducement to join.

(4) The total compensation package for certain directors and supervisors for the year ended 31 December 2019 have not yet been finalized. The difference in emoluments is not expected to have any significant impact on the Group's financial statements for the year ended 31 December 2019.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2019, the five individuals with the highest emoluments included three directors and one supervisor of the Bank (2018: three directors and one supervisor), whose emoluments are disclosed in Note 9. The emoluments before individual income tax for the rest of the five highest paid individuals for the reporting period are as follows:

	2019	2018
Salaries and other emoluments	**959**	888
Discretionary bonuses	**736**	777
Contributions to pension schemes	**149**	221
Total	**1,844**	1,886

The individual whose emoluments before individual income tax are within the following bands is set out below:

	2019	2018
HKD nil-1,000,000	**–**	–
HKD 1,000,001-1,500,000	**–**	–
HKD 1,500,001-2,000,000	**–**	–
HKD 2,000,001-2,500,000	**1**	1

There were no amounts paid during the reporting period to any of these individuals in connection with their retirement from employment or as compensation for loss of office with the Group or as inducement to join.

11 CREDIT LOSSES

	2019	2018
Loans and advances to customers	**3,026,604**	2,213,707
Deposits with banks and other financial institutions	**(98)**	178
Placements with banks and other financial institutions	**4,945**	9,927
Financial assets held under resale agreements	**820**	(1,689)
Financial investments measured at amortised cost	**401,784**	87,746
Financial investments at FVOCI		
– debt instruments	**61,177**	26,963
Long-term receivables	**130,299**	64,512
Credit commitments	**(5,249)**	(36,086)
Others	**6,510**	17,914
Total	**3,626,792**	2,383,172

12 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	**2019**	2018
Current tax		**957,172**	716,442
Deferred tax	*27(2)*	**(464,139)**	(283,815)
Total		**493,033**	432,627

(2) Reconciliations between income tax and accounting profit are as follows:

	2019	2018
Profit before taxation	**2,828,555**	2,476,016
Statutory tax rate	**25%**	25%
Income tax calculated at statutory tax rate	**707,139**	619,004
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	**3,663**	3,560
– Annuity	**1,494**	3,764
– Others	**6,175**	7,284
Subtotal	**11,332**	14,608
Tax effect of non-taxable income for tax purpose *(Note (i))*	**(225,438)**	(200,985)
Income tax	**493,033**	432,627

Note:

(i) Non-taxable income consists of interest income from the PRC government bonds and local government bonds, and fund dividend income, which are exempt from income tax under the PRC tax regulations.

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

	Note	**2019**	2018
Weighted average number of ordinary shares (in thousands)	*13(1)*	**4,472,109**	4,058,713
Net profit attributable to equity shareholders of the Bank		**2,284,815**	2,023,352
Less：dividends on preference shares declared		**519,999**	504,096
Net profit attributable to ordinary shareholders of the Bank		**1,764,816**	1,519,256
Basic and diluted earnings per share (in RMB)		**0.39**	0.37

(1) Weighted average number of ordinary shares (in thousands)

	2019	2018
Number of ordinary shares as at 1 January	**4,058,713**	4,058,713
Increase in weighted average number of ordinary shares	**413,396**	–
Weighted average number of ordinary shares	**4,472,109**	4,058,713

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	**31 December 2019**	31 December 2018
Cash on hand		**520,460**	451,273
Deposits with central bank			
– Statutory deposit reserves	*14(1)*	**19,327,597**	20,808,743
– Surplus deposit reserves	*14(2)*	**19,723,270**	8,256,128
– Fiscal deposits		**122,862**	26,992
Sub-total		**39,173,729**	29,091,863
Accrued interest		**10,651**	11,294
Total		**39,704,840**	29,554,430

(1) **The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:**

	31 December 2019	31 December 2018
Reserve ratio for RMB deposits	**9.5%**	12.0%
Reserve ratio for foreign currency deposits	**5.0%**	5.0%

The statutory deposit reserves are not available for the Group's daily business.

(2) **The surplus deposit reserves are maintained with the PBOC mainly for the purpose of clearing.**

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
In Mainland China		
– Banks	**946,722**	1,239,298
– Other financial institutions	**9,079**	7,962
Outside Mainland China		
– Banks	**355,234**	285,941
Accrued interest	**2,008**	9,909
Sub-total	**1,313,043**	1,543,110
Less: Provision for impairment losses	**(575)**	(673)
Total	**1,312,468**	1,542,437

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
In Mainland China		
– Banks	**–**	233,486
– Other financial institutions	**3,247,840**	3,801,365
Accrued interest	**82,331**	87,236
Sub-total	**3,330,171**	4,122,087
Less: Provision for impairment losses	**(16,568)**	(11,623)
Total	**3,313,603**	4,110,464

17 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments held by the Group mainly include interest rate swaps, credit risk mitigation warrant, currency swaps and foreign exchange swaps, etc.

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Banks	**2,326,600**	–
– Other financial institutions	**–**	300,000
Accrued interest	**113**	384
Sub-total	**2,326,713**	300,384
Less: Provision for impairment losses	**(942)**	(122)
Total	**2,325,771**	300,262

(2) Analysed by type of security held

	31 December 2019	31 December 2018
Debt securities	**2,326,600**	300,000
Accrued interest	**113**	384
Sub-total	**2,326,713**	300,384
Less: Provision for impairment losses	**(942)**	(122)
Total	**2,325,771**	300,262

19 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	31 December 2019	31 December 2018
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	**112,036,804**	78,264,271
Sub-total	**112,036,804**	78,264,271
Personal loans and advances		
– Residential mortgage	**36,762,232**	30,229,094
– Personal consumption loans	**9,470,211**	3,827,588
– Personal business loans	**6,869,644**	5,836,058
– Others	**1,406,730**	1,457,234
Sub-total	**54,508,817**	41,349,974
Accrued interest	**772,480**	521,250
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month ECL	**(1,523,023)**	(1,276,373)
– lifetime ECL		
– not credit-impaired loans	**(1,177,375)**	(1,277,670)
– credit-impaired loans	**(1,709,234)**	(987,186)
Total provision for impairment losses	**(4,409,632)**	(3,541,229)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	**6,249,822**	6,772,625
Net loans and advances to customers	**169,158,291**	123,366,891

(2) Analysed by type of collateral (excluding accrued interest)

	31 December 2019	31 December 2018
Unsecured loans	**27,881,658**	15,753,945
Guaranteed loans	**46,794,567**	36,502,920
Loans secured by mortgages	**75,145,703**	54,738,421
Pledged loans	**22,973,515**	19,391,584
Gross loans and advances to customers	**172,795,443**	126,386,870

(3) Overdue loans analysed by overdue period (excluding accrued interest)

	31 December 2019				
	Overdue within three months (inclusive)	**Overdue more than three months to one year (inclusive)**	**Overdue more than one year to three years (inclusive)**	**Overdue more than three years**	**Total**
Unsecured loans	**63,393**	**18,294**	**1,604**	**199**	**83,490**
Guaranteed loans	**505,564**	**861,815**	**505,595**	**13,305**	**1,886,279**
Loans secured by mortgages	**142,134**	**180,941**	**56,667**	**145,939**	**525,681**
Total	**711,091**	**1,061,050**	**563,866**	**159,443**	**2,495,450**
As a percentage of gross loans and advances to customers	**0.41%**	**0.61%**	**0.33%**	**0.09%**	**1.44%**

	31 December 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	15,582	119,133	3,775	17,129	155,619
Guaranteed loans	2,055,750	1,057,182	467,798	36,332	3,617,062
Loans secured by mortgages	197,952	48,211	166,521	161,237	573,921
Pledged loans	2,500	4,714	–	–	7,214
Total	2,271,784	1,229,240	638,094	214,698	4,353,816
As a percentage of gross loans and advances to customers	1.80%	0.97%	0.50%	0.17%	3.44%

Overdue loans represent loans of which the whole or part of the principal or interest has been overdue for one day or more.

(4) Loans and advances and provision for impairment losses analysis

As at 31 December 2019 and 31 December 2018, the provision for impairment losses of loans and advances to customers are as follows:

(i) Provision for impairment losses of loans and advances to customers measured at amortised cost:

	31 December 2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired** *(Note (i))*	**Total**
Gross loans and advances to customers measured at amortised cost (including accrued interest)	**158,231,731**	**6,184,059**	**2,902,311**	**167,318,101**
Less: Provision for impairment losses	**(1,523,023)**	**(1,177,375)**	**(1,709,234)**	**(4,409,632)**
Net loans and advances to customers measured at amortised cost	**156,708,708**	**5,006,684**	**1,193,077**	**162,908,469**

	31 December 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired *(Note (i))*	Total
Gross loans and advances to customers measured at amortised cost (including accrued interest)	110,813,316	7,205,001	2,117,178	120,135,495
Less: Provision for impairment losses	(1,276,373)	(1,277,670)	(987,186)	(3,541,229)
Net loans and advances to customers measured at amortised cost	109,536,943	5,927,331	1,129,992	116,594,266

(ii) Provision for impairment losses on loans and advances to customers at FVOCI:

	31 December 2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired** *(Note (i))*	**Total**
Gross/net loans and advances to customers at FVOCI (including accrued interest)	**6,249,822**	**–**	**–**	**6,249,822**
Provision for impairment losses through other comprehensive income	**(12,917)**	**–**	**–**	**(12,917)**

	31 December 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired *(Note (i))*	Total
Gross/net loans and advances to customers at FVOCI (including accrued interest)	6,772,625	–	–	6,772,625
Provision for impairment losses through other comprehensive income	(16,577)	–	–	(16,577)

Note:

(i) The definitions of the credit-impaired financial assets are set out in Note 44(1) Credit risk.

(5) Movements of provision for impairment losses

Movements of the provision for impairment losses on loans and advances to customers are as follows:

(i) Movements of provision for impairment losses of loans and advances to customers measured at amortised cost are as follows:

	2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**1,276,373**	**1,277,670**	**987,186**	**3,541,229**
Transfer to				
– 12-month ECL	**18,848**	**(18,525)**	**(323)**	**–**
– Lifetime ECL				
– not credit-impaired loans	**(29,175)**	**29,175**	**–**	**–**
– credit-impaired loans	**(5,696)**	**(1,187,479)**	**1,193,175**	**–**
Charge for the year	**262,673**	**1,076,534**	**1,691,057**	**3,030,264**
Write-offs and transfer out	**–**	**–**	**(2,251,771)**	**(2,251,771)**
Recoveries of loans and advances written off	**–**	**–**	**146,481**	**146,481**
Other changes	**–**	**–**	**(56,571)**	**(56,571)**
As at 31 December 2019	**1,523,023**	**1,177,375**	**1,709,234**	**4,409,632**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	1,550,587	717,619	844,871	3,113,077
Transfer to				
– 12-month ECL	8,805	(8,216)	(589)	–
– Lifetime ECL				
– not credit-impaired loans	(61,501)	118,428	(56,927)	–
– credit-impaired loans	(22,913)	(236,336)	259,249	–
(Release)/Charge for the year	(198,605)	686,175	1,723,748	2,211,318
Write-offs and transfer out	–	–	(1,764,332)	(1,764,332)
Recoveries of loans and advances written off	–	–	36,725	36,725
Other changes	–	–	(55,559)	(55,559)
As at 31 December 2018	1,276,373	1,277,670	987,186	3,541,229

(ii) Movements of the provision for impairment losses on loans and advances to customers measured at FVOCI are as follows:

	2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**16,577**	**–**	**–**	**16,577**
Release for the year	**(3,660)**	**–**	**–**	**(3,660)**
As at 31 December 2019	**12,917**	**–**	**–**	**12,917**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	14,188	–	–	14,188
Charge for the year	2,389	–	–	2,389
As at 31 December 2018	16,577	–	–	16,577

The Group enters into securitization transactions in the normal course of business. See note 48(2) for details.

In addition, in 2019 and 2018, the Group transferred loans and advances to customers to independent third parties with principal amount of RMB105 million and RMB15 million respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB96 million and RMB17 million respectively.

20 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
Financial investments held for trading	**–**	–
Financial investments designated as at FVTPL	**–**	–
Other financial investments measured at FVTPL		
Debt investments issued by the following institutions in Mainland China		
– Banks and other financial institutions	**676,304**	206,985
– Corporate entities	**124,557**	30,295
Sub-total	**800,861**	237,280
Asset management plans	**9,240,047**	9,354,611
Investment funds	**9,008,256**	7,467,620
Trust fund plans	**2,829,424**	3,221,359
Wealth management products	**1,033,973**	2,080,946
Total	**22,912,561**	22,361,816
Unlisted	**22,912,561**	22,361,816

21 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	**31 December 2019**	31 December 2018
Debt securities issued by the following institutions in Mainland China			
– Government		**12,412,488**	7,116,493
– Policy banks		**4,776,962**	11,799,812
– Banks and other financial institutions		**8,027,292**	10,117,686
– Corporate entities		**20,848,475**	17,828,393
Sub-total		**46,065,217**	46,862,384
Asset management plans		**7,128,140**	5,062,908
Other investments		**705,543**	–
Equity investments	*21(1)*	**23,250**	23,250
Accrued interest		**1,051,631**	1,054,209
Total		**54,973,781**	53,002,751
Listed	*21(2)*	**11,739,536**	306,226
Of which: listed outside Hong Kong		**11,739,536**	306,226
Unlisted		**43,234,245**	52,696,525
Total		**54,973,781**	53,002,751

(1) The Group holds a number of unlisted equity investments. The Group designates them as financial investments at FVOCI, and the details are as follows:

	2019					
Investees	**Balance at the beginning of the year**	**Increase during the year**	**Decrease during the year**	**Balance at the end of the year**	**Percentage of shareholding in investees (%)**	**Cash dividend for the year**
China UnionPay Co., Ltd.	**13,000**	**–**	**–**	**13,000**	**0.34**	**1,500**
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	**10,000**	**–**	**–**	**10,000**	**2.15**	**–**
Clearing Center for City Commercial Banks	**250**	**–**	**–**	**250**	**0.81**	**–**
Total	**23,250**	**–**	**–**	**23,250**		**1,500**

	2018					
Investees	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	1,100
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		1,100

For the year ended 31 December 2019 and 31 December 2018, the Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings.

(2) Only includes bonds traded on stock exchanges.

(3) Movements of the provision for impairment losses on debt instruments of financial investments at FVOCI are as follows:

	2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**32,672**	**19,122**	**–**	**51,794**
Transfer to				
– Lifetime ECL				
– not credit-impaired	**(1,601)**	**1,601**	**–**	**–**
– credit-impaired	**–**	**(1,246)**	**1,246**	**–**
Charge for the year	**3,798**	**36,595**	**20,784**	**61,177**
As at 31 December 2019	**34,869**	**56,072**	**22,030**	**112,971**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	18,579	6,252	–	24,831
Transfer to				
– Lifetime ECL				
– not credit-impaired	(33)	33	–	–
Charge for the year	14,126	12,837	–	26,963
As at 31 December 2018	32,672	19,122	–	51,794

Provision for impairment losses on debt instruments of financial investments measured at FVOCI is recognised in other comprehensive income, and any impairment loss or gain is recognised in the profit or loss without decreasing the carrying amount of financial investments presented in the statement of financial position.

22 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	**31 December 2019**	31 December 2018
Debt securities issued by the following institutions in Mainland China			
– Government		**11,196,072**	9,431,022
– Policy banks		**13,143,054**	13,887,327
– Banks and other financial institutions		**11,288,474**	11,296,117
– Corporate entities		**2,475,729**	1,229,620
Sub-total		**38,103,329**	35,844,086
Asset management plans		**16,285,720**	23,529,175
Trust fund plans		**5,052,516**	4,850,229
Other investments		**4,800,000**	5,170,000
Accrued interest		**1,118,779**	1,106,068
Less: Provision for impairment losses	*22(1)*	**(869,286)**	(467,502)
Total		**64,491,058**	70,032,056
Listed	*22(2)*	**11,566,752**	1,114,690
Of which: listed outside Hong Kong		**11,566,752**	1,114,690
Unlisted		**52,924,306**	68,917,366
Total		**64,491,058**	70,032,056

(1) Movements of provision for impairment losses on financial investments measured at amortised cost are as follows:

	2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**398,696**	**68,806**	**–**	**467,502**
Transfer to				
– Lifetime ECL				
– not credit-impaired	**(15,581)**	**15,581**	**–**	**–**
Charge for the year	**98,184**	**303,600**	**–**	**401,784**
As at 31 December 2019	**481,299**	**387,987**	**–**	**869,286**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	379,756	–	–	379,756
Transfer to				
– Lifetime ECL				
– not credit-impaired	(2,335)	2,335	–	–
Charge for the year	21,275	66,471	–	87,746
As at 31 December 2018	398,696	68,806	–	467,502

(2) Only includes bonds traded on stock exchanges.

23 INVESTMENT IN SUBSIDIARY

	31 December 2019	31 December 2018
BQD Financial Leasing Company Limited	**510,000**	510,000

As at 31 December 2019 and 31 December 2018, the subsidiary is as follows:

Name	**Percentage of equity interest**	**Voting rights**	**Paid-in Capital** *(in thousands)*	**Amount invested by the Bank** *(in thousands)*	**Place of incorporation registration**	**Principal activities**
BQD Financial Leasing Company Limited	51.00%	51.00%	1,000,000	510,000	Qingdao, China	Financial leasing

Note: BQD Financial Leasing Company Limited was co-established by the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. on 15 February 2017, with a registered capital of RMB1.00 billion.

24 LONG-TERM RECEIVABLES

	31 December 2019	31 December 2018
Minimum finance lease receivables	**10,172,304**	8,636,534
Less: Unearned finance lease income	**(952,548)**	(803,079)
Present value of finance lease receivables	**9,219,756**	7,833,455
Accrued interest	**85,729**	70,610
Sub-total	**9,305,485**	7,904,065
Less: Provision for impairment losses		
– 12-month ECL	**(175,027)**	(137,367)
– Lifetime ECL		
– not credit-impaired	**(90,217)**	–
– credit-impaired	**(2,422)**	–
Net balance	**9,037,819**	7,766,698

Movements of the provision for impairment losses on long-term receivable are as follows:

	2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**137,367**	**–**	**–**	**137,367**
Transfer to				
– Lifetime ECL				
– not credit-impaired	**(10,629)**	**10,629**	**–**	**–**
– credit-impaired	**(224)**	**–**	**224**	**–**
Charge for the year	**48,513**	**79,588**	**2,198**	**130,299**
As at 31 December 2019	**175,027**	**90,217**	**2,422**	**267,666**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	72,855	–	–	72,855
Charge for the year	64,512	–	–	64,512
As at 31 December 2018	137,367	–	–	137,367

Minimum finance lease receivables, unearned finance lease income and present value of finance lease receivables analysed by remaining period are listed as follows:

	31 December 2019			31 December 2018		
	Minimum finance lease receivables	**Unearned finance lease income**	**Present value of finance lease receivables**	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Repayable on demand	**51,938**	**(5,227)**	**46,711**	–	–	–
Less than 1 year (inclusive)	**3,950,432**	**(480,408)**	**3,470,024**	3,787,333	(383,029)	3,404,304
1 year to 2 years (inclusive)	**3,243,597**	**(300,965)**	**2,942,632**	2,039,339	(224,104)	1,815,235
2 years to 3 years (inclusive)	**2,048,164**	**(125,549)**	**1,922,615**	1,577,474	(129,353)	1,448,121
3 years to 5 years (inclusive)	**865,077**	**(39,074)**	**826,003**	1,232,388	(66,593)	1,165,795
Indefinite	**13,096**	**(1,325)**	**11,771**	–	–	–
Total	**10,172,304**	**(952,548)**	**9,219,756**	8,636,534	(803,079)	7,833,455

25 PROPERTY AND EQUIPMENT

	Premises	**Electronic equipment**	**Vehicles**	**Machinery equipment and others**	**Construction in progress**	**Total**
Cost						
As at 1 January 2018	2,875,112	484,861	59,653	79,267	210,263	3,709,156
Increase	64,850	91,908	4,809	9,426	59,161	230,154
Decrease	(4,450)	(10,361)	(1,507)	(2,561)	(59,221)	(78,100)
As at 31 December 2018	2,935,512	566,408	62,955	86,132	210,203	3,861,210
Increase	9,741	67,981	5,480	7,022	–	90,224
Decrease	(27,405)	(17,213)	(3,887)	(6,018)	–	(54,523)
As at 31 December 2019	2,917,848	617,176	64,548	87,136	210,203	3,896,911
Accumulated depreciation						
As at 1 January 2018	(238,066)	(290,496)	(40,919)	(50,658)	–	(620,139)
Increase	(59,305)	(55,233)	(6,545)	(9,131)	–	(130,214)
Decrease	–	9,640	1,432	2,426	–	13,498
As at 31 December 2018	(297,371)	(336,089)	(46,032)	(57,363)	–	(736,855)
Increase	(60,336)	(62,421)	(5,455)	(8,614)	–	(136,826)
Decrease	–	16,186	3,692	5,705	–	25,583
As at 31 December 2019	(357,707)	(382,324)	(47,795)	(60,272)	–	(848,098)
Net book value						
As at 31 December 2019	2,560,141	234,852	16,753	26,864	210,203	3,048,813
As at 31 December 2018	2,638,141	230,319	16,923	28,769	210,203	3,124,355

As at 31 December 2019 and 31 December 2018, the Group did not have significant property and equipment which were temporarily idle.

As at 31 December 2019, the carrying amount of premises with incomplete title deeds of the Group was RMB12 million (31 December 2018: RMB1,714 million). Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

The net book values of premises at the end of the reporting period are analysed by the remaining terms of the land leases as follows:

	31 December 2019	31 December 2018
Held in Mainland China		
– Long-term leases (over 50 years)	**17,086**	17,476
– Medium-term leases (10 – 50 years)	**2,540,578**	2,618,001
– Short-term leases (less than 10 years)	**2,477**	2,664
Total	**2,560,141**	2,638,141

26 RIGHT-OF-USE ASSETS

	Premises	**Others**	**Total**
Cost			
As at 1 January 2019	892,651	4,114	896,765
Additions	46,566	–	46,566
Decrease	(213)	–	(213)
As at 31 December 2019	939,004	4,114	943,118
Accumulated amortisation			
As at 1 January 2019	–	–	–
Additions	(123,609)	(651)	(124,260)
Decrease	70	–	70
As at 31 December 2019	(123,539)	(651)	(124,190)
Net value			
As at 31 December 2019	815,465	3,463	818,928
As at 1 January 2019	892,651	4,114	896,765

27 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	31 December 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	**Deferred Income tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)
Provision for impairment losses	**6,435,256**	**1,608,814**	4,415,420	1,103,855
Deferred interest income from discounted bills	**85,700**	**21,425**	143,040	35,760
Change in fair value	**(549,020)**	**(137,255)**	(235,904)	(58,976)
Others	**355,684**	**88,921**	288,556	72,139
Total	**6,327,620**	**1,581,905**	4,611,112	1,152,778

(2) Analysed by movement

	Provision for Impairment losses	**Deferred interest income from discounted bills** *Note (i)*	**Change in fair value**	**Others** *Note (ii)*	**Total**
As at 1 January 2018	828,560	16,584	285,689	76,918	1,207,751
Recognised in profit or loss	282,633	19,176	(12,383)	(5,611)	283,815
Recognised in other comprehensive income	(7,338)	–	(332,282)	832	(338,788)
As at 31 December 2018	1,103,855	35,760	(58,976)	72,139	1,152,778
Recognised in profit or loss	519,338	(14,335)	(57,096)	16,232	464,139
Recognised in other comprehensive income	(14,379)	–	(21,183)	550	(35,012)
As at 31 December 2019	1,608,814	21,425	(137,255)	88,921	1,581,905

Notes:

(i) Pursuant to the requirement issued by the local tax authority, tax obligations arise when the Group receives discounted bills. The deductible temporary difference, which arises from the interest income recognised in profit or loss using the effective interest method, forms deferred tax assets.

(ii) Others mainly include supplementary retirement benefits accrued, contingent liabilities, and other accrued expenses, which are deductible against taxable income when actual payment occurs.

28 OTHER ASSETS

	Note	**31 December 2019**	31 December 2018
Intangible assets	*28(1)*	**194,243**	165,153
Long-term deferred expense		**186,590**	566,276
Prepayments		**167,775**	101,521
Precious metals		**113,223**	113,459
Interest receivable	*28(2)*	**16,825**	37,299
Repossessed assets *(Note (i))*		**111,345**	10,501
Deferred expense		**9,563**	53,718
Others		**131,317**	296,429
Sub-total		**930,881**	1,344,356
Less: Provision for impairment losses		**(1,005)**	(792)
Total		**929,876**	1,343,564

Note:

(i) Repossessed assets mainly included premises, etc. As at 31 December 2019 and 2018, there is no need to recognise provision for impairments losses of repossessed assets.

(1) Intangible assets

	2019	2018
Cost		
As at 1 January	**419,222**	382,281
Additions	**100,036**	36,941
Decrease	**(344)**	–
As at 31 December	**518,914**	419,222
Accumulated amortisation		
As at 1 January	**(254,069)**	(184,827)
Additions	**(70,651)**	(69,242)
Decrease	**49**	–
As at 31 December	**(324,671)**	(254,069)
Net value		
As at 31 December	**194,243**	165,153
As at 1 January	**165,153**	197,454

Intangible assets of the Group mainly include software.

(2) Interests receivable

	31 December 2019	31 December 2018
Interest receivable arising from:		
– Loans and advances to customers	**16,825**	37,299
Total	**16,825**	37,299

29 BORROWINGS FROM CENTRAL BANK

	31 December 2019	31 December 2018
Borrowings	**4,900,000**	10,000,000
Re-discounted bills	**607,454**	779,010
Accrued interest	**29,196**	99,825
Total	**5,536,650**	10,878,835

30 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
In Mainland China		
– Banks	**1,402,959**	3,590,947
– Other financial institutions	**14,933,833**	7,961,748
Accrued interest	**125,735**	80,287
Total	**16,462,527**	11,632,982

31 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
In Mainland China		
– Banks	**9,831,839**	6,761,699
Outside Mainland China		
– Banks	**–**	343,160
Accrued interest	**84,418**	102,207
Total	**9,916,257**	7,207,066

32 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Central Bank	**–**	5,350,000
– Banks	**15,525,502**	9,496,131
– Other financial institutions	**500,000**	–
Accrued interest	**1,580**	4,202
Total	**16,027,082**	14,850,333

(2) Analysed by types of collaterals

	31 December 2019	31 December 2018
Debt securities	**14,918,780**	13,632,100
Discounted bills	**1,106,722**	1,214,031
Accrued interest	**1,580**	4,202
Total	**16,027,082**	14,850,333

33 DEPOSITS FROM CUSTOMERS

	31 December 2019	31 December 2018
Demand deposits		
– Corporate deposits	**92,593,934**	72,852,694
– Personal deposits	**20,622,060**	18,313,340
Sub-total	**113,215,994**	91,166,034
Time deposits		
– Corporate deposits	**55,286,883**	45,792,055
– Personal deposits	**44,174,283**	38,585,318
Sub-total	**99,461,166**	84,377,373
Outward remittance and remittance payables	**100,697**	131,519
Fiscal deposits to be transferred	**13,052**	923
Accrued interest	**2,634,494**	2,235,398
Total	**215,425,403**	177,911,247
Including:		
Pledged deposits	**11,768,173**	8,825,215

34 DEBT SECURITIES ISSUED

	31 December 2019	31 December 2018
Debt securities issued *(Note (i))*	**24,681,106**	15,188,606
Certificates of interbank deposit issued *(Note (ii))*	**51,739,653**	49,708,055
Accrued interest	**438,140**	343,846
Total	**76,858,899**	65,240,507

Notes:

(i) Financial debts with fixed interest rates were issued by the Group. The details are as follows:

(a) Ten-year tier-two capital bonds were issued with an interest rate of 5.59% per annum and with a nominal amount of RMB2.2 billion in March 2015. The debts will mature on 5 March 2025 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2019, the fair value of the debts was RMB2.310 billion (31 December 2018: RMB2.184 billion).

(b) Three-year Green Bonds were issued with an interest rate of 3.25% per annum and with a nominal amount of RMB3.5 billion in March 2016. The debts has matured and been repaid on 14 March 2019 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB3.499 billion.

(c) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB0.5 billion in March 2016. The debts will mature on 14 March 2021 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB0.502 billion (31 December 2018: RMB0.493 billion).

(d) Three-year Green Bonds were issued with an interest rate of 3.30% per annum and with a nominal amount of RMB3.0 billion in November 2016. The debts has matured and been repaid on 24 November 2019 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB2.990 billion.

(e) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB1.0 billion in November 2016. The debts will mature on 24 November 2021 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB1.003 billion (31 December 2018: RMB0.981 billion).

(f) Ten-year debts were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB3.0 billion in June 2017. The debts will mature on 29 June 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2019, the fair value of the debts was RMB3.027 billion (31 December 2018: RMB2.834 billion).

(g) Ten-year debts were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB2.0 billion in July 2017. The debts will mature on 14 July 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 31 December 2019, the fair value of the debts was RMB2.018 billion (31 December 2018: RMB1.889 billion).

(h) Three-year Financial Bonds were issued with an interest rate of 3.65% per annum and with a nominal amount of RMB3.0 billion in May 2019.The debts will mature on 22 May 2022 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB3.023 billion.

(i) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019.The debts will mature on 22 May 2024 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB1.007 billion.

(j) Three-year Financial Bonds were issued with an interest rate of 3.70% per annum and with a nominal amount of RMB3.0 billion in May 2019.The debts will mature on 31 May 2022 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB3.026 billion.

(k) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019.The debts will mature on 31 May 2024 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB1.007 billion.

(l) Three-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.45% per annum and with a nominal amount of RMB3.0 billion in December 2019.The debts will mature on 5 December 2022 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB3.009 billion.

(m) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.84% per annum and with a nominal amount of RMB1.0 billion in May 2019.The debts will mature on 5 December 2024 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB1.000 billion.

(n) Three-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.42% per annum and with a nominal amount of RMB3.0 billion in May 2019.The debts will mature on 16 December 2022 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB3.006 billion.

(o) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.80% per annum and with a nominal amount of RMB1.0 billion in May 2019.The debts will mature on 16 December 2024 with annual interest payments. As at 31 December 2019, the fair value of the debts was RMB0.998 billion.

(ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 31 December 2019 and 2018, the outstanding fair value of certificates of interbank deposit was RMB51.789 billion and RMB49.727 billion respectively.

35 LEASE LIABILITIES

Maturity analysis on lease liabilities of the Group – analysis on undiscounted cash flows：

	31 December 2019
Less than 1 year (inclusive)	**107,526**
1 year to 2 years (inclusive)	**93,941**
2 years to 3 years (inclusive)	**77,565**
3 years to 5 years (inclusive)	**149,731**
More than 5 years	**29,917**
Total undiscounted cash flows of lease liabilities as at 31 December 2019	**458,680**
Lease liabilities on statement of financial position as at 31 December 2019	**427,429**

36 OTHER LIABILITIES

	Note	**31 December 2019**	31 December 2018
Employee benefits payable	*36(1)*	**827,256**	755,237
Risk guarantee for leasing business		**534,194**	267,379
Taxes payable	*36(2)*	**143,884**	106,534
Settlement payable		**117,378**	143,327
ECL on credit commitments	*36(3)*	**99,715**	104,964
Payable raising from fiduciary activities		**73,516**	392,684
Dividend payable		**16,548**	15,353
Others		**481,662**	642,156
Total		**2,294,153**	2,427,634

(1) Employee benefits payable

	31 December 2019	31 December 2018
Salaries, bonuses and allowances payable	**663,139**	640,704
Social insurance and housing allowances payable	**184**	145
Staff welfare expenses	**45,600**	–
Staff education expenses	**16,135**	20,034
Labor union expenses	**20,834**	18,504
Post-employment benefits-defined contribution plans	**164**	150
Supplementary retirement benefits *(note (i))*	**81,200**	75,700
Total	**827,256**	755,237

Note:

(i) Supplementary retirement benefits include early retirement plan and supplementary retirement plan.

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The Group accounts for the respective obligations in accordance with the accounting policies in Note 2(14).

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group accounted for the respective obligations in accordance with the accounting policies in Note 2(14).

(2) Taxes payable

	31 December 2019	31 December 2018
Value added tax payable	**124,039**	94,462
Urban construction tax and surcharges payable	**19,076**	11,397
Others	**769**	675
Total	**143,884**	106,534

(3) Expected credit loss on credit commitments

Movements of expected credit loss on credit commitments are as follows:

	2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**103,845**	**1,101**	**18**	**104,964**
Transfer to				
– Lifetime ECL				
– not credit-impaired	**(252)**	**252**	**–**	**–**
(Release)/Charge for the year	**(8,855)**	**3,569**	**37**	**(5,249)**
As at 31 December 2019	**94,738**	**4,922**	**55**	**99,715**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	136,891	4,152	7	141,050
Transfer to				
– 12-month ECL	3,239	(3,239)	–	–
– Lifetime ECL				
– not credit-impaired	(1,872)	1,872	–	–
(Release)/Charge for the year	(34,413)	(1,684)	11	(36,086)
As at 31 December 2018	103,845	1,101	18	104,964

37 SHARE CAPITAL

Authorised and issued share capital

	31 December 2019	31 December 2018
Number of shares authorised, issued and fully paid at nominal value (in thousands)	**4,509,690**	4,058,713

In January 2019, the Bank issued 451 million ordinary shares with a nominal value of RMB1 at RMB4.52 per share. After deducting the issuance costs, the premium arising from the issuance of new shares amounting to RMB1.512 billion was recorded in capital reserve. After the above issuance, the balance of the share capital was RMB4.510 billion, and the balance of the capital reserve was RMB8.338 billion.

38 PREFERENCE SHARES

(1) Preference shares outstanding at the end of the year

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount	In original currency	In RMB	Maturity	Conversion
					(in thousands of shares)	*(in thousands)*	*(in thousands)*		
Overseas Preference Shares	19 Sep 2017	Equity	5.5%	20USD/Share	60,150	1,203,000	7,883,259	None	None
Total							7,883,259		
Less: Issue fees							(29,295)		
Book value							7,853,964		

(2) Main Clauses

(a) Dividend

There is a fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. Dividends will be paid annually.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed.

(c) Dividend stopper

If the Bank cancels all or part of the dividends to the preference shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the preference shareholders in full.

(d) Order of distribution and liquidation method

The USD preference shareholders will rank equally for payment. The preference shareholders will be subordinated to the depositors, ordinary creditors and holders of Tier 2 capital bonds, but will be senior to the ordinary shareholders.

(e) Mandatory conversion trigger events

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), the Bank shall have the right to convert all or part of the preference shares into H shares, having notified and obtained the consent of regulatory authority but without the need for the consent of preference shareholders or ordinary shareholders, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%; If preference shares were converted to H shares, it could not be converted to preference shares again.

Upon the occurrence of a Tier 2 Capital Trigger Event (Earlier of the two situations: (1) regulatory authority has determined that the Bank would become non-viable if there is no conversion or write-down of capital; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all preference shares into H shares, having notified and obtained the consent of regulatory authority but without the need for the consent of preference shareholders or ordinary shareholders. If preference shares were converted to H shares, it could not be converted to preference shares again.

(f) Redemption

Under the premise of obtaining the approval of the regulatory authority and condition of redemption, the Bank has right to redeem all or some of overseas preference stocks in first call date and subsequent any dividend payment date. The first call date after issuance and subsequent any dividend payment date (redemption price is equal to issue price plus accrued dividend in current period).

The first redemption date of USD preference shares is five years after issuance.

(g) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders.

(3) Changes in preference shares outstanding

1 January 2019		**Increase during the year**		**31 December 2019**	
Amount (in thousands of shares)	***Book value (in thousands of RMB)***	***Amount (in thousands of shares)***	***Book value (in thousands of RMB)***	***Amount (in thousands of shares)***	***Book value (in thousands of RMB)***
60,150	**7,853,964**	**–**	**–**	**60,150**	**7,853,964**

1 January 2018		Increase during the year		31 December 2018	
Amount (in thousands of shares)	*Book value (in thousands of RMB)*	*Amount (in thousands of shares)*	*Book value (in thousands of RMB)*	*Amount (in thousands of shares)*	*Book value (in thousands of RMB)*
60,150	7,853,964	–	–	60,150	7,853,964

(4) Interests attribute to equity instruments' holders

Item	**31 December 2019**	31 December 2018
Total equity attribute to equity holders of the Bank	**29,915,460**	26,984,973
– Equity attribute to ordinary shareholders of the Bank	**22,061,496**	19,131,009
– Equity attribute to preference shareholders of the Bank	**7,853,964**	7,853,964
Total equity attribute to non-controlling interests	**562,458**	511,751
– Equity attribute to non-controlling interests of ordinary shares	**562,458**	511,751

39 RESERVES

(1) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of nominal value.

(2) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China (the "MOF") after offsetting prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(3) General reserve

From 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)" issued by the MOF in March 2012, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets within five years.

The Bank set aside a general reserve upon approval by the board of directors. The general reserve balance of the Bank as at 31 December 2019 amounted to RMB4.400 billion, which has reached 1.5% of the year ending balance of the Bank's gross risk-bearing assets.

(4) Other comprehensive income

		2019				
Item	**Balance at the beginning of the year**	**Before-tax amount**	**Less: Previously recognised amount transferred to profit or loss**	**Less: Income tax expense**	**Net-of-tax amount**	**Balance at the end of the year**
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	**(5,941)**	**(2,200)**	**–**	**550**	**(1,650)**	**(7,591)**
Items that may be reclassified to profit or loss						
Including: Changes in fair value from debt investments measured at FVOCI	**507,856**	**496,813**	**(412,081)**	**(21,183)**	**63,549**	**571,405**
Credit losses of debt investments measured at FVOCI	**51,278**	**95,759**	**(38,242)**	**(14,379)**	**43,138**	**94,416**
Total	**553,193**	**590,372**	**(450,323)**	**(35,012)**	**105,037**	**658,230**

		2018				
Item	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	(3,443)	(3,330)	–	832	(2,498)	(5,941)
Items that may be reclassified to profit or loss						
Including: Changes in fair value from debt investments measured at FVOCI	(488,992)	1,441,431	(112,301)	(332,282)	996,848	507,856
Credit losses of debt investments measured at FVOCI	29,264	59,104	(29,752)	(7,338)	22,014	51,278
Total	(463,171)	1,497,205	(142,053)	(338,788)	1,016,364	553,193

(5) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	Note	**Share capital**	**Other equity instrument**	**Capital reserve**	**Surplus reserve**	**General reserve**	**Other comprehensive income**	**Retained earnings**	**Total equity**
Balance at 31 January 2019		**4,058,713**	**7,853,964**	**6,826,276**	**1,403,575**	**3,969,452**	**553,193**	**2,297,164**	**26,962,337**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**2,230,867**	**2,230,867**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**105,037**	**–**	**105,037**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**105,037**	**2,230,867**	**2,335,904**
Ordinary shares issuance		**450,977**	**–**	**1,511,593**	**–**	**–**	**–**	**–**	**1,962,570**
Appropriation of profit:									
– Appropriation to surplus reserve	*40*	**–**	**–**	**–**	**223,087**	**–**	**–**	**(223,087)**	**–**
– Appropriation to general reserve	*40*	**–**	**–**	**–**	**–**	**430,806**	**–**	**(430,806)**	**–**
– Cash dividends	*40*	**–**	**–**	**–**	**–**	**–**	**–**	**(1,421,935)**	**(1,421,935)**
Balance at 31 December 2019		**4,509,690**	**7,853,964**	**8,337,869**	**1,626,662**	**4,400,258**	**658,230**	**2,452,203**	**29,838,876**

	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(885,449)	2,600,081	25,626,362
Changes in accounting policies		–	–	–	–	–	422,278	(789,323)	(367,045)
Balance at 1 January 2018		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(463,171)	1,810,758	25,259,317
Profit for the year		–	–	–	–	–	–	2,002,500	2,002,500
Other comprehensive income		–	–	–	–	–	1,016,364	–	1,016,364
Total comprehensive income		–	–	–	–	–	1,016,364	2,002,500	3,018,864
Appropriation of profit:									
– Appropriation to surplus reserve	*40*	–	–	–	200,250	–	–	(200,250)	–
– Cash dividends	*40*	–	–	–	–	–	–	(1,315,844)	(1,315,844)
Balance at 31 December 2018		4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,297,164	26,962,337

40 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 20 March 2020, the directors approved the following profit appropriation for the year ended 31 December 2019:

- Appropriated RMB223 million to surplus reserve;
- Appropriated RMB431 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB902 million representing RMB2.00 per 10 shares (including tax).

The profit appropriation resolution mentioned above has yet to be approved by the annual general meeting.

(2) At the Bank's board of directors meeting held on 23 August 2019. According to the terms of issuance of the offshore preference shares and related authorization, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. Dividend for overseas preference shares to be distributed amounts to USD73.5167 million (including tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2019, and the amount of dividend is equivalent to approximately RMB520 million (including tax).

(3) At the 2018 annual general meeting held on 17 May 2019, the shareholders approved the following profit appropriation for the year ended 31 December 2018:

- Appropriated RMB200 million to surplus reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB902 million representing RMB2.00 per 10 shares (including tax).

(4) At the Bank's board of directors meeting held on 24 August 2018, the directors approved the dividend distribution plan for overseas preference shares. Dividend for overseas preference shares to be distributed amounts to USD73.5167 million (including tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2018, and the amount of dividend is equivalent to approximately RMB504 million (including tax).

(5) At the 2017 annual general meeting held on 15 May 2018, the shareholders approved the following profit appropriation for the year ended 31 December 2017:

- Appropriated RMB190 million to statutory surplus reserve;
- Appropriated RMB273 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB812 million representing RMB2.00 per 10 shares (including tax).

41 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(1) Cash and cash equivalents:

	31 December 2019	31 December 2018
Cash	**520,460**	451,273
Surplus deposit reserves with central bank	**19,723,270**	8,256,128
Original maturity within three months:		
– Deposits with banks and other financial institutions	**1,311,035**	1,333,201
– Placements with banks and other financial institutions	**446,477**	171,580
– Certificates of interbank deposit issued	**499,507**	–
Total	**22,500,749**	10,212,182

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Debt securities issued	Interest payable arising from debt securities issued	Total
Balance at 1 January 2019	**64,896,661**	**343,846**	**65,240,507**
Changes from financing cash flows:			
– Net proceeds from debt securities issued	**83,798,288**	**–**	**83,798,288**
– Interest paid on debt securities issued	**–**	**(638,284)**	**(638,284)**
– Repayment of debt securities issued	**(74,130,000)**	**–**	**(74,130,000)**
Total changes from financing cash flows	**9,668,288**	**(638,284)**	**9,030,004**
Other changes:			
– Interest expense	**1,855,810**	**732,578**	**2,588,388**
Balance at 31 December 2019	**76,420,759**	**438,140**	**76,858,899**

	Debt securities issued	Interest payable arising from debt securities issued	Total
Balance at 1 January 2018	68,632,691	459,019	69,091,710
Changes from financing cash flows:			
– Net proceeds from debt securities issued	96,917,942	–	96,917,942
– Interest paid on debt securities issued	–	(775,930)	(775,930)
– Repayment of debt securities issued	(102,440,000)	–	(102,440,000)
Total changes from financing cash flows	(5,522,058)	(775,930)	(6,297,988)
Other changes:			
– Interest expense	1,786,028	660,757	2,446,785
Balance at 31 December 2018	64,896,661	343,846	65,240,507

42 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Bank with direct ownership of 5% or above.

Major shareholders' information

Company name	Amount of ordinary shares of the Bank held by the Company (*in thousands*)	Proportion of ordinary shares of the Bank held by the Company 31 December 2019	Proportion of ordinary shares of the Bank held by the Company 31 December 2018	Registered location	Business	Legal form	Legal representative
Intesa Sanpaolo S.p.A. ("ISP")	624,754	13.85%	15.39%	Italy	Commercial banking	Joint stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	503,556	11.17%	12.41%	Qingdao	State-owned assets operation and investment, import and export of goods and technology	Limited company	WANG Jianhui
Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment")	409,693	9.08%	10.09%	Qingdao	Outbound investment	Limited company	ZHANG Ruimin
AMTD Strategic Investment Limited ("AMTD")	301,800	6.69%	7.44%	Hong Kong	Outbound investment	Limited company	WONG Yui Keung Marcellus
Qingdao Haier Air-Conditioning Electronic Co., Ltd. ("Haier Air-Conditioning")	218,692	4.85%	5.39%	Qingdao	Production, sales and service of air conditioners and refrigeration equipment	Limited company	WANG Li

Note:

(i) In January 2019, the Bank issued 451 million ordinary shares. The ownership ratio of Haier Air-Conditioning fell below 5%.

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Investment		AMTD		Haier Air-Conditioning	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
As at 1 January 2018	623,909	15.37%	503,556	12.41%	409,693	10.09%	301,800	7.44%	218,692	5.39%
Increase	845	0.02%	–	–	–	–	–	–	–	–
As at 31 December 2018	624,754	15.39%	503,556	12.41%	409,693	10.09%	301,800	7.44%	218,692	5.39%
Decrease	–	(1.54%)	–	(1.24%)	–	(1.01%)	–	(0.75%)	–	(0.54%)
As at 31 December 2019	624,754	13.85%	503,556	11.17%	409,693	9.08%	301,800	6.69%	218,692	4.85%

Changes in registered capital of major shareholders

	Currency	**31 December 2019**	31 December 2018
ISP	EUR	**9,086 Million**	9,085 Million
Qingdao Conson	RMB	**2,000 Million**	2,000 Million
Haier Investment	RMB	**111 Million**	252 Million
AMTD	HKD	**1 HKD**	1 HKD

(b) Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 23.

(c) Other related parties

Other related parties include members of the board of directors, the board of supervisors and senior management and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals, etc.

(2) Related party transactions and balances

Related party transactions of the Group mainly refer to loans, deposits and financial investments, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with the related parties except subsidiary (excluding remuneration of key management personnel)

	ISP and its group	Qingdao Conson and its group	Haier Investment and its group	AMTD and its group	Companies and other organizations controlled by key management personnel *(Note(i))* *(Other than shareholders and its group above)*	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2019								
On-balance sheet items:								
Loans and advances to customers *(Note(ii))*	–	878,451	316,642	–	549,584	15,315	1,759,992	1.01%
Financial investments measured at amortised cost *(Note(iii))*	–	–	701,045	–	–	–	701,045	1.07%
Financial investments at FVOCI	–	–	–	–	213,184	–	213,184	0.39%
Financial investments at FVTPL	–	–	–	2,456,323	–	–	2,456,323	10.72%
Deposits with banks and other financial institutions	5,675	–	–	–	–	–	5,675	0.43%
Placements with banks and other financial institutions	–	–	825,856	–	–	–	825,856	24.80%
Deposits from customers	194,167	378,209	445,786	–	521,864	56,259	1,596,285	0.74%
Deposits from banks and other financial institutions	–	259	1,529	–	–	–	1,788	0.01%
Off-balance sheet items:								
Letters of guarantees *(Note(iv))*	–	–	18	–	–	–	18	0.00%
2019								
Interest income	–	94,557	73,332	–	60,130	611	228,630	1.58%
Interest expense	6,697	31,060	11,918	–	7,972	1,231	58,878	0.77%
Fee and commission income	–	–	16,948	–	–	54,772	71,720	5.33%
Net gains arising from investments	–	–	–	94,179	–	–	94,179	6.82%
Operating expenses	–	566	–	–	–	–	566	0.02%
Other operating losses	–	–	–	–	8,948	–	8,948	34.06%

	ISP and its group	Qingdao Conson and its group	Haier Investment/ Haier Air-conditioning and its group	AMTD and its group	Companies and other organizations controlled by key management personnel *(Note(i)) (Other than shareholders and its group above)*	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2018								
On-balance sheet items:								
Loans and advances to customers *(Note(ii))*	–	1,502,647	300,578	–	456,412	13,476	2,273,113	1.79%
Financial investments measured at amortised cost *(Note(iii))*	–	–	1,712,538	–	–	–	1,712,538	2.43%
Financial investments at FVOCI	–	–	–	–	310,108	–	310,108	0.59%
Financial investments at FVTPL	–	–	–	2,435,724	–	–	2,435,724	10.89%
Deposits with banks and other financial institutions	270	–	–	–	–	–	270	0.02%
Placements with banks and other financial institutions	–	–	830,722	–	–	–	830,722	20.15%
Deposits from customers	253,749	1,312,963	242,432	–	314,764	54,144	2,178,052	1.22%
Deposits from banks and other financial institutions	–	–	1,376	–	230	–	1,606	0.01%
Off-balance sheet items:								
Letters of guarantees *(Note(iv))*	–	–	212,933	–	–	–	212,933	8.83%
2018								
Interest income	2,475	64,453	114,433	–	37,104	559	219,024	1.84%
Interest expense	1,882	11,452	1,827	–	4,898	692	20,751	0.28%
Fee and commission income	–	–	23,851	–	5	–	23,856	2.53%
Operating expenses	–	566	–	–	–	–	566	0.02%
Other operating losses	–	–	–	–	545	–	545	7.43%

Notes:

(i) Companies and other organizations controlled by key management personnel include entities that key management personnel or a close member of that person's family controls or jointly controls, or serves as director and senior management.

(ii) Loans with related parties (excluding accrued interest)

	31 December 2019	31 December 2018
Qingdao Conson Financial Holdings Co., Ltd.	**875,380**	1,500,000
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	**498,500**	450,000
Qingdao Haichen real estate development Co., Ltd.	**315,800**	–
Qingdao Baheal Medical INC.	**28,748**	–
Qingdao Huatong Military Industry Investment Co., Ltd.	**10,000**	5,000
Qingdao Yangfan Shipbuilding Co., Ltd.	**10,000**	–
Haier Financial Factoring (Chongqing) Co., Ltd.	**–**	300,000
Individuals	**15,283**	13,447
Total	**1,753,711**	2,268,447

(iii) Financial investments measured at amortised cost (excluding accrued interest)/receivables with related parties

	31 December 2019	31 December 2018
Qingdao Changyuan Land Co., Ltd.	**700,000**	960,000
Qingdao Haier Real Estate Group Co., Ltd.	**–**	750,000
Total	**700,000**	1,710,000

(iv) Letters of guarantees with related parties

	31 December 2019	31 December 2018
Qingdao Haier Home Integration Co., Ltd.	**18**	211,933
Haier Information Technology (Shenzhen) Co. Limited	**–**	1,000
Total	**18**	212,933

(b) ***Transactions with subsidiary***

	31 December 2019	31 December 2018
Balances at the end of the year:		
On-balance sheet items:		
Deposits from banks and other financial institutions	**330,113**	39,932
Placements with banks and other financial institutions	**202,605**	–

	2019	2018
Transactions during the year:		
Interest income	**2,605**	6,100
Interest expense	**2,909**	1,023
Fee and commission income	**24**	20
Other operating income	**2,548**	3,306

(3) Key management personnel

The Bank's key management personnel includes people having authority and responsibility, directly or indirectly, to plan, command and control the activities of the Bank, including directors, supervisors and senior management at bank level.

	2019	2018
Remuneration of key management personnel	**22,063**	21,092

The total compensation package for certain key management personnel for the year ended 31 December 2019 have not yet been finalized. The difference in emoluments is not expected to have significant impact on the Group's financial statements for the year ended 31 December 2019.

As at 31 December 2019, outstanding loans to the key management personnel amounted to RMB0.22 million (31 December 2018: RMB0.09 million), which have been included in loans and advances to related parties stated in Note 42(2).

43 SEGMENT REPORTING

Segment reporting is disclosed in accordance with the accounting policy set out in Note 2(24).

The Group manages its business by business lines. Segment assets and liabilities, and segment income, expense and operating results are measured in accordance with the Group's accounting policies. Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Interest income and expenses earned from third parties are referred to as "External net interest income/expense". Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expense".

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total payment during the period to acquire property and equipment, intangible assets and other long-term assets.

The Group defines its reporting segments based on the following for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services.

Retail banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans and deposit services.

Financial market business

This segment covers financial market operations. The financial market business enters into inter-bank money market transactions, repurchases transactions, investments in debt securities, and non-standardized debt investments, etc.

Un-allocated items and others

This segment contains related business of the subsidiary, head office assets, liabilities, income and expenses that are not directly attributable to a segment.

	2019				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	**3,889,936**	**1,057,916**	**1,691,044**	**207,159**	**6,846,055**
Internal net interest income/(expense)	**1,064,241**	**384,366**	**(1,448,607)**	**–**	**–**
Net interest income	**4,954,177**	**1,442,282**	**242,437**	**207,159**	**6,846,055**
Net fee and commission income	**248,387**	**608,523**	**247,158**	**112,812**	**1,216,880**
Net trading gains	**44,294**	**32,809**	**75,361**	**–**	**152,464**
Net gains arising from investments	**18,268**	**–**	**1,362,169**	**–**	**1,380,437**
Other operating income	**1,343**	**1,933**	**112**	**22,885**	**26,273**
Operating income	**5,266,469**	**2,085,547**	**1,927,237**	**342,856**	**9,622,109**
Operating expenses	**(1,531,216)**	**(1,090,201)**	**(480,864)**	**(64,481)**	**(3,166,762)**
Credit losses	**(2,876,532)**	**(355,890)**	**(264,071)**	**(130,299)**	**(3,626,792)**
Profit before taxation	**858,721**	**639,456**	**1,182,302**	**148,076**	**2,828,555**
Other segment information					
– Depreciation and amortisation	**(161,450)**	**(232,628)**	**(13,478)**	**(2,103)**	**(409,659)**
– Capital expenditure	**119,227**	**171,791**	**9,953**	**380**	**301,351**

	31 December 2019				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	**153,736,679**	**69,101,737**	**140,151,823**	**9,050,006**	**372,040,245**
Deferred tax assets					**1,581,905**
Total assets					**373,622,150**
Segment liabilities/Total liabilities	**155,586,703**	**67,322,911**	**112,133,742**	**8,100,876**	**343,144,232**
Credit commitments	**24,612,840**	**5,045,541**	**–**	**–**	**29,658,381**

	2018				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	2,143,735	499,624	1,741,444	79,226	4,464,029
Internal net interest income/(expense)	1,485,911	601,546	(2,082,386)	(5,071)	–
Net interest income	3,629,646	1,101,170	(340,942)	74,155	4,464,029
Net fee and commission income	77,645	395,153	282,534	110,425	865,757
Net trading gains	138,686	83,858	188,263	–	410,807
Net gains arising from investments	15,379	–	1,601,975	–	1,617,354
Other operating income	1,224	1,644	102	3,921	6,891
Operating income	3,862,580	1,581,825	1,731,932	188,501	7,364,838
Operating expenses	(1,258,954)	(680,274)	(504,211)	(62,211)	(2,505,650)
Credit losses	(1,786,889)	(408,647)	(123,124)	(64,512)	(2,383,172)
Profit before taxation	816,737	492,904	1,104,597	61,778	2,476,016
Other segment information					
– Depreciation and amortisation	(168,120)	(225,609)	(13,945)	(796)	(408,470)
– Capital expenditure	113,866	152,801	9,445	625	276,737

	31 December 2018				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	103,982,904	53,224,994	151,498,294	7,799,532	316,505,724
Deferred tax assets					1,152,778
Total assets					317,658,502
Segment liabilities/Total liabilities	131,071,510	59,123,648	93,135,714	6,830,906	290,161,778
Credit commitments	17,013,157	1,698,681	–	–	18,711,838

44 RISK MANAGEMENT

The main risks of the Group are described and analyzed as follows:

The board of directors has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management and Consumer Right Protection Committee, the Audit Committee and the Related Party Transaction Control Committee, etc.

The President is responsible for overall risk management at the senior management level with the assistance of other key management personnel. In accordance with the risk management strategy determined by the board of directors, the senior management keeps abreast of the level of risk and the management status, enabling the Group to have sufficient resources to develop and implement risk management policies and systems, and to monitor, identify and control risks in various businesses.

Each department within the Group implements risk management policies and procedures in accordance with their respective management functions and is responsible for their own risk management in their respective business areas.

Each branch establishes a branch risk management committee, which is mainly in charge of the management and control of various risks such as credit, market, operation, information technology of the branch, evaluating the risk status of the branch regularly, determining and improving the risk management and internal control measures and methods, etc., under the guidance from the credit management department of the head office. Each branch should report major risk events to the relevant risk management department of the head office, and carry out risk treatments according to the plans or improvements proposed by the head office department.

The Group has exposure to the following risks from its use of financial instruments in the normal course of the Group's operations, which mainly include: credit risk, interest rate risk, foreign currency risk, liquidity risk and operational risk. This note presents information about the Group's exposure to each of the above risks and their sources, as well as the Group's risk management objectives, policies and processes for measuring and managing risks.

The Group aims to seek an appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems.

(1) Credit risk

(a) Definition and scope

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group. Credit risk mainly arises from loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

The Risk Management and Consumer Right Protection Committee of the Board of Directors monitors the control of credit risk, and regularly reviews related reports on risk profile. Several departments including the Credit Approval Unit, Credit Management Department and Financial Market Business Unit, etc., are responsible for the management of credit risk.

Each business unit is required to implement credit policies and procedures, and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Without taking account of any collateral and other credit enhancements, the maximum exposure to credit risk is represented by the carrying amount of each type of financial assets and the contract amount of credit commitments. In addition to the Group's credit commitments disclosed in Note 44(1), the Group did not provide any other guarantee that might expose the Group to credit risk. The maximum exposure to credit risk in respect of above credit commitments as at the end of the reporting period is disclosed in Note 44(1).

(b) Credit risk assessment method

Stage of financial instruments

The Group classifies financial instruments into three stages and makes provisions for ECL accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognised as loss allowance.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognised as loss allowance.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed as at the end of the reporting period with that assessed at the date of initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including forward-looking information. In particular, the following information is taken into account:

- Failure to make payments of principal or interest on their contractually due dates;

- An actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

- An actual or expected significant deterioration in the operating results of the debtor; and

- Existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

The Group compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial application to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Definition of default

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

- The financial asset is more than 90 days past due.

Credit impairment assessment

At each date of statement of financial position, the Group assesses whether financial assets carried at amortised cost and debt investments measured at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– A breach of contract, such as a default or delinquency in interest or principal payments for over 90 days;

– For economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that would not otherwise consider;

– It is probable that the borrower will enter bankruptcy or other financial reorganization; or

– The disappearance of an active market for that financial asset because of financial difficulties.

Measuring ECL – the parameters, assumptions and valuation techniques

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account the time value of the currency. The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan.

- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan.

- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies due to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The assumptions underlying the ECL calculation, such as how the PDs and LGDs of different maturity profiles change are monitored and reviewed on a quarterly basis by the Group.

During the year ended 31 December 2019, there has been no significant changes in the estimate techniques and key assumptions of the Group.

The impairment loss on credit-impaired corporate loans and advance to customers applied cash flow discount method, if there is objective evidence that an impairment loss on a loan or advance has incurred, the amount of the loss is measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the statement of profit or loss. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the borrower's business plan;

- The borrower's ability to improve performance once a financial difficulty has arisen;

- The estimated recoverable cash flows from projects and liquidation;

- The availability of other financial support and the realisable value of collateral; and

- The timing of the expected cash flows.

It may not be possible to identify a single, or discrete events that result in the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

Forward-looking information included in the expected credit loss model

Both the assessment of significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECL of asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting future economic indicators.

When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under different scenarios by the weight of the corresponding scenarios.

Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the ECL were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

(c) Assessing credit risk of financial assets after the amendment of contractual cash flows

In order to achieve maximum collection, the Group may modify the contractual terms of loans due to business negotiations or financial difficulties of the borrowers at times.

Such rescheduling activities include extended payment term arrangements, payment holidays and payment forgiveness. Rescheduling policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. The restructuring of loans is most common in the management of medium and long-term loans. The risk stage can only be adjusted lower if the rescheduled loans are reviewed for at least 6 consecutive months and the corresponding stage classification criteria is reached.

(d) Collaterals and other credit enhancements

The Group and its subsidiaries have individually established a range of risk management policies and adopted different methods to mitigate credit risk. A critical method for the Group's control of its credit risks is to acquire collateral, security deposits and guarantees from enterprises or individuals. The Group has specified acceptable types of collaterals, mainly including the following:

- Real estate and land use rights;
- Machinery and equipment;
- Right to receive payments and accounts receivable;
- Financial instruments such as time deposits, debt securities and equities.

In order to minimise its credit risk, once an indication of impairment has been identified with an individual loan, the Group will seek additional collateral from counterparties/require additional guarantors or squeeze the credit limit. It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

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

(e) Maximum credit risk exposure

As at the end of the reporting period, the maximum credit risk exposure of the Group and of the Bank without taking account of any collateral and other credit enhancements is set out below:

	31 December 2019	31 December 2018
Deposits with central bank	**39,184,380**	29,103,157
Deposits with banks and other financial institutions	**1,312,468**	1,542,437
Placements with banks and other financial institutions	**3,313,603**	4,110,464
Derivative financial assets	**12,436**	–
Financial assets held under resale agreements	**2,325,771**	300,262
Loans and advances to customers	**169,158,291**	123,366,891
Financial investments		
– Financial investments measured at FVTPL	**13,904,305**	14,894,196
– Financial investments measured at FVOCI	**54,950,531**	52,979,501
– Financial investments measured at amortised cost	**64,491,058**	70,032,056
Long-term receivables	**9,037,819**	7,766,698
Others	**147,137**	332,936
Subtotal	**357,837,799**	304,428,598
Off-balance sheet credit commitments	**29,658,381**	18,711,838
Total maximum credit risk exposure	**387,496,180**	323,140,436

(f) Risk concentrations

Credit risk is often greater when counterparties are concentrated in one single industry or have comparable economic features. In addition, different industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

The composition of the Group's gross loans and advances to customers (excluding accrued interest) by industry is analysed as follows:

	31 December 2019		31 December 2018	
	Amount	**Percentage**	Amount	Percentage
Manufacturing	**23,033,775**	**13.32%**	18,805,454	14.88%
Construction	**19,902,351**	**11.52%**	10,788,346	8.54%
Real estate	**19,673,198**	**11.39%**	8,849,735	7.00%
Water, environment and public utility management	**12,287,741**	**7.11%**	10,802,398	8.55%
Wholesale and retail trade	**11,628,689**	**6.73%**	9,654,850	7.64%
Renting and business activities	**11,228,367**	**6.50%**	8,169,559	6.46%
Financial service	**6,677,300**	**3.86%**	5,456,155	4.32%
Production and supply of electric and heating power, gas and water	**4,443,352**	**2.57%**	4,711,898	3.73%
Transportation, storage and postal services	**3,247,547**	**1.88%**	2,911,253	2.30%
Others	**6,164,306**	**3.57%**	4,887,248	3.86%
Subtotal for corporate loans and advances	**118,286,626**	**68.45%**	85,036,896	67.28%
Subtotal for personal loans and advances	**54,508,817**	**31.55%**	41,349,974	32.72%
Total for loans and advances to customers	**172,795,443**	**100.00%**	126,386,870	100.00%

Distribution of debt securities investments (excluding accrued interest) analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from Wind, Bloomberg Composite, or major rating agencies where the issuers of debt securities are located. The carrying amounts of debt securities investments analysed by rating as at the end of the reporting period are as follows:

	31 December 2019					
	Unrated	**AAA**	**AA**	**A**	**Below A**	**Total**
Debt securities (analysed by type of issuers):						
Government	**–**	**23,606,665**	**–**	**–**	**–**	**23,606,665**
Policy banks	**–**	**17,918,702**	**–**	**–**	**–**	**17,918,702**
Banks and other financial institutions	**–**	**18,276,243**	**588,001**	**500,391**	**625,750**	**19,990,385**
Corporate entities	**250,025**	**6,777,490**	**9,385,573**	**501,151**	**6,531,987**	**23,446,226**
Total	**250,025**	**66,579,100**	**9,973,574**	**1,001,542**	**7,157,737**	**84,961,978**

	31 December 2018					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers):						
Government	–	16,546,060	–	–	–	16,546,060
Policy banks	–	25,685,751	–	–	–	25,685,751
Banks and other financial institutions	299,528	19,356,535	638,180	339,470	984,037	21,617,750
Corporate entities	191,957	5,810,021	7,247,660	874,336	4,963,530	19,087,504
Total	491,485	67,398,367	7,885,840	1,213,806	5,947,567	82,937,065

(g) *Analysis on the credit quality of financial instruments*

At the end of the reporting period, the Group's credit risk stages of financial instruments are as follows:

	31 December 2019							
	Book balance				Provision for expected credit losses			
Financial assets measured at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and balances with central banks	39,704,840	–	–	39,704,840	–	–	–	–
Deposits with banks and other financial institutions	1,313,043	–	–	1,313,043	(575)	–	–	(575)
Placements with banks and other financial institutions	3,330,171	–	–	3,330,171	(16,568)	–	–	(16,568)
Financial assets held under resale agreements	2,326,713	–	–	2,326,713	(942)	–	–	(942)
Loans and advances to customers								
– General corporate loans and advances	104,427,425	5,597,701	2,651,312	112,676,438	(1,281,247)	(1,135,766)	(1,569,797)	(3,986,810)
– Personal loans and advances	53,804,306	586,358	250,999	54,641,663	(241,776)	(41,609)	(139,437)	(422,822)
Financial investments	63,840,812	1,519,532	–	65,360,344	(481,299)	(387,987)	–	(869,286)
Long–term receivables	8,891,003	406,598	7,884	9,305,485	(175,027)	(90,217)	(2,422)	(267,666)
Total	277,638,313	8,110,189	2,910,195	288,658,697	(2,197,434)	(1,655,579)	(1,711,656)	(5,564,669)

	31 December 2019							
	Book balance				Provision for expected credit losses			
Financial assets measured at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers								
– Discounted bills	6,249,822	–	–	6,249,822	(12,917)	–	–	(12,917)
Financial investments	52,243,475	2,675,825	31,231	54,950,531	(34,869)	(56,072)	(22,030)	(112,971)
Total	58,493,297	2,675,825	31,231	61,200,353	(47,786)	(56,072)	(22,030)	(125,888)
Off-balance sheet credit commitments	29,575,025	82,987	369	29,658,381	(94,738)	(4,922)	(55)	(99,715)

Financial assets measured at amortised cost	31 December 2018							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	29,554,430	–	–	29,554,430	–	–	–	–
Deposits with banks and other financial institutions	1,543,110	–	–	1,543,110	(673)	–	–	(673)
Placements with banks and other financial institutions	4,122,087	–	–	4,122,087	(11,623)	–	–	(11,623)
Financial assets held under resale agreements	300,384	–	–	300,384	(122)	–	–	(122)
Loans and advances to customers								
– General corporate loans and advances	69,940,848	6,939,668	1,804,412	78,684,928	(1,126,657)	(1,233,761)	(811,122)	(3,171,540)
– Personal loans and advances	40,872,468	265,333	312,766	41,450,567	(149,716)	(43,909)	(176,064)	(369,689)
Financial investments	70,036,794	462,764	–	70,499,558	(398,696)	(68,806)	–	(467,502)
Long-term receivables	7,904,065	–	–	7,904,065	(137,367)	–	–	(137,367)
Total	224,274,186	7,667,765	2,117,178	234,059,129	(1,824,854)	(1,346,476)	(987,186)	(4,158,516)

Financial assets measured at FVOCI	31 December 2018							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
– Discounted bills	6,772,625	–	–	6,772,625	(16,577)	–	–	(16,577)
Financial investments	51,654,675	1,324,826	–	52,979,501	(32,672)	(19,122)	–	(51,794)
Total	58,427,300	1,324,826	–	59,752,126	(49,249)	(19,122)	–	(68,371)
Off-balance sheet credit commitments	18,640,353	70,591	894	18,711,838	(103,845)	(1,101)	(18)	(104,964)

Note:

(i) As simplified approach of impairment allowance is applied to other financial assets measured at amortised cost, three-stage model is not applicable.

(2) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices.

The Group has constructed a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and quota management.

The Group employs sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Group classifies the transactions as banking book and trading book transactions, and applies different approaches based on the nature and characteristics of these books to monitor the risks.

Interest rate risk and currency risk are major market risks that confront the Group.

(a) Interest rate risk

The Group's interest rate exposures mainly comprise the mismatching of assets and liabilities' repricing dates, as well as the effect of interest rate volatility on trading positions.

The Group primarily uses gap analysis to assess and monitor its repricing risk and adjusts the ratio of floating and fixed rate accounts, the loan repricing cycle, as well as optimises the term structure of its deposits according to the gap status.

The Group implements various methods, such as sensitivity analysis and scenario simulation to measure and monitor interest risk exposure; risk exposure limits, such as interest rate sensitivity and risk exposure are set regularly, and the relevant implementation of these limits is also supervised, managed and reported on a regular basis.

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2019					
	Total	**Non-interest bearing**	**Less than Three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**
Assets						
Cash and deposits with central bank	**39,704,840**	**653,973**	**39,050,867**	**–**	**–**	**–**
Deposits with banks and other financial institutions	**1,312,468**	**2,008**	**1,310,460**	**–**	**–**	**–**
Placements with banks and other financial institutions	**3,313,603**	**82,331**	**944,727**	**2,286,545**	**–**	**–**
Financial assets held under resale agreements	**2,325,771**	**113**	**2,325,658**	**–**	**–**	**–**
Loans and advances to customers *(Note (i))*	**169,158,291**	**772,480**	**44,674,471**	**105,982,468**	**16,079,017**	**1,649,855**
Financial investments *(Note (ii))*	**142,377,400**	**2,193,661**	**13,402,331**	**27,738,081**	**58,535,322**	**40,508,005**
Long-term receivables	**9,037,819**	**85,729**	**6,756,565**	**2,195,525**	**–**	**–**
Others	**6,391,958**	**6,391,958**	**–**	**–**	**–**	**–**
Total assets	**373,622,150**	**10,182,253**	**108,465,079**	**138,202,619**	**74,614,339**	**42,157,860**
Liabilities						
Borrowings from central bank	**5,536,650**	**29,196**	**462,688**	**5,044,766**	**–**	**–**
Deposits from banks and other financial institutions	**16,462,527**	**125,735**	**10,186,792**	**6,150,000**	**–**	**–**
Placements from banks and other financial institutions	**9,916,257**	**84,418**	**4,288,217**	**5,465,633**	**77,989**	**–**
Financial assets sold under repurchase agreements	**16,027,082**	**1,580**	**16,025,502**	**–**	**–**	**–**
Deposits from customers	**215,425,403**	**2,735,191**	**142,197,240**	**37,524,419**	**32,572,152**	**396,401**
Debt securities issued	**76,858,899**	**438,140**	**13,477,677**	**38,261,976**	**17,489,383**	**7,191,723**
Others	**2,917,414**	**2,489,986**	**1,338**	**17,628**	**181,960**	**226,502**
Total liabilities	**343,144,232**	**5,904,246**	**186,639,454**	**92,464,422**	**50,321,484**	**7,814,626**
Asset-liability gap	**30,477,918**	**4,278,007**	**(78,174,375)**	**45,738,197**	**24,292,855**	**34,343,234**

	31 December 2018					
	Total	Non-interest bearing	Less than Three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	29,554,430	489,559	29,064,871	–	–	–
Deposits with banks and other financial institutions	1,542,437	9,909	1,332,609	199,919	–	–
Placements with banks and other financial institutions	4,110,464	87,236	932,723	3,090,505	–	–
Financial assets held under resale agreements	300,262	384	299,878	–	–	–
Loans and advances to customers *(Note (i))*	123,366,891	521,250	46,007,345	69,134,140	6,010,630	1,693,526
Financial investments *(Note (ii))*	145,396,623	2,183,527	9,197,205	20,171,587	70,734,644	43,109,660
Long-term receivables	7,766,698	70,610	6,244,867	1,451,221	–	–
Others	5,620,697	5,620,697	–	–	–	–
Total assets	317,658,502	8,983,172	93,079,498	94,047,372	76,745,274	44,803,186
Liabilities						
Borrowings from central bank	10,878,835	99,825	252,891	10,526,119	–	–
Deposits from banks and other financial institutions	11,632,982	80,287	5,095,694	6,457,001	–	–
Placements from banks and other financial institutions	7,207,066	102,207	3,333,630	3,586,416	184,813	–
Financial assets sold under repurchase agreements	14,850,333	4,202	14,846,131	–	–	–
Deposits from customers	177,911,247	2,366,917	120,420,179	28,622,624	26,113,704	387,823
Debt securities issued	65,240,507	343,846	16,636,912	39,570,111	1,499,470	7,190,168
Others	2,440,808	2,440,808	–	–	–	–
Total liabilities	290,161,778	5,438,092	160,585,437	88,762,271	27,797,987	7,577,991
Asset-liability gap	27,496,724	3,545,080	(67,505,939)	5,285,101	48,947,287	37,225,195

Notes:

(i) For the Group's loans and advances to customers, the category "Less than three months" as at 31 December 2019 includes overdue loans and advances (net of provision for impairment losses) of RMB1,269 million (31 December 2018: RMB3,077 million).

(ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, and financial investments measured at amortized cost.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis at the end of the reporting period.

Changes in annualized net interest income	**31 December 2019 (Decrease)/ Increase**	31 December 2018 (Decrease)/ Increase
Interest rates increase by 100 bps	**(438,707)**	(635,421)
Interest rates decrease by 100 bps	**438,707**	635,421

This sensitivity analysis is based on a static interest rate risk profile of the Group's assets and liabilities and certain simplified assumptions. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

(i) All assets and liabilities that are repriced or mature within three months and after three months but within one year are repriced or mature at the beginning of the respective periods (i.e., all the assets and liabilities that are repriced or mature within three months are repriced or mature immediately, and all the assets and liabilities that are repriced or mature after three months but within one year are repriced or mature immediately after three months);

(ii) There is a parallel shift in the yield curve and in interest rates, and;

(iii) There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

(b) Currency risk

The Group's currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

	31 December 2019			
	RMB	**USD** *(RMB Equivalent)*	**Others** *(RMB Equivalent)*	**Total** *(RMB Equivalent)*
Assets				
Cash and deposits with central bank	**39,602,889**	**97,595**	**4,356**	**39,704,840**
Deposits with banks and other financial institutions	**809,420**	**452,943**	**50,105**	**1,312,468**
Placements with banks and other financial institutions	**2,865,118**	**448,485**	**–**	**3,313,603**
Financial assets held under resale agreements	**2,325,771**	**–**	**–**	**2,325,771**
Loans and advances to customers	**168,216,824**	**938,318**	**3,149**	**169,158,291**
Financial investments *(Note (i))*	**130,889,596**	**11,487,804**	**–**	**142,377,400**
Long-term receivables	**9,037,819**	**–**	**–**	**9,037,819**
Others	**6,389,347**	**573**	**2,038**	**6,391,958**
Total assets	**360,136,784**	**13,425,718**	**59,648**	**373,622,150**
Liabilities				
Borrowings from central bank	**5,536,650**	**–**	**–**	**5,536,650**
Deposits from banks and other financial institutions	**16,392,762**	**69,765**	**–**	**16,462,527**
Placements from banks and other financial institutions	**7,564,633**	**2,351,624**	**–**	**9,916,257**
Financial assets sold under repurchase agreements	**16,027,082**	**–**	**–**	**16,027,082**
Deposits from customers	**213,253,693**	**2,131,380**	**40,330**	**215,425,403**
Debt securities issued	**76,858,899**	**–**	**–**	**76,858,899**
Others	**2,872,014**	**36,589**	**8,811**	**2,917,414**
Total liabilities	**338,505,733**	**4,589,358**	**49,141**	**343,144,232**
Net position	**21,631,051**	**8,836,360**	**10,507**	**30,477,918**
Off-balance sheet credit commitments	**29,166,790**	**374,804**	**116,787**	**29,658,381**

	31 December 2018			
	RMB	USD *(RMB Equivalent)*	Others *(RMB Equivalent)*	Total *(RMB Equivalent)*
Assets				
Cash and deposits with central bank	29,522,481	28,105	3,844	29,554,430
Deposits with banks and other financial institutions	1,187,598	332,317	22,522	1,542,437
Placements with banks and other financial institutions	3,874,944	235,520	–	4,110,464
Financial assets held under resale agreements	300,262	–	–	300,262
Loans and advances to customers	123,210,169	153,093	3,629	123,366,891
Financial investments *(Note (i))*	135,931,485	9,465,138	–	145,396,623
Long-term receivables	7,766,698	–	–	7,766,698
Others	5,617,694	2,252	751	5,620,697
Total assets	307,411,331	10,216,425	30,746	317,658,502
Liabilities				
Borrowings from central bank	10,878,835	–	–	10,878,835
Deposits from banks and other financial institutions	11,632,982	–	–	11,632,982
Placements from banks and other financial institutions	6,240,715	966,351	–	7,207,066
Financial assets sold under repurchase agreements	14,850,333	–	–	14,850,333
Deposits from customers	177,223,409	631,187	56,651	177,911,247
Debt securities issued	65,240,507	–	–	65,240,507
Others	2,411,680	27,363	1,765	2,440,808
Total liabilities	288,478,461	1,624,901	58,416	290,161,778
Net position	18,932,870	8,591,524	(27,670)	27,496,724
Off-balance sheet credit commitments	18,038,135	482,852	190,851	18,711,838

Note:

(i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, and financials investment measured at amortized cost.

Changes in annualized net profit	**31 December 2019 Increase/ (Decrease)**	31 December 2018 Increase/ (Decrease)
Foreign exchange rate increase by 100 bps	**9,511**	9,358
Foreign exchange rate decrease by 100 bps	**(9,511)**	(9,358)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

(i) the foreign exchange sensitivity is the gain or loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB;

(ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

(iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net foreign exchange gain or loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(3) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business even if a bank's solvency remains strong. Liquidity risk management is to ensure that the Group has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Group should have the ability to make full payment due on demand deposits or early withdrawal of term deposits, make full repayment of placement upon maturity, or meet other payment obligations. The bank also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Group monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

Under the guidance of the Asset and Liability Management Committee, the Financial Planning Department performs daily management of liquidity risk in accordance with the liquidity management objectives, and to ensure payment of the business.

The Group holds an appropriate amount of liquid assets (such as deposits with central bank, other short-term deposits and securities) to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business. A substantial portion of the Group's assets are funded by deposits from customers. As a major source of funding, customer deposits have been growing steadily in recent years and are widely diversified in terms of type and duration.

The Group principally uses liquidity gap analysis to measure liquidity risk. Stress testing is also adopted to assess the impact of liquidity risk.

(a) Maturity analysis

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	31 December 2019							
	Indefinite *(Note (ii))*	Repayable on demand *(Note (ii))*	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central bank	19,450,458	20,254,382	–	–	–	–	–	39,704,840
Deposits with banks and other financial institutions	–	1,312,468	–	–	–	–	–	1,312,468
Placements with banks and other financial institutions	–	–	162,798	806,359	2,344,446	–	–	3,313,603
Financial assets held under resale agreements	–	–	2,325,771	–	–	–	–	2,325,771
Loans and advances to customers	1,201,992	349,749	10,501,076	9,329,210	49,927,301	48,045,398	49,803,565	169,158,291
Financial investments *(Note (i))*	23,250	–	3,749,714	5,619,933	28,885,764	60,970,135	43,128,604	142,377,400
Long-term receivables	8,877	41,196	305,697	758,246	2,402,866	5,520,937	–	9,037,819
Others	5,552,527	8,066	5,588	283	4,253	194,456	626,785	6,391,958
Total assets	26,237,104	21,965,861	17,050,644	16,514,031	83,564,630	114,730,926	93,558,954	373,622,150
Liabilities								
Borrowings from central bank	–	–	400,375	62,314	5,073,961	–	–	5,536,650
Deposits from banks and other financial institutions	–	4,937,212	3,091,712	2,221,296	6,212,307	–	–	16,462,527
Placements from banks and other financial institutions	–	–	2,954,285	1,364,186	5,519,684	78,102	–	9,916,257
Financial assets sold under repurchase agreements	–	–	16,027,082	–	–	–	–	16,027,082
Deposits from customers	–	113,653,274	15,175,036	14,145,017	38,337,207	33,718,468	396,401	215,425,403
Debt securities issued	–	–	2,171,262	11,329,858	38,676,673	17,489,383	7,191,723	76,858,899
Others	114,271	120,041	539,476	135,578	197,957	1,502,389	307,702	2,917,414
Total liabilities	114,271	118,710,527	40,359,228	29,258,249	94,017,789	52,788,342	7,895,826	343,144,232
Net position	26,122,833	(96,744,666)	(23,308,584)	(12,744,218)	(10,453,159)	61,942,584	85,663,128	30,477,918

	31 December 2018							
	Indefinite *(Note (ii))*	Repayable on demand *(Note (ii))*	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central bank	20,835,735	8,718,695	–	–	–	–	–	29,554,430
Deposits with banks and other financial institutions	–	1,341,224	–	–	201,213	–	–	1,542,437
Placements with banks and other financial institutions	–	–	239,838	713,109	3,157,517	–	–	4,110,464
Financial assets held under resale agreements	–	–	300,262	–	–	–	–	300,262
Loans and advances to customers	2,156,367	940,792	6,331,329	10,979,327	41,645,801	25,418,753	35,894,522	123,366,891
Financial investments *(Note (i))*	23,250	–	1,378,417	7,684,772	21,216,658	71,838,897	43,254,629	145,396,623
Long-term receivables	–	–	200,327	758,346	2,456,543	4,351,482	–	7,766,698
Others	5,601,299	19,398	–	–	–	–	–	5,620,697
Total assets	28,616,651	11,020,109	8,450,173	20,135,554	68,677,732	101,609,132	79,149,151	317,658,502
Liabilities								
Borrowings from central bank	–	–	176,217	76,674	10,625,944	–	–	10,878,835
Deposits from banks and other financial institutions	–	1,817,247	2,397,146	906,887	6,511,702	–	–	11,632,982
Placements from banks and other financial institutions	–	–	1,368,515	2,025,440	3,628,030	185,081	–	7,207,066
Financial assets sold under repurchase agreements	–	–	14,850,333	–	–	–	–	14,850,333
Deposits from customers	–	91,748,668	18,338,126	10,846,766	29,388,722	27,201,142	387,823	177,911,247
Debt securities issued	–	–	4,779,439	12,064,185	39,707,245	1,499,470	7,190,168	65,240,507
Others	119,499	143,478	639,057	56,053	710,163	696,858	75,700	2,440,808
Total liabilities	119,499	93,709,393	42,548,833	25,976,005	90,571,806	29,582,551	7,653,691	290,161,778
Net position	28,497,152	(82,689,284)	(34,098,660)	(5,840,451)	(21,894,074)	72,026,581	71,495,460	27,496,724

Notes:

(i) Financial investments include financial assets measured at FVTPL, financial investment measured at FVOCI, and financial investment measured at amortized cost.

(ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers and long-term receivables, the "indefinite" period amount represents the balance being credit-impaired or not credit-impaired but overdue for more than one month, and the balance not credit-impaired but overdue within one month is included in "repayable on demand".

(b) *Analysis on contractual undiscounted cash flows*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities at the end of the reporting period:

	31 December 2019								
	Indefinite	**Repayable on demand**	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Contractual undiscounted cash flow**	**Carrying Amount**
Borrowings from central bank	**–**	**–**	**400,599**	**85,875**	**5,150,899**	**–**	**–**	**5,637,373**	**5,536,650**
Deposits from banks and other financial institutions	**–**	**4,937,212**	**3,096,417**	**2,232,040**	**6,321,381**	**–**	**–**	**16,587,050**	**16,462,527**
Placements from banks and other financial institutions	**–**	**–**	**2,956,700**	**1,387,920**	**5,659,189**	**78,102**	**–**	**10,081,911**	**9,916,257**
Financial assets sold under repurchase agreements	**–**	**–**	**16,029,968**	**–**	**–**	**–**	**–**	**16,029,968**	**16,027,082**
Deposits from customers	**–**	**113,653,274**	**15,187,568**	**14,211,282**	**39,058,190**	**36,454,046**	**478,312**	**219,042,672**	**215,425,403**
Debt securities issued	**–**	**–**	**2,150,000**	**11,529,980**	**39,896,600**	**20,520,120**	**7,200,000**	**81,296,700**	**76,858,899**
Others	**114,271**	**120,041**	**557,855**	**145,680**	**257,361**	**1,594,232**	**150,419**	**2,939,859**	**2,908,609**
Total	**114,271**	**118,710,527**	**40,379,107**	**29,592,777**	**96,343,620**	**58,646,500**	**7,828,731**	**351,615,533**	**343,135,427**

	31 December 2018								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	–	–	176,370	76,950	10,845,905	–	–	11,099,225	10,878,835
Deposits from banks and other financial institutions	–	1,817,247	2,399,559	911,385	6,641,162	–	–	11,769,353	11,632,982
Placements from banks and other financial institutions	–	–	1,370,635	2,045,181	3,749,160	194,204	–	7,359,180	7,207,066
Financial assets sold under repurchase agreements	–	–	14,855,016	–	–	–	–	14,855,016	14,850,333
Deposits from customers	–	91,748,668	18,351,229	10,892,065	29,816,577	29,487,700	461,810	180,758,049	177,911,247
Debt securities issued	–	–	4,790,000	12,163,730	40,863,000	3,093,920	8,445,960	69,356,610	65,240,507
Others	119,499	143,478	639,057	56,053	710,163	696,858	75,700	2,440,808	2,440,808
Total	119,499	93,709,393	42,581,866	26,145,364	92,625,967	33,472,682	8,983,470	297,638,241	290,161,778

This analysis of the liabilities by contractual undiscounted cash flow might differ from actual results.

(4) Operational risk

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks the Group face include internal and external frauds, worksite safety failures, business interruptions and failure in the information technology system.

The board of directors of the Bank is ultimately responsible for the operational risk management, and the Bank's senior management leads the bank-wide operational risk management on a day-to-day basis. The Group has established "three lines of defenses" to manage operational risk on an end-to-end basis. The business lines and functions are the first line of defense against operational risks, taking direct responsibilities for operational risk management. The legal and compliance department is the second line of defense against operational risks, responsible for the establishment of operational risk management policies and procedures and the coordination, support, and supervision of operational risk management. The audit department is the third line of defense against operational risk, responsible for evaluating the adequacy and effectiveness of operational risk management policies and procedures and assessing the internal control system and compliance.

(5) Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management. Among them, capital adequacy ratio management is especially important. The Group calculates capital adequacy ratios in accordance with the guidance issued by the former CBRC. The capital of the Group is divided into three pieces: core tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the core of the capital management of the Group. Capital adequacy ratio reflects the Group's sound operations and risk management capability. The Group's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio. The required information is filed with the regulatory authority by the Group periodically.

As at 31 December 2019 and 2018, the Group calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the former CBRC in 2012 and relevant requirements promulgated by the former CBRC as follows:

	31 December 2019	31 December 2018
Total core tier-one capital	**22,418,940**	19,433,753
– Share capital	**4,509,690**	4,058,713
– Qualifying portion of capital reserve	**8,337,869**	6,826,276
– Surplus reserve	**1,626,662**	1,403,575
– General reserve	**4,400,258**	3,969,452
– Retained earnings	**2,528,787**	2,319,800
– Other comprehensive income	**658,230**	553,193
– Qualifying portion of non-controlling interests	**357,444**	302,744
Core tier-one capital deductions	**(194,243)**	(165,153)
Net core tier-one capital	**22,224,697**	19,268,600
Other tier-one capital	**7,901,623**	7,894,330
– Additional tier 1 capital instruments and related premium	**7,853,964**	7,853,964
– Valid portion of minority interests	**47,659**	40,366
Net tier-one capital	**30,126,320**	27,162,930
Tier two capital	**9,126,185**	8,858,726
– Qualifying portions of tier-two capital instruments issued	**7,200,000**	7,200,000
– Surplus provision for loan impairment	**1,830,867**	1,577,994
– Qualifying portion of non-controlling interests	**95,318**	80,732
Net capital base	**39,252,505**	36,021,656
Total risk weighted assets	**265,908,365**	229,776,495
Core tier-one capital adequacy ratio	**8.36%**	8.39%
Tier-one capital adequacy ratio	**11.33%**	11.82%
Capital adequacy ratio	**14.76%**	15.68%

45 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair value, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair value:

(a) Debt securities investments

The fair value of debt securities that are traded in an active market is based on their quoted market prices in an active market at the end of the reporting period.

(b) Other financial investments and other non-derivative financial assets

Fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(c) Debt securities issued and other non-derivative financial liabilities

The fair value of debt securities issued is based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair value of other non-derivative financial liabilities is evaluated at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(d) Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards and swaps, etc. The most frequently applied valuation techniques include discounted cash flow model, etc. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

(2) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	31 December 2019			
	Level 1 *Note (i)*	**Level 2** *Note (i)*	**Level 3** *Note (i) ~ (ii)*	**Total**
Financial investments measured at FVTPL				
– Debt securities	**–**	**800,861**	**–**	**800,861**
– Asset management plans	**–**	**–**	**9,240,047**	**9,240,047**
– Wealth management products	**–**	**–**	**1,033,973**	**1,033,973**
– Trust fund plans	**–**	**–**	**2,829,424**	**2,829,424**
– Investment funds	**–**	**8,957,998**	**50,258**	**9,008,256**
Derivative financial assets	**–**	**6,848**	**5,588**	**12,436**
Financial investments measured at FVOCI				
– Debt securities	**–**	**46,915,283**	**–**	**46,915,283**
– Asset management plans	**–**	**7,302,406**	**–**	**7,302,406**
– Other investments	**–**	**–**	**732,842**	**732,842**
– Equity investments	**–**	**–**	**23,250**	**23,250**
Loans and advances to customers measured at FVOCI	**–**	**–**	**6,249,822**	**6,249,822**
Total financial assets	**–**	**63,983,396**	**20,165,204**	**84,148,600**
Derivative financial liabilities	**–**	**6,790**	**2,015**	**8,805**
Total financial liabilities	**–**	**6,790**	**2,015**	**8,805**

	31 December 2018			
	Level 1 *Note (i)*	Level 2 *Note (i)*	Level 3 *Note (i) ~ (ii)*	Total
Financial assets measured at FVTPL				
– Debt securities	–	237,280	–	237,280
– Asset management plans	–	–	9,354,611	9,354,611
– Wealth management products	–	–	2,080,946	2,080,946
– Trust fund plans	–	–	3,221,359	3,221,359
– Investment funds	–	7,417,936	49,684	7,467,620
Financial investments measured at FVOCI				
– Debt securities	–	47,796,047	–	47,796,047
– Asset management plans	–	5,183,454	–	5,183,454
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	6,772,625	6,772,625
Total financial assets	–	60,634,717	21,502,475	82,137,192

Note:

(i) During the reporting period, there were no significant transfers among each level.

(ii) Movements in Level 3 of the fair value hierarchy

				Total gains or losses for the year		**Purchases, issues, disposals and settlements**			
2019	**As at 1 January**	**Transfer into level 3**	**Transfer out of level 3**	**In profit or loss**	**In other comprehensive income**	**Purchases**	**Issues**	**Disposals and settlements**	**As at 31 December**
Financial investments measured at FVTPL									
– Asset management plans	**9,354,611**	**–**	**–**	**280,983**	**–**	**5,221,089**	**–**	**(5,616,636)**	**9,240,047**
– Wealth management products	**2,080,946**	**–**	**–**	**33,973**	**–**	**1,000,000**	**–**	**(2,080,946)**	**1,033,973**
– Trust fund plans	**3,221,359**	**–**	**–**	**112,326**	**–**	**270,304**	**–**	**(774,565)**	**2,829,424**
– Investment funds	**49,684**	**–**	**–**	**574**	**–**	**–**	**–**	**–**	**50,258**
Derivative financial assets	**–**	**–**	**–**	**5,588**	**–**	**–**	**–**	**–**	**5,588**
Financial investments measured at FVOCI									
– Other investments	**–**	**–**	**–**	**27,299**	**5,543**	**700,000**	**–**	**–**	**732,842**
– Equity investments	**23,250**	**–**	**–**						**23,250**
Loans and advances to customers measured at FVOCI	**6,772,625**	**–**	**–**	**309,424**	**(9,022)**	**22,794,208**	**–**	**(23,617,413)**	**6,249,822**
Total financial assets	**21,502,475**	**–**	**–**	**770,167**	**(3,479)**	**29,985,601**	**–**	**(32,089,560)**	**20,165,204**
Derivative financial liabilities	**–**	**–**	**–**	**2,015**	**–**	**–**	**–**	**–**	**2,015**
Total financial liabilities	**–**	**–**	**–**	**2,015**	**–**	**–**	**–**	**–**	**2,015**

				Total gains or losses for the year		Purchases, issues, disposals and settlements			
2018	As at 1 January	Transfer into level 3	Transfer out of level 3	In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	As at 31 December
Financial investments measured at FVTPL									
– Asset management plans	10,863,060	–	–	146,488	–	2,249,559	–	(3,904,496)	9,354,611
– Wealth management products	20,992,466	–	–	183,456	–	5,000,000	–	(24,094,976)	2,080,946
– Trust fund plans	8,456,436	–	–	77,401	–	395,000	–	(5,707,478)	3,221,359
– Investment funds	60,155	–	–	1,501	–	–	–	(11,972)	49,684
Financial investments measured at FVOCI									
– Asset management plans	3,203,033	–	–	67,501	(5,938)	–	–	(3,264,596)	–
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
Loans and advances to customers measured at FVOCI	2,941,746	–	–	249,566	15,908	28,225,793	–	(24,660,388)	6,772,625
Total financial assets	46,540,146	–	–	725,913	9,970	35,870,352	–	(61,643,906)	21,502,475

(3) Level 2 of the fair value hierarchy

A majority of the financial instruments classified as level 2 of the Group are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

(4) Fair value of financial assets and liabilities not carried at fair value

(i) Cash and deposits with central bank, borrowings from central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

(ii) Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables

Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables's estimated fair value represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

(iii) Debt securities financial investments measured at amortised cost

The fair value for debt securities financial investments measured at amortised cost is based on "bid" market prices or brokers'/dealers' price quotations. If relevant market information is not available, the fair value is based on quoted price of security products with similar characteristics such as credit risk, maturities and yield.

(iv) Deposits from customers

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(v) Debt securities issued

The fair value of debt securities issued is based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of debt securities financial instruments measured at amortised cost and debt securities issued:

	31 December 2019				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	**38,866,579**	**38,978,313**	**–**	**38,895,979**	**82,334**
Total	**38,866,579**	**38,978,313**	**–**	**38,895,979**	**82,334**
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	**25,119,246**	**25,374,003**	**–**	**25,374,003**	**–**
– Certificates of interbank deposit	**51,739,653**	**51,788,903**	**–**	**51,788,903**	**–**
Total	**76,858,899**	**77,162,906**	**–**	**77,162,906**	**–**

	31 December 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	36,665,810	36,674,559	–	36,583,883	90,676
Total	36,665,810	36,674,559	–	36,583,883	90,676
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	15,532,452	15,212,729	–	15,212,729	–
– Certificates of interbank deposit	49,708,055	49,726,684	–	49,726,684	–
Total	65,240,507	64,939,413	–	64,939,413	–

46 COMMITMENTS AND CONTINGENCIES

(1) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and financial guarantees, etc.

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	31 December 2019	31 December 2018
Bank acceptances	**20,884,567**	13,700,722
Letters of credit	**1,562,969**	657,499
Letters of guarantees	**1,891,134**	2,410,966
Unused credit card commitments	**5,045,541**	1,698,681
Irrevocable loan commitments	**274,170**	243,970
Total	**29,658,381**	18,711,838

Irrevocable loan commitments only include unused loan commitments granted to syndicated loans.

The Group may be exposed to credit risk in all the above credit businesses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

For details of ECL of credit commitments, please refer to Note 36 (3).

(2) Credit risk-weighted amount

	31 December 2019	31 December 2018
Credit risk-weighted amount of contingent liabilities and commitments	**10,077,887**	9,694,305

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors.

(3) Operating lease commitments

As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	31 December 2018
Within one year (inclusive)	108,802
After one year but within five years (inclusive)	320,161
After five years	90,464
Total	519,427

The Group is the lessee in respect of a number of properties which were previously classified as operating leases under IAS 17. The group has initially applied IFRS 16 as at 1 January 2019, and recognised the present value of outstanding lease payments as lease liabilities (see note 2(2)). From 1 January 2019 onwards, the present value of outstanding lease payments are recognised as lease liabilities in accordance with the requirement of IFRS16 (see note 2(2) and note 35).

(4) Capital commitments

As at the end of the reporting period, the Group's authorised capital commitments are as follows:

	31 December 2019	31 December 2018
Contracted but not paid for	**82,790**	213,625
Total	**82,790**	213,625

(5) Outstanding litigations and disputes

A number of outstanding litigation matters against the Group had arisen in the normal course of its operation as at 31 December 2019. With consideration of the professional advice, the Group's management believes such litigation will not have a significant impact on the Group.

(6) Bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	31 December 2019	31 December 2018
Bonds redemption obligations	**5,026,883**	4,153,146

(7) Pledged assets

	31 December 2019	31 December 2018
Investment securities	**21,792,317**	28,618,903
Discounted bills	**1,106,722**	1,214,031
Total	**22,899,039**	29,832,934

Some of the Group's assets are pledged as collateral under repurchase agreements, deposits from banks and other financial institutions, borrowings from central bank and deposits from customers.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 31 December 2019 and 31 December 2018, the Group did not have these discounted bills under resale agreements. As at 31 December 2019 and 31 December 2018, the Group did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due.

47 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 notes issued by these structured entities. The Group does not consolidate these structured entities. Such structured entities include wealth management products, asset management plans, trust fund plans, asset-backed securities and investment funds. 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 notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 2019 and 31 December 2018 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	31 December 2019				
	Financial investments measured at FVTPL	**Financial investments measured at FVOCI**	**Financial investments measured at amortised cost**	**Carrying amount**	**Maximum exposure**
Asset management plans	**9,240,047**	**7,302,406**	**15,884,877**	**32,427,330**	**32,427,330**
Trust fund plans	**2,829,424**	**–**	**4,781,679**	**7,611,103**	**7,611,103**
Wealth management products	**1,033,973**	**–**	**–**	**1,033,973**	**1,033,973**
Asset-backed securities	**100,000**	**1,008,633**	**–**	**1,108,633**	**1,108,633**
Investment funds	**9,008,256**	**–**	**–**	**9,008,256**	**9,008,256**
Total	**22,211,700**	**8,311,039**	**20,666,556**	**51,189,295**	**51,189,295**

	31 December 2018				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	9,354,611	5,183,454	23,345,844	37,883,909	37,883,909
Trust fund plans	3,221,359	–	4,749,685	7,971,044	7,971,044
Wealth management products	2,080,946	–	–	2,080,946	2,080,946
Asset-backed securities	–	1,952,607	–	1,952,607	1,952,607
Investment funds	7,467,620	–	–	7,467,620	7,467,620
Total	22,124,536	7,136,061	28,095,529	57,356,126	57,356,126

The maximum exposures to loss in the above structured entities are the amortised cost or the fair value of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

(2) Unconsolidated structured entities sponsored by the Group in which the Group holds an interest

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services to these structured entities. As at 31 December 2019 and 31 December 2018, the carrying amounts of the management fee receivables being recognised are not material in the statement of financial position.

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, was RMB100.969 billion (31 December 2018: RMB71.534 billion).

(3) Structured entities sponsored and issued by the Group after 1 January but matured before 31 December at the end of the reporting period in which the Group no longer holds an interest

During the year ended 31 December 2019, the amount of fee and commission income recognised from the above mentioned structured entities by the Group was RMB0.213 billion (2018: RMB0.172 billion).

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 RMB95.903 billion (2018: RMB113.520 billion).

48 TRANSFERED 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 structured entities. 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 recognise the transferred assets.

(1) Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may require or be required to pay additional cash collateral in certain circumstances. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

(2) Asset securitization

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors, or carries out trust beneficial rights registration and transfer business in China Credit Assets Registry & Exchange Co., Ltd ("Yindeng Center").

In 2015, the Group transferred a portfolio of customer loans with a book value of RMB2.543 billion to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognized.

In 2017, the Group entrusted a portfolio of customer loans with a book value of RMB2.000 billion to an independent trust company for setting up an unconsolidated securitization vehicle. The Group obtained the trust beneficiary rights, and subsequently transferred all the initial holding trust beneficiary rights via Yindeng Center. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognised.

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

49 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in the statements of financial position as they are not the Group's assets.

As at 31 December 2019, the entrusted loans balance of the Group was RMB3.145 billion (31 December 2018: RMB4.163 billion).

50 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2019	31 December 2018
Assets		
Cash and deposits with central bank	**39,704,840**	29,554,430
Deposits with banks and other financial institutions	**1,307,010**	1,540,521
Placements with banks and other financial institutions	**3,515,038**	4,110,464
Derivative financial assets	**12,436**	–
Financial assets held under resale agreements	**2,325,771**	300,262
Loans and advances to customers	**169,158,291**	123,366,891
Financial investments measured at fair value through profit or loss	**22,912,561**	22,361,816
Financial investments measured at fair value through other comprehensive income	**54,973,781**	53,002,751
Financial investments measured at amortised cost	**64,491,058**	70,032,056
Investment in subsidiary	**510,000**	510,000
Property and equipment	**3,047,926**	3,123,069
Right of use assets	**817,857**	Not applicable
Deferred tax assets	**1,512,501**	1,116,928
Other assets	**925,104**	1,313,932
Total assets	**365,214,174**	310,333,120

	31 December 2019	31 December 2018
Liabilities		
Borrowings from central bank	**5,536,650**	10,878,835
Deposits from banks and other financial institutions	**16,792,558**	11,672,892
Placements from banks and other financial institutions	**2,552,359**	966,351
Derivative financial liabilities	**8,805**	–
Financial assets sold under repurchase agreements	**16,027,082**	14,850,333
Deposits from customers	**215,425,403**	177,911,247
Income tax payable	**147,155**	–
Debt securities issued	**76,858,899**	65,240,507
Lease liabilities	**427,296**	Not applicable
Other liabilities	**1,599,091**	1,850,618
Total liabilities	**335,375,298**	283,370,783
Equity		
Share capital	**4,509,690**	4,058,713
Other equity instrument		
Including: preference shares	**7,853,964**	7,853,964
Capital reserve	**8,337,869**	6,826,276
Surplus reserve	**1,626,662**	1,403,575
General reserve	**4,400,258**	3,969,452
Other comprehensive income	**658,230**	553,193
Retained earnings	**2,452,203**	2,297,164
Total equity	**29,838,876**	26,962,337
Total liabilities and equity	**365,214,174**	310,333,120

Approved and authorised for issue by the board of directors on 20 March 2020.

Guo Shaoquan
Legal Representative (Chairman)

Wang Lin
President

Yang Fengjiang
Vice President in charge of finance function

Meng Dageng
Head of the Planning & Finance Department

(Company Stamp)

51 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the issuance date of the financial statements, the IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all the new and revised IFRSs in issue which are relevant to the Group for the reporting period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2019. The revised and new accounting standards and interpretations probably related to the Group, which are issued but not yet effective for the accounting period ended 31 December 2019, are set out below:

	Effective for accounting periods beginning on or after
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3, Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8, Definition of material	1 January 2020
IFRS 17, Insurance contracts	1 January 2021

These standards are expected to have no material impact on financial position and financial performance of the Group.

52 SUBSEQUENT EVENTS

(1) The profit distribution plan

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 40.

(2) Establishment of Wealth Management Subsidiary

On 10 February 2020, the Bank was approved to prepare for the establishment of Qingyin Wealth Management Co., Ltd by China Banking and Insurance Regulatory Commission (the "CBIRC"). Qingyin Wealth Management Co., Ltd. will be wholly-established by the Bank with a registered capital of RMB1 billion.

(3) Impact of Novel Coronavirus Pneumonia ("NCP")

Since the outbreak of COVID-19 in January 2020, the prevention and control work has continued, and the domestic situation of prevention and control has gradually improved. The Bank will earnestly implement the requirements of the "Notice on Further Enhancing Financial Support for Controlling the Corona Virus Disease 2019 Outbreak (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》)" and other relevant policies and regulations jointly published by the PBOC, the MOF, the CBIRC, China Securities Regulatory Commission and the State Administration of Foreign Exchange, to strengthen financial support for epidemic prevention and control.

The COVID-19 will have certain impact on domestic and overseas economic operation, which may affect the asset quality or return on assets of the Bank's credit assets and investment assets to a certain extent. The degree of impact will depend on the situation, duration of the epidemic prevention and control, and the implementation of various control policies.

The Bank will continue to closely monitor the development of the COVID-19, assess and actively respond to its impact on the financial condition, operating results and other aspects of the Bank. Up to the approval date of the financial statements, the assessment is still in progress.

Up to the approval date of the financial statements, except for the above, the Group has no other significant subsequent events for disclosure.

53 COMPARATIVE FIGURES

For financial statements disclosure purpose, the Group made reclassification adjustments to some comparative figures.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the audited financial statements, and is included herein for information purposes only.

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary Financial Information as follows:

1 LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the relevant regulations promulgated by the former CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the MOF.

(1) Liquidity coverage ratio

	As at 31 December 2019	As at 31 December 2018
Qualified and high-quality current assets	**78,152,065**	52,974,850
Net cash outflows in next 30 days	**54,930,790**	42,058,582
Liquidity coverage ratio (RMB and foreign currency)	**142.27%**	125.95%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

(2) Leverage ratio

	As at 31 December 2019	As at 31 December 2018
Leverage ratio	**7.46%**	7.92%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

(3) Net stable funding ratio

	As at 31 December 2019	As at 30 September 2019
Available stable funding	**213,709,716**	199,138,367
Required stable funding	**204,848,614**	196,427,154
Net stable funding ratio	**104.33%**	101.38%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio of commercial banks 100% is required.

2 CURRENCY CONCENTRATIONS

	31 December 2019			
	US Dollars *(RMB equivalent)*	**HK Dollars *(RMB equivalent)***	**Others *(RMB equivalent)***	**Total**
Spot assets	**13,425,717**	**30,125**	**29,524**	**13,485,366**
Spot liabilities	**(4,589,358)**	**(23,144)**	**(25,997)**	**(4,638,499)**
Net long position	**8,836,359**	**6,981**	**3,527**	**8,846,867**

	31 December 2018			
	US Dollars *(RMB equivalent)*	HK Dollars *(RMB equivalent)*	Others *(RMB equivalent)*	Total
Spot assets	10,216,425	25,396	5,350	10,247,171
Spot liabilities	(1,624,901)	(18,547)	(39,869)	(1,683,317)
Net long position	8,591,524	6,849	(34,519)	8,563,854

The Group has no structural position at the reporting periods.

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties in Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	31 December 2019			
	Public sector entities	**Banks and other financial institutions**	**Non-bank private sector**	**Total**
– Asia Pacific	**96,805**	**6,099,621**	**6,930,484**	**13,126,910**
– of which attributed to Hong Kong	**–**	**3,882,939**	**–**	**3,882,939**
– North and South America	**–**	**314,471**	**–**	**314,471**
– Europe	**–**	**19,205**	**–**	**19,205**
	96,805	**6,433,297**	**6,930,484**	**13,460,586**

	31 December 2018			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	26,023	4,834,807	5,100,075	9,960,905
– of which attributed to Hong Kong	–	3,133,618	–	3,133,618
– North and South America	–	271,312	–	271,312
– Europe	–	1,257	–	1,257
	26,023	5,107,376	5,100,075	10,233,474

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	31 December 2019	31 December 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	**561,698**	422,827
– between 6 months and 1 year (inclusive)	**502,752**	806,413
– over 1 year	**723,309**	852,792
Total	**1,787,759**	2,082,032

	31 December 2019	31 December 2018
As a percentage of total gross loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	**0.32%**	0.33%
– between 6 months and 1 year (inclusive)	**0.29%**	0.64%
– over 1 year	**0.42%**	0.67%
Total	**1.03%**	1.64%

SECTION 6 RELEASE OF ANNUAL RESULTS ANNOUNCEMENT AND 2019 ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE BANK

This results announcement will be published on the HKEXnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.qdccb.com). The 2019 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and released on the website of the Hong Kong Stock Exchange and the website of the Bank in due course.

This results announcement was prepared in both Chinese and English versions, where there is a discrepancy between the Chinese and English versions, the Chinese version shall prevail.

By order of the Board
Bank of Qingdao Co., Ltd.*
Guo Shaoquan
Chairman

Qingdao, Shandong, the PRC
20 March 2020

As at the date of this announcement, the Board comprises Mr. Guo Shaoquan, Mr. Wang Lin, Mr. Yang Fengjiang and Ms. Lu Lan as executive directors; Mr. Zhou Yunjie, Mr. Rosario Strano, Ms. Tan Lixia, Mr. Marco Mussita, Mr. Deng Youcheng and Mr. Choi Chi Kin, Calvin as non-executive directors; Mr. Chen Hua, Ms. Dai Shuping, Ms. Fang Qiaoling and Mr. Tingjie Zhang as independent non-executive directors.

* *Bank of Qingdao Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.*