PING AN BANK CO., LTD.

2019 Annual Report

[English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

Important Notes

1. The board of directors (hereinafter referred to as the "Board"), the supervisory committee, the directors, the supervisors and senior management of the Bank guarantee the authenticity, accuracy and completeness of the contents of the Annual Report, in which there are no false representations, misleading statements or material omissions, and are severally and jointly liable for its contents.
2. The 5th meeting of the 11th session of the Board of the Bank deliberated the 2019 Annual Report together with its summary. The meeting required 15 directors to attend, and 15 directors attended the meeting. This Annual Report was approved unanimously at the meeting.
3. The 2019 annual financial report prepared by the Bank was audited by PricewaterhouseCoopers Zhong Tian LLP (hereinafter referred to as "PwC") according to the China Standards on Auditing and PwC issued a standard unqualified auditors' report.
4. Xie Yonglin (the Bank's Chairman), Hu Yuefei (the President), Xiang Youzhi (the CFO) and Zhu Peiqing (the head of the Accounting Department) guarantee the authenticity, accuracy and completeness of the financial report contained in the 2019 Annual Report.
5. The forward-looking statements such as plans for the future involved in the Report do not constitute a substantial commitment for investors. Investors and stakeholders shall be aware of risks therein and understand the differences among plans, forecasts and commitments.
6. The Bank advises investors to read the full text of this Annual Report with particular attention to the following risk factors: the Bank is faced with all kinds of risks during operation, mainly including credit risks, market risks, liquidity risks, operational risks, country risks, bank account interest rate risks, reputation risks, strategic risks, information technology risks and legal and compliance risks, and has taken various measures to effectively manage and control all kinds of the business risks. See Risk Management in Section III Session 3.7 for details.
7. The Bank's proposal for profit distribution of ordinary shares deliberated by the Board: cash dividend distribution of RMB2.18 per 10 shares (tax inclusive) to all shareholders based on the total share capital of the Bank of 19,405,918,198 shares as at 31 December 2019. There was no proposal to issue bonus shares or to convert public reserve to share capital.

Contents

Interpretations

Item	refer(s) to	Contents
Ping An Bank, the Bank and the Company	refer to	Shenzhen Development Bank Co., Ltd. ("Shenzhen Development Bank" or "Shenzhen Development"), which is a renamed Bank completing the integration by absorption and merger of the former Ping An Bank Co., Ltd. ("former Ping An Bank") in 2012
Shenzhen Development Bank or Shenzhen Development	refers to	a national joint-stock commercial bank established on 22 December 1987, with its name changed to Ping An Bank after absorption and merger of the former Ping An Bank
Former Ping An Bank	refers to	a joint-stock commercial bank established in June 1995 and registered on 12 June 2012
China Ping An, Ping An Group and the Group	refer to	Ping An Insurance (Group) Company of China, Ltd.
Ping An Life Insurance	refers to	Ping An Life Insurance Company of China, Ltd.
PBoC	refers to	The People's Bank of China
CSRC and Securities Regulatory Commission	refer to	China Securities Regulatory Commission
CBIRC and Banking and Insurance Regulatory Commission	refer to	China Banking and Insurance Regulatory Commission

Chairman's Statement

Deliver Financial Services for the Common Good and the Future

During the Spring Festival that was only over a couple of weeks ago, people in the vast land of China have been deeply affected. In order to win this epidemic battle against the Coronavirus, every organisation and individual are doing the best of what can be done. Ping An Bank is also actively making its own contributions. We firmly believe that with the concerted efforts across the country, the final success will be ours and soon.
In this battle, we feel a sense of mission and responsibility. This is derived from the traditional Chinese belief in the Great Love to help each other. In addition, we are also deeply aware that no home can safely withstand the crisis without the country, and we, both organisations and individuals, stand together and fight together for the common good.

Ping An Bank, established at the forefront of China's reform and opening up, has achieved rapid growth thanks to the sustained development of the nation and the dedication of the people to pursue a better life, as well as the opportunities of the times. As a listed company, a corporate citizen, as well as a social citizen, we are striving to fulfil all of our responsibilities to contribute to the country and the society, and rise to the challenges of our times.

Accountability to the shareholders: Create value, stabilise operation

As the first joint-stock commercial bank to make public offering of its shares in the People's Republic of China, our main missions at Ping An are to deliver good performance in our operations and management and create value for the shareholders.

In 2019, we delivered our missions. The share price of Ping An Bank rose by 77% in the whole year. The operating income of the Bank was RMB137,958 million, representing a year-on-year increase of 18.2%; the net profit was RMB28,195 million, representing a year-on-year increase of 13.6%.

The data reflect a continuous fortified fundamental for development and a constant driving force for progress.

Our business structure is undergoing constant optimisation and becoming more balanced. The retail business has further consolidated its position as the pillar in our income structure, while our corporate banking and interbank treasury operations, with clarified action plans and objectives, are further gaining speed in their development. And we have found a good balance in our overall business structure where the retail business and corporate business represent roughly sixty and forty percent of the whole.

Profit growth has found its momentum, with risks controllable. The growth rates of both operating income and net profit in 2019 reached record highs since the Bank's business transformation, demonstrating that the transformational driving forces have translated into concrete results. Moreover, these achievements are based on solid asset quality, with decreases in the proportion and deviation ratio of loans overdue for more than 60 days and increase in the provision coverage ratio. We are confident that these achievements are solid and also sustainable.

Data-based business capabilities continue to improve with promising results. Through the intelligent management platform, we have built our own AI-enabled central processing units for our decision-making, risk control and services to transform experience into data; and meanwhile, we continue to improve our online operation capabilities to improve business efficiency and further reduce costs.

The balanced structure will play a big role in promoting profit growth, as with strong asset quality to boost our rear line of defence and data-based capabilities facilitate innovations in business models and solutions, we can not only focus on the present, but also prepare for the future development. Thanks to this approach that drive synergies between the front, middle and back offices, Ping An Bank has earned wide recognition of the market. In September 2019, the Bank successfully completed the conversion of RMB26 billion convertible bonds at a conversion rate of nearly 100%, and created a new record to complete the process in only 19 trading days from the start of the conversion to the day when conditional redemption was triggered.

Accountability to the customers: support the real economy and contribute to the improvement of the people's livelihood

President Xi points out: the economy prospers, and the financial sector benefits; the economy becomes stronger, and the financial sector follows the lead. To serve the real economy and help the people in their pursuit of a better life through financial services is what defines us in everything we do.

In terms of serving the real economy, we focus on removing financing barriers and lowering the financing costs private enterprises. The development of private enterprises have always been a top priority at the Bank, especially with regard to removing the financing barriers and lowering financing costs for private enterprises, to which the Bank has devoted huge resources in identifying solutions over the years. Along the upstream and downstream of the core companies, for example, leveraging new technologies such as the Internet of Things and blockchain, and by ensuring that relevant risks are properly managed, we provide to small and micro enterprises with tailored financing services that require no collateral or guarantees and can be obtained through online application and online approval, a solution that delivers financing efficiency as well as reduction in financing costs.

In 2019, private enterprise borrowers accounted for more than 70% of all corporate borrowers of new loans, the small enterprise digital financial service customers increased by 142.2% over the end of the previous year, and the balance of loans to key industries and strategic emerging industries rose by 53% as compared with the end of last year. In terms of service quality and efficency, for small and micro enterprises, the approval of financing application could be completed in as little as 26 seconds as compared with the previous standard 30 days, and the loan disbursements could become available in as little as 10 seconds as compared with the previous standard 3 days, with a decrease in average loan interest rate of nearly 200BPs.

Besides traditional credit financing, the Bank also actively responded to regulatory calls by promoting the proportion of direct financing of enterprises.

In addition, we have also extended our services to the frontlines of the borrowers' business operations by making AI-enabled platforms available to them, so that they can enjoy the benefits of cutting-edge technologies at an affordable cost, to better position themselves with foresights into the future development of their respective industry, apply AI-enabled capabilities in their business management, be more efficient in their resource planning and allocation, and facilitate their productions and development.

In terms of contributing to the improvement of the people's livelihood, we make full use of technologies and adopt the "finance + life" approach to help people in their pursuit of a better life.

We continue to improve our online capabilities and services to deliver wider coverage and better experience. Over the past three years, the number of our physical outlets has decreased by 1.3%, but thanks to the power of technology, the number of our customers has increased by nearly 1.5 times, while the monthly active users of the Pocket Bank have more than tripled.

As the public increasingly become more financially aware, Ping An Bank continues to provide expertise on asset allocation and investment transactions to help the customers preserve their wealth and create value. At the end of 2019, the AUM balance of the Bank amounted to nearly RMB2 trillion, almost three times as that at the initial stage of the transformation.

On this basis, we continue to deepen the "Finance + Life" concept to closely combine our financial products and services with the people's lives, and make financial solutions available all the time and everywhere to deliver convenience to the people.

In relation to travels, shopping and video entertainment, for examples, we have launched co-branded credit cards to offer concrete benefits to the customers, and we continue to optimise the online shopping experience to deliver one-stop and scenario-based shopping solutions. At the end of 2019, the number of Ping An credit cards in circulation exceeded 60 million, and total credit card transactions amounted to RMB3.3 trillion, up 22.5% year on year.

Our auto financing products have been extensively embedded in all aspects of the people’s life involving cars, and now cover the entire process of car consumption, including purchase, use, maintenance, and exchange and replacement, so that cars can serve the people better. Drawing on the Group's network and investments in the automotive sector over the years, the Bank continues to maintain its top place in the auto financing market.

Our consumer finance products focus on medical and healthcare and daily consumptions, and aim to deliver superb experience as they address the customers’ urgent needs. The average time it takes to complete the process from loan application to drawdown has now been reduced from 4 hours to 1 hour.

We apply technologies to make financial services easily accessible, and use expertise to drive increase in wealth. We help deliver a greater sense of achievement and happiness as the customers become more willing and able to pursue their needs, and empower them in their pursuit of a better life. The boom of the consumer market through better financial services will pass on to enterprises and contribute to the growth of real economy, creating a closed loop of endogenous and positive growth driven by finance.

Accountability to the society: promote prosperity of all and aim far ahead with solid progress

Enterprises are the products of social development and the society is the soil in which the enterprises grow and prosper. In every step as we move forward, we feel more strongly that we can only aim far by solid progress that is dependant on the live-giving soil, the society we must do our own part in keeping it watered and rich.

Aligning its efforts in fighting the three critical battles of “risk prevention, targeted poverty alleviation and pollution prevention and control”, Ping An Bank continuously upgraded its measures from the financial services perspective in 2019.

On the risk prevention front, we adhered to the prudent risk principles and held fast to the lifeline of asset quality; also, we were able to receive intelligent early risk warnings by virtue of the AI-enabled risk control platform. From the principles to the tools, we have built solid defence lines for the all-round prevention of systematic financial risk.

On the targeted poverty alleviation front, we have built a closed loop of poverty alleviation combining “training to improve expertise, support to local industries to promote self-sustenance, one unique product for each village, and production and sales empowerment”, and upheld the idea of focusing on changing the mind-set and capability building in our efforts in industry-driven poverty alleviation. Since 2018, Ping An Bank has invested RMB12,554 million through the “Village Leader Project”, which has not only brought financial aid to 520,000 impoverished people but trained nearly 600 local leaders as sparks to light up the efforts in poverty alleviation.

On the pollution prevention and control front, we continue to increase our financial support for the green and environment-friendly industries and enterprises, and use financial means to help facilitate industrial upgrades and enable pollution prevention and control efforts to be done more effectively and efficiently. By the end of 2019, Ping An Bank’s total green loans amounted to nearly RMB57,200million, with a loan balance of nearly RMB25,200 million.

We are dedicated to supporting whatever is beneficial to the people, no matter how trivial it is. In delivering our social responsibilities as a financial institution, we are committed to bringing our unique expertise to bear, building more sustainable responsibility performance models and leading other enterprises and the whole industry to stay focused on and take concrete actions to meet their social responsibilities.

As a financial institution, we regard these responsibilities as an underlying driving force for "delivering financial services for the common good", and in light of our own development needs and situation, translate these responsibilities into goals and our missions into actions.

The year 2020 marks the beginning of a new stage of retail transformation for the Bank. By continuing to play our two trump cards, namely "comprehensive finance" and "technological advantages", and laying a solid foundation for the Bank'sthree positions as a digitized bank, an ecological bank and platform-based bank, we are confident that we will deliver a bigger leap in our development in the next three years.

Become a leading digitized bank in China and use technologies to improve quality and efficiency. By continuously expanding the depth and breadth of the applications of artificial intelligence and business intelligence in business operations, we will migrate from experience-driven to data-driven development; by building comprehensive digitized business capabilities, we aim to create brand-new and disruptive business models and management methods. Specifically, we will aim to deliver three goals in three areas, namely to be earlier in capturing information, decision-making and taking actions at the decision-making level; to improve effectiveness, efficiency and productivity at the operation level; and to reduce cost, risk and human resources at the management level.

Build an ecological bank with the abilities and offerings to cover the whole customer journey and reinforce the business with synergies. In line with the Group's "finance + ecology" strategy, the Bank will further leverage its strong customer base, the abundance of data and the multitude of scenarios to deliver solid support to the implementation of new models and the construction of the Group's ecosystem. In this process, banking services will be embedded in various ecological scenarios to form a closed loop from the service end to the finance end that covers the whole customer journey, enabling the technologies to empower the ecosystem and ecosystem to nourish the financial sector in return.

Build a fully connective platform-based bank and be open to deliver value to all. Platform companies, be they subsidiaries of the Group or external platform-based counterparties, will be major partnership targets for the Bank to connect with in the next stage, and we will adopt open banking to acquire customers on large scales and enable scenario-based operations. For customers, financial services will become an infrastructure, not physically noticeable but easily accessible; for both partners, both the business efficiency and customer value will be enhanced.

Digitized bank, ecological bank and platform-based bank are specific targets of the Bank in the next stage of its retail transformation strategy. To become a "domestic best performer and global leader in intelligent retail banking", the Bank must be data-driven, ecological, open and interconnected.
We believe that with the deepening of these measures, our responsibilities and missions to all stakeholders will be undertaken in a more forceful manner. We hope that as the Bank continues to make unflagging explorations and forge ahead, we can provide more concrete examples and practices for "delivering financial services for the common good".
Going forward, we will carry our responsibilities and deliver our commitments with solid efforts.

Section I Company Profile

1.1 General information

1.1.1 Company information

Stock Abbreviation	Ping An Bank	Stock code	000001
Traded on	Shenzhen Stock Exchange		
Chinese name of the Company	平安银行股份有限公司		
Short Chinese name of the Company	平安银行		
Name of the Company	Ping An Bank Co., Ltd.		
Short Name of the Company	PAB		
Legal Representative of the Company	Xie Yonglin		
Place of Registration	No. 5047, Shennan Road East, Luohu District, Shenzhen, Guangdong, the PRC		
Postal Code	518001		
Office Address	No. 5047, Shennan Road East, Shenzhen, Guangdong, the PRC Building B, Ping An Financial Centre, No. 5023, Yitian Road, Futian District, Shenzhen, Guangdong, the PRC		
Postal Code	518001, 518033		
Website	http://bank.pingan.com		
E-mail	PAB_db@pingan.com.cn		
Service Hotline	95511 ext. 3		

1.1.2 Contact information

	Secretary of the Board	Representative of Securities Affairs
Name	Zhou Qiang	Lv Xuguang
Contact Address	Board Office of Ping An Bank, Block B, Ping An Financial Centre, No. 5023, Yitian Road, Futian District, Shenzhen, Guangdong, the PRC	Board Office of Ping An Bank, Block B, Ping An Financial Centre, No. 5023, Yitian Road, Futian District, Shenzhen, Guangdong, the PRC
Telephone	(0755)82080387	(0755)82080387
Facsimile	(0755)82080386	(0755)82080386
E-mail	PAB_db@pingan.com.cn	PAB_db@pingan.com.cn

1.1.3 Information disclosure and filing location

Newspapers designated by the Company for information disclosure	*China Securities Journal*, *Securities Times*, *Shanghai Securities News*, *Securities Daily*
Website assigned by CSRC to publish the Annual Report	CNINFO http://www.cninfo.com.cn
Filing location of the Annual Report	Shenzhen Stock Exchange and Board Office of Ping An Bank

1.1.4 Change of registered information

Organisation Code	91440300192185379H (Unified social credit code)
Change of main business after listing (if any)	None
Changes of all previous controlling shareholders (if any)	China Ping An is the controlling shareholder of the Bank. In May 2010, Newbridge Asia AIV III, L.P. (“Newbridge”), the then largest shareholder of the Bank, transferred all of its 520,414,439 shares of the Bank to China Ping An. In June 2010, the Bank issued 379,580,000 shares in a non-public manner to Ping An Life Insurance, a holding subsidiary of China Ping An. After the issuance, China Ping An and its holding subsidiary Ping An Life Insurance held a total of 1,045,322,687 shares of the Bank, approximately accounting for 29.99% of the total issued share capital of the Bank. In July 2011, the Bank completed the issuance of 1,638,336,654 shares to China Ping An to purchase 7,825,181,106 shares of Ping An Bank formerly held by it and raise RMB2,690,052,300 for its major asset reorganisation. After the completion of the major asset reorganisation, the total share capital of the Bank increased to 5,123,350,416 shares. China Ping An and its holding subsidiary Ping An Life Insurance held a total of 52.38% of the shares of the Bank and became the controlling shareholders of the Bank. In December 2013, the Bank issued 1,323,384,991 shares to China Ping An in a non-public manner. After the issuance, the total share capital of the Bank increased to 9,520,745,656 shares. China Ping An and its holding subsidiary Ping An Life Insurance, holding a total of 59% of the shares of the Bank, were the controlling shareholders of the Bank. In May 2015, the Bank issued 598,802,395 shares of the ordinary shares to eligible domestic investors in a non-public manner, and China Ping An subscribed 210,206,652 shares. After the issuance, the total share capital of the Bank increased to 14,308,676,139 shares. China Ping An and its holding subsidiary Ping An Life Insurance, holding a total of 58% of the shares of the Bank, were the controlling shareholders of the Bank. In January 2019, the Bank made a public issuance of RMB26 billion of convertible corporate bonds. China Ping An and Ping An Life Insurance, as shareholders of the Bank, had the priority in placement in full amount. In August 2019, the Bank exercised the conditional right to redeem the convertible corporate bonds. After the redemption, the total share capital of the Bank increased from 17,170,411,366 shares to 19,405,918,198 shares. China Ping An and its holding subsidiary Ping An Life Insurance, holding a total of 58% of the shares of the Bank, were the controlling shareholders of the Bank.

1.1.5 Other relevant information

Accounting firm employed by the Company

Name of Accounting Firm	PricewaterhouseCoopers Zhong Tian LLP
Address of Accounting Firm	11/F, PwC Centre, Building 2, Link Square, 202 Hubin Road, Huangpu District, Shanghai
Names of Signing Accountant	Chen Anqiang and Gan Lili

The sponsor institution appointed by the Company to perform the duty of continuous supervision during the reporting period
√ Applicable □ Not applicable

Name of Sponsor Institution	Address of Sponsor Institution	Name of Signing Sponsor Representative	Period of Continuous Supervision
CITIC Securities Company Limited	North Building, Times Square Excellence (Phase II), No. 8, Zhongxin 3rd Road, Futian District, Shenzhen, Guangdong	Zhao Wencong and Song Yiran	Public Issuance of A-share convertible corporate bonds: From 18 February 2019 to 31 December 2020
Ping An Securities Co., Ltd.	22-25/F, Building B, Ping An Financial Centre, No. 5023, Yitian Road, Futian Sub-district, Futian District, Shenzhen	Li Yin and Wang Yao	

The financial advisor appointed by the Company to perform the duty of continuous supervision during the reporting period
□Applicable √ Not applicable

1.2 Main businesses of the Company during the reporting period

1.2.1 Main businesses of the Bank

Ping An Bank is a national joint-stock commercial bank. As approved by relevant regulators, the Bank engages in the following commercial banking activities: (I) absorption of public deposits; (II) advances of short, medium and long-term loans; (III) domestic and overseas settlement; (IV) bill acceptance and discounting; (V) issuance of financial bonds; (VI) agent of issuing, cashing and underwriting government bonds; (VII) trading of government bonds and financial bonds; (VIII) interbank lending and borrowing; (IX) trade foreign exchange on its behalf and as an agent; (X) bank cards; (XI) provision of letter of credit service and guarantee; (XII) agency for collection and payment and insurance agency; (XIII) safe deposit box service; (XIV) foreign exchange settlement and sale; (XV) off-shore banking; (XVI) asset custody; (XVII) gold service; (XVIII) financial advisor and credit investigation, consultation and witness services; and (XIX) other businesses approved by relevant regulators.

1.2.2 Development stage of the industry where the Bank operates

At present, the top priorities of the financial industry are to enhance capabilities to serve the real economy, slash financing costs for the real economy, optimise financial resource allocation, and strengthen financial risk prevention and control. The commercial banks must implement guiding principles from the 19th CPC National Congress, the First, Second, Third, Fourth Plenary Sessions of the 19th CPC National Congress and the Central Economic Working Conference and embed them in their daily activities, follow the national strategy closely and fully return to their primary mission to serve the real economy. They should keep strengthening the support to private enterprises, small and micro enterprises, personal consumption and industry upgrading, so as to constantly meet the people’s needs for a better life, as well as improve the overall banking capability and level to serve the real economy.

1.3 Development strategy of the Bank

Closely following the national strategy, the Bank will firmly promote the retail transformation, and continue to uphold the strategic principle of “being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking”. Adhering to the concept of science and technology as the primary productive force, with the latest technologies as the development engine, it will also build “3+2+1” business strategy respectively for the retail business, the corporate business and interbank capital business comprehensively, keep strengthening the support to private enterprises and small and micro enterprises, so as to constantly meet the people’s needs for a better life, as well as enhancing the breadth and depth of financial poverty alleviation. Furthermore, it will also continue to improve the capability and level of finance to serve the real economy and the people, and continuously enhance financial risk prevention and control, so as to “be a domestic best performer and global leader in intelligent retail banking”.

1.3.1 Being technology-driven

The Bank attaches great importance to the role of technological innovation and being technology-driven. With talent mechanism as the guarantee, safe operation as the foundation and financial technology as the starting point, it is committed to fostering finance and improving management with technologies to achieve a comprehensive digital transformation. Being technology-driven, data-driven, model-driven and talent-driven, the Bank applies cutting-edge technologies to all links of operation and management including product innovation, customer service, business operation and risk control. It continuously upgrades traditional businesses, innovates business models, optimises management decisions, improves operational efficiency and enhances user experience, so that it can join the first echelon of joint-stock banks in terms of its overall scientific and technological capabilities and become an industry leader in some professional sectors.

Technology-driven. The Bank is building a leading technology architecture. Utilising cloud computing and distributed technology, Ping An Bank promotes the transformation of technology architecture from the traditional centrally deployed structure to a distributed framework with cloud services. The Bank constructs a business system integrating R&D, operation and maintenance, further strengthens the collaboration between development teams and operation teams, and improves the efficiency of delivering applications. The Bank also strengthens the application of lead-edge technologies. Relying on the Group’s core technologies and resources in artificial intelligence, biological recognition, blockchain and big data, it deeply implants new technologies into the entire process of financial services, promotes the multi-dimensional organic integration of leading technologies with user services, product marketing, risk control, compliance management, refined management, and achieves digitalised and intelligent business operations and management.

Data-driven. Strengthening data governance, Ping An Bank improves data quality, leverages the value of data, and enhances business management capability. Enhancing data technology, it establishes technology specifications for and improves technology platforms of big data. Exploring the value of data, it deepens data applications, and improves the standardisation, labelling, granulation, process automation, and application intelligence of the underlying data. It also advances data empowerment, empowering data in business decision-making, product service, risk management and targeted marketing to support intelligent management, operation, risk control and sales.

Model-driven. The Bank updates the technology governance model. It actively promotes the governance model of deeply integrating technologies with the businesses to achieve agile operation, sustainable innovation and controllable risks. The Bank further reforms to become more flexible. Under a dual-mode R&D system combining agility with refinement, the Bank tightens the ties between technology and business, hastens the pace of product development and iteration, and promotes delivery quality and customer experience in an all-around way. It improves the innovation system. Besides relying on the Group’s technological innovation, the Bank motivates the innovation vitality of all staff, including scientific and technical personnel, through the Banking Innovation Committee and the “Innovation Garage” mechanism. It strengthens the safety management. Continuously adhering to the “information security first” principle that puts operation at the core, the Bank prepends security management, prepares operation scenarios, refines the processes, and comprehensively enhances the information security awareness of all employees.

Talent-driven. Benchmarking with the leading Internet technology companies, the Bank is setting up a full-time technology human resource mechanism for forward-looking IT human resource planning. The Bank is also establishing a competitive salary system and incentive mechanism to create a good career development channel for scientific and technical personnel. The Bank continues to bring in global top technology elites, forms leading talent teams in financial technology and accelerates the construction of "Finance + Technology" compound talent team.

1.3.2 Pursuing breakthroughs in retail banking

Closely following the national strategies, the Bank continues to promote the retail transformation, and fully implements the concept of data-based operation. Besides, it also comprehensively develops the three operation sectors of "basic retail, private banking wealth management, and consumer finance", strengthens the two core capabilities of "risk and cost control", builds the "one ecosystem" to drive integration, and strives to build a "domestic best performer and global leader in intelligent retail banking".

Three operation sectors –

Breakthroughs in basic retail. With the goal of customer acquisition by all channels and all-round scenario-based operation, the Bank switches from "customer acquisition" to "user acquisition". Relaying on the construction of intelligent master accounts, it creates the Group's comprehensive financial online and offline traffic portal, and promotes the implementation of integrated and funnel-style operations on the basis of traditional financial scenarios and new life scenarios.

Breakthroughs in private banking wealth management. Adhering to the concept of asset allocation, it creates an "1 + N" online and offline business model of one PB (Private Banker, private financial advisor) and N expert teams to achieve the optimisation of the radius and professionalism of private customer service. It also opens the product platform. On the basis of the internal risk and with the help of the Group resources and the ties between corporate banking and individual banking, it diversifies the introduction of high-quality assets to meet the diversified investment needs of the customers.

Breakthroughs in consumer finance. It reinforces the leading roles of the top three businesses of credit card, "New Generation Loan" and auto financing, constantly promotes model innovation and makes the businesses expand continuously and rapidly through product diversification, online operated procedures and business platforms.

Two core capabilities –

Risk control. Shifting from "product-centric" to "customer-centric", the Bank establishes an intelligent risk management system for the entire process and products to support the continuous high-quality growth of the business.

Cost control. With the help of intelligent technologies, the Bank improves the level of refined management and innovates cost management models in multiple dimensions and with multiple means. While providing reasonable and sufficient resources to the business, it directs the development, strengthens process monitoring, and promotes continuous optimisation of operating cost, as well as effective improvement of management efficiency.

One ecosystem -
Based on an agile mechanism, the Bank uses AI Bank as the internal drive to actively build an open banking ecosystem, achieving the connection, empowerment and integration of customers, employees and partners, and promoting the comprehensive innovation of business models.

1.3.3 Reinventing its corporate banking

1.3.3.1 Corporate business

The Bank firmly promotes the transformation of corporate business, strives to refine the three business pillars of "industry banking, transaction banking and comprehensive finance", and drives specialised operations and ecological layout to creates an "engine" for the Group's comprehensive financial services; adhering to the customer-centric principle, it attaches importance on the two big core customer groups of "strategic customers and small and micro enterprises customers", keeps increasing the support to private enterprises, and meets diversified needs of customers through data-based operation and differentiated services; sticking to "one lifeline" of asset quality, it also keeps on the road of sustainable and high-quality development to provide solid support to build a "domestic best performer and global leader in intelligent retail banking".

Three business pillars –

The Bank adheres to the development towards industrialisation, professionalisation and specialisation, and focuses on refining the three business pillars of "industry banking, transaction banking and comprehensive finance".

Industry banking. Keeping up with the national strategy, the Bank focuses on key industries, provides professional service to strategic customers and their ecosystems, and forms a comprehensive financial solution in an industry-oriented manner. It also keeps improving its industry research capabilities, and relies on the Group's layout to build "benchmarking models" in the fields such as automobile, real estate, medicine, infrastructure and government.

Transaction banking. Through the creation of knock-out products and services, and improvement of data-based operating capabilities, the Bank highlights its brand advantages in the areas of supply chain finance, platform finance, cross-border finance, etc.

Comprehensive finance. The Bank integrates the Group's ecological resources and technological advantages, channels up distribution, production and sales on customer needs, and promotes business collaboration within the Group. The Bank also becomes the engine of the Group's comprehensive financial services to drive sustainable and high-quality development of banking business.

Two big core customer groups –

Being customer-centric and industry-oriented, the Bank focuses on the two big core customer groups, strengthens solutions and deepens relationships to truly realise "one customer, multiple products and one-stop service".

Strategic customers. The Bank formulates "one policy for one account" for the sake of customers' needs. Moreover, by a systematic, industrial, professional and collective approach, it offers customised comprehensive financial solutions to strategic customers, provides strategic customers and their ecosystems with a "big envelop of" services.

Small and micro enterprises customers. The Bank makes use of the Group's scientific and technological advantages to create an ecological and scenario-based digital financial service platform for small enterprises customers. The Bank strengthens the overall management capability of private enterprises and small and micro enterprises through quantitative models and the digital financial operation platform for the batch customer attraction, and keeps increasing the support to private enterprises, removes financing barriers and lowers of financing costs for small and medium-sized enterprises ("SMEs").

One lifeline -
The Bank shifts its focus from controlling risk to business risk, vigorously promotes business development, and comprehensively improves the capacity of serving the real economy. At the same time, it continues to strengthen risk prevention and control, so as to hold fast to the lifeline of asset quality.

It also adheres to the road of sustainable and high-quality development to hold fast to the lifeline of asset quality. In addition, it strengthens its risk management capabilities, effectively coordinates risk and business, so as to provide strong support to business development.

It also strengthens early risk warning ability. Meanwhile, taking full advantage of such latest technologies as big data and AI, the Bank creates the “intelligent risk control platform” to keep boosting risk management in advance and improve the efficiency and level of risk management comprehensively.

1.3.3.2 Interbank capital business

The Bank vigorously promotes the transformation of interbank capital businesses. Always being technology-driven, it focuses on three major business directions of “new transactions, new interbank and new asset management”, strengthens two core capabilities of “sales and transaction”, and creates “one system platform”, so as to empower businesses and comprehensively promote their continuous reform and upgrade.

Three major business directions –

New transactions. Empowering transactions with technologies, the Bank develops a market-leading intelligent quantitative transaction system with a forward-looking vision, and establishes an efficient and agile integrated FICC (fixed income, currencies and commodities) business operation system.

New interbank. Shifting from asset-liability-driven to sales-driven, the Bank practices the “customer-centric” business philosophy by upgrading the construction of customer portrait system of interbank institutions, fully exploring customers’ needs, creating financial ecosystem, promoting the upgrade of channels, and expanding the breadth and depth of service provided to interbank customers.

New asset management. The Bank actively copes with challenges and opportunities brought by new regulation policies and promotes sound transformation and development of wealth management business in terms of platforms, products, investment researches and technologies.

Two core capabilities –

Strengthening the capability of sales. The Bank upgrades its sales mode and includes sales in ecosystem. Besides, in order to provide customers with one-stop comprehensive financial service in the aspect of scenario-based product design, asset recommendation and sales channels, and highlight the advantages of scenario-based, integrated and online services, it relies on customer portrait system to support precise customer group analysis, opens up the whole chain of funds, products, assets and services, and upgrades to become the “product experts” + “customer expert” and promote reconstruction of “Hang-E-Tong” platform.

Strengthening the capability of transactions. The Bank constructs an intelligent fund transaction platform to achieve intelligent price quotation, accurate pricing, high-speed transactions and integrated front, middle and back-end control, so as to realise massive data processing within seconds and real-time risk control. Meanwhile, relying on the industry-leading transaction capabilities, the Bank strengthens the transformation of transction capabilities into products, expands and enriches the application scenarios of transaction capabilities. By constructing an intelligent transaction platform, it integrates with interbank, asset management and retail businesses to comprehensively serve the interbank, companies and retail customers in the industry.

One system platform -
Adopting lead-edge technologies, the Bank continues to update the smart capital system platform to achieve precise pricing, intelligent execution and real-time risk control. Furthermore, it fully empowers the three major business directions of new transactions, new interbank and new asset management to lay solid foundation for the sound and rapid development of interbank capital business.

1.4 Core competitiveness of the Bank

Closely following the national strategy, staying within the present trend, and combining its own advantages, the Bank adheres to the "customer-centric" principle, builds "3+2+1" business strategy respectively for the retail business, the corporate business and interbank capital business in an around way. In addition, it promotes data-based operations, prevents and controls financial risks, and enhances the capability of serving real economy comprehensively, forming unique core competitiveness.

Clearly targeted development strategy The Bank centres on serving real economy and the people, unswervingly pushes forward the retail transformation and strives to become a "domestic best performer and global leader in intelligent retail banking". Guided by the clear strategy, the Bank continues to uphold the strategic principle of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking" by building "3+2+1" business strategy respectively for the retail business, the corporate business and interbank capital business in an around way, and promoting data-based operations, preventing and controlling financial risks, and enhancing the capability of serving real economy comprehensively.

Advantageous comprehensive finance. Based on the Group's huge individual customer base, strong brand influence, extensive distribution network and a completed set of financial licenses, the Bank combines its strong resource integration capability to develop a prominent comprehensive financial advantage and establish an integrated "on-line + off-line", "finance + technology + ecology" financial product system and service platform, forms an internal organisation and management model that meets the requirements of comprehensive financial development, and builds a comprehensive financial operation mechanism with unique Ping An characteristics and industry competitiveness, providing huge development space for the transformation and development of retail business, corporate businesses and interbank capital business.

Inherent innovation culture. The Bank has "innovation" in its DNA. In terms of corporate governance, with strong resource coordination and integration capabilities, the "Innovation Committee" can comprehensively coordinate all resources at the bank level, achieve cross-line and cross-function resource management and allocation, and greatly enhance the efficiency and effect of innovation. In terms of working mechanism, the "agile organisation", "innovation garage", "innovation competition" and other mechanisms have been continuously improved and optimised, thereby the enthusiasm and potential for innovation of employees across the Bank were ignited with endless and rapid iteration of various innovations being promoted and better response to customers' increasingly diversified financial needs.

Strong and powerful execution capability. Execution is the fundamental guarantee for achieving strategic goals. The Bank highly emphasises a culture of excellence in execution, actively promotes the value-oriented performance assessment, and closely connects the target setting, work tracking, effect evaluation and the whole assessment process to form a scientific, fair and transparent performance assessment system and results utilisation model. It enhances strong execution capabilities of the teams and individuals, and promotes the timely and efficient implementation of bank development strategies.

Predominant financial technology. The Bank drives strategic transformation by technology, and applies technical methods to innovate business model, upgrade traditional business, promote intelligent management and improve team production capacity. Relying on the Group's core technology, the Bank continues to accelerate the integration of application scenarios and cutting-edge technologies such as big data, blockchain, artificial intelligence (AI), cloud computing and biometrics to realise "being technology-driven"; the Bank adheres to empowerment of finance by technology, and continuously optimises and upgrades service models and platforms for individuals, corporates, SMEs and financial peers including Pocket Bank, Pocket Finance, small business digital finance, and "Hang-E-Tong" to realise leading by "model and platform"; Motivated by "Finance + Technology", the Bank cultivates a team with high-quality financial technology talents and attracts a large number of compound high-end technical talents from Silicon Valley and domestic and foreign leading Internet companies to realise "talents-driven".

Intelligent and convenient retail banking. The Bank utilises technology to promote retail banking transformation, and strives to provide more convenient, intelligent and comprehensive financial services. It establishes new off-line retail outlets under the "light, community-based, intelligent, and diversified" concept, continuously and iteratively optimises the on-line Pocket Bank APP, and uses intelligent OMO (Online Merge Offline) service system integrating on-line APP and off-line outlets to achieve seamless connection between Pocket Bank APP and new retail outlets. As a result, multiple on-line and off-line service scenarios are integrated. In addition, with the comprehensive AI-based AI Bank as the core, the Bank builds an open banking ecosystem, improves the data-based management capabilities, and provides integrated, seamless and convenient services for customers.

Intensive corporate banking. The Bank adheres to the customer-centric business philosophy. By its "careful selection of industries", "careful cultivation of the customer base", "carefully-tailored product offerings" and "precise and effective risk controls", the Bank refines and improves industry bank, transaction bank, integrated finance, focuses on the strategic customers and small and micro enterprises customers, holds fast to asset quality and builds "intelligent exquisite corporate banking" to provide high-quality financial services to the sustainable development of real economy. Sticking to ecological layout, data-based operations and technology-empowered business, it constantly updates intelligent supply chain financial system for strategic customers, small business digital finance and Pocket Finance for SMEs, and upgrades cross-border E-Commerce products tailored for offshore and international customers, creates an open banking platform for customers with diversified needs, so as to support real economy.

Continuously upgraded interbanking. Closely following the development direction of the financial market, the Bank relies on technologies to build a smart capital system platform, open up the whole chain of funds, products, assets, and services, achieve precise pricing, intelligent execution, and real-time risk control, establishes the industry-leading transaction capabilities, and upgrade to become a "Product Expert" + "Customer Expert", which fully empowers the three major business directions of new transactions, new inter-bank and new asset management.

1.5 Honours and awards

In 2019, the honours and awards the Bank won in the selection activities organised by domestic and foreign institutions are as following:

- In January 2019, the Bank won award for “Institutions of Precise Poverty Alleviation” in the selection activity of “Pioneer List of Outstanding Financial Poverty Alleviation” organised by China Internet Information Centre in 2018;
- In January 2019, the Bank won awards of “Market Progress”, “Golden Industry Service” in the Annual Member Commendation and Exchange Meeting organised by Shanghai Futures Exchange;
- In March 2019, the Bank won awards of “Business Model of the Year (Comprehensive Finance Model)”, “Best Frictionless Omni Channel Integration (New retail outlet)” in selection of “Excellence in Retail Financial Services Awards 2019” organised by the Asian Banker;
- In April 2019, the Bank won “All transactional awards of Shanghai Gold Exchange of 2018” in the Global Gold Market Summit of 2019 held by Shanghai Gold Exchange;
- In April 2019, the private bank of the Bank won “Outstanding Private Bank” in the award ceremony of “Global Wealth Leadership Summit in 2019” and “2018 Jiefu Awards” held by www.caishiv.com;
- In April 2019, the Bank won “Award for Board of Directors with Best Investor Relations among Chinese Listed Companies” in the first high-quality development forum for Chinese listed companies and the tenth award ceremony of “Tianma Awards” for Chinese listed companies with best investor relations held by Securities Times.
- In May 2019, the private bank of the Bank won “China Private Banking Industry Model Award” in “4th Global Asset Allocation Focus (GAAF) of 2019” and the award ceremony for “Haipai Award”;
- In May 2019, the Bank won “Top Ten Consumer Finance Innovation Awards” by “New Generation Loan”, the personal loan products innovation case in the award ceremony of Chinese Finance Innovation Award held by The Banker;
- In May 2019, the Bank won “Best Managed Bank Award in Asia Pacific and China” and “Best Joint-stock Trade Finance Bank in China” in the Future Financial Summit of 2019 held by the Asian Banker; the Bank won “Best Mobile Product, Project and Business Award” by Pocket Finance APP; Meanwhile, Xie Yonglin, the Chairman of the Bank, won “Leadership Achievement of 2019 for CEO in Asia-Pacific and Chinese Bank”; the president’s special assistant, Cai Xinfa, won “Best Asian Pacific Retail Banker of 2019”;
- In July 2019, the Bank won “2019 CIT Fintech. Marketing Model Financial Institutions” in the Fourth Fintech Conference of 2019 hosted by China Business Journal, guided by Chinese Academy of Social Sciences, and supported by Shenzhen Financial Bureau;
- In July 2019, the Bank’s industrial poverty alleviation project, i.e. “Village Official Project”, won the “Best Contribution Award for Precise Poverty Alleviation” in *Social Responsibility Report of China's Banks in 2018* and Top 100 Social Responsibility Evaluation and Awards Meeting held by China Banking Association;
- In July 2019, the Bank won “Best Private Bank of 2019” in the twelfth award ceremony for China Asset Management ″Jinbei Award” held by 21st Century Business Herald; the credit cards of the Bank won “Awards for Credit Cards with Best Smart Experience in 2019”;
- In July 2019, the Bank won “China's Best Retail Bank of the Year”, “China’s Best Metal Bank of the Year” in selection activity of annual awards among Asian banks and financial institutions held by Asian Banking & Finance;
- In September 2019, the Bank won “Best Private Sales Bank” in “China Private Equity Summit of 2019” and award ceremony for “Yinghua Award” held by CHINAFUND;
- in September 2019, the credit cards of the Bank won “Popular Brand for Credit Cards of 2019” in the netizen voting activity of “Credit Card Brand Selection of 2019” hosted by Shanghai Morning Post;
- In September 2019, the Bank won “Best Retail Bank”, “Best Brand Fintech Bank” in the China Banking Development Forum of 2019 (seventh) held by Sina Finance;
- In October 2019, the credit cards of the Bank won “Smart Innovation Credit Card of the Year” in the Jiemian New Consumer Forum Event of 2019 held by Jiemian News of Shanghai United Media Group;
- In October 2019, the credit cards of the Bank won “Award for Best Credit Card Brand” in the Lanjing New Economy Summit of 2019 hosted by Lanjing Finance and co-hosted by Jiemian News, CLS, Moer Finance with the guidance of Shanghai United Media Group;

- In October 2019, the Bank won "Best Commercial Application Award", "Good Experience Award" in the third offline final evaluation of Good Experience Award (GXA) hosted by UXPA China with the guidance of China Industrial Design Association (CIDA), the Teaching Steering Subcommittee of Industrial Design of the Ministry of Education, and China Technology Exchange;
- In October 2019, the credit cards of the Bank won "Award for Best Customer Contact Centre of 2019 (twelfth)--Customer Service" in Big Data Application and Call Centre Industry Summit of 2019 (twelfth) and Golden Indie Music Awards jointly hosted by 51Callcentre and Zibo Municipal Government;
- In November 2019, the Bank won "Core Competitive Enterprise in China's Automobile Dealer Industry" in the Annual Meeting of China's Automobile Dealer Industry hosted by China Automobile Dealers Association;
- In November 2019, the Bank won awards of "Asian Premier Commercial Bank of 2019", "China's Outstanding Cases of Precise Poverty Alleviation in 2019", "Product Innovation Bank of 2019" in the fourteenth "21st Century Annual Finance Summit of Asia" held by 21st Century Business Herald;
- In November 2019, the Auto Consumer Finance Centre of the Bank won "China Automobile (Golden Engine) Award of 2019" in the China Automobile Industry Summit of 2019 hosted by 21st Century Business Herald and China Auto Finance;
- In November 2019, the Bank won the award of "Real Economy Innovation Project Supported by Shenzhen Finance" in the Shenzhen Financial Summit of 2019 and the First Credit Technology Forum jointly hosted by Nanfang Daily and held by Development and Reform Commission of Shenzhen Municipality and Shenzhen Municipal Financial Regulatory Bureau;
- In November 2019, the Bank won "Excellent Asset Management Award of the Year of Golden Wealth Management" in Shanghai Stock Exchange Wealth Management Forum of 2019 and the tenth award ceremony of "Golden Wealth Management" held by Shanghai Securities News;
- In November 2019, Brand Observer organised the "2019 National Brand Conference", where the Bank was listed in "China Top 500 Brand Value".
- In December 2019, in competing for the "2019 Gold Medal List for Chinese Financial Institutions • Golden Dragon Prize" sponsored by Financial Times, with academic support provided by the National Institution for Finance & Development, the Bank was awarded the "Best Competitive Bank of the Year";
- In December 2019, the 4th Annual Conference of China Transaction Banking, sponsored by Trade Finance, SINOTF.COM, TFSINO.COM and China Transaction Banking 50 Forum, was held in Beijing, during which, the Bank was awarded the "Best Offshore Financial Bank"; and meanwhile, based on its frontier exploration and innovation in the field of supply chain finance, the Bank won the "Best Supply Chain Financial Bank of the Year" in the award ceremony of the 9th "Finance and Trade Award" for Financial Service Providers of Chinese Trade Enterprises sponsored by Trade Finance;
- In December 2019, at the "2019 BOAO International Summit of the Beautiful Country" co-sponsored by China Soong Ching Ling Foundation, the People's Government of Hainan Province, China Agriculture Film and Television Centre, CCTV.COM, Department of Agriculture and Rural Affairs of Hainan Province, the People's Government of Qionghai City and other units, the Bank was successively awarded by the sponsors as the "Pioneer of Targeted Poverty Alleviation", "Model of Rural Revitalisation", "governing unit of the 2019 BOAO International Summit of the Beautiful Country" along with "excellent organising unit of the 2019 BOAO International Summit of the Beautiful Country", etc.

Section II Summary of Accounting Data and Financial Indicators

2.1 Key accounting data and financial indicators

Whether the Company needs to adjust or restate retrospectively the accounting data for previous years
□Yes √No

The Bank started to implement *Accounting Standard for Business Enterprises No. 21 - Lease* (Cai Kuai [2018] No.35) from 1 January 2019. Under the transitional provisions, the Bank recognised the cumulative effect of the first-day adoption of the standard as an adjustment to relevant line items in the financial statements. Comparatives are not adjusted. See "II. Summary of significant accounting policies and accounting estimates 36. Effect of significant changes in accounting policies" in "Section X Financial Report" of the *2019 Annual Report of Ping An Bank Co., Ltd.* for specific information.

(In RMB million)

Item	31 December 2019	31 December 2018	31 December 2017	Change at the end of the year from the end of last year
Total assets	3,939,070	3,418,592	3,248,474	15.2%
Shareholders' equity	312,983	240,042	222,054	30.4%
Shareholders' equity attributable to ordinary shareholders	273,035	220,089	202,101	24.1%
Share capital	19,406	17,170	17,170	13.0%
Net asset per share attributable to ordinary shareholders (RMB/share)	14.07	12.82	11.77	9.8%

Item	2019	2018	2017	Year-on-year change
Operating income	137,958	116,716	105,786	18.2%
Operating profit before impairment losses on credit and other assets	95,816	80,176	73,148	19.5%
Impairment losses on credit and other assets	59,527	47,871	42,925	24.3%
Operating profit	36,289	32,305	30,223	12.3%
Profit before tax	36,240	32,231	30,157	12.4%
Net profit attributable to shareholders of the Company	28,195	24,818	23,189	13.6%
Net profit attributable to shareholders of the Company after non-recurring gains/losses	28,086	24,700	23,162	13.7%
Net cash flows from operating activities	(40,025)	(57,323)	(118,780)	Negative in the previous year
Ratio per share (RMB/share):				
Basic earnings per share (EPS)	1.54	1.39	1.30	10.8%
Diluted earnings per share (EPS)	1.45	1.39	1.30	4.3%
Basic EPS after non-recurring gains/losses	1.53	1.39	1.30	10.1%
Diluted EPS after non-recurring gains/losses	1.44	1.39	1.30	3.6%
Net cash flows from operating activities per share	(2.06)	(3.34)	(6.92)	Negative in the previous year
Financial ratios (%):				
Return on total assets	0.72	0.73	0.71	-0.01 percentage point
Average return on total assets	0.77	0.74	0.75	+0.03 percentage point
Weighted average return on net assets	11.30	11.49	11.62	-0.19 percentage point
Weighted average return on net assets (net of non-recurring gains/losses)	11.25	11.44	11.61	-0.19 percentage point

Note: The relevant indicators of Return on net assets and EPS are calculated according to regulations of the *Rule 9 on Information Disclosure and Report for Companies Offering Their Securities to the Public - Calculation and Disclosure of Net Assets Margin and Earnings Per Share* (2010 revised) and *Accounting Standard for Business Enterprises No. 34 - Earnings per Share*. On 7 March 2016, the Bank issued non-cumulative preference shares of RMB20 billion in a non-public way. In calculating the "EPS" and "weighted average return on net assets", numerators were net of the dividends on preference shares paid amounting to RMB874 million.

Total share capital of the Company as at the trading day prior to disclosure

Total share capital of the Company as at the trading day prior to disclosure (in shares)	19,405,918,198
Fully diluted EPS calculated based on the latest share capital (RMB/share)	1.41

Whether there are corporate bonds
□Yes √No

Whether the Company suffered sustained losses in recent two years
□Yes √No

Differences in accounting data under domestic and overseas accounting standards

1. Differences in net profit and net assets in financial reports disclosed in accordance with international accounting standards and Chinese accounting standards
□Applicable √ Not applicable

During the reporting period, there was no difference in net profit and net assets in financial reports disclosed in accordance with international accounting standards and Chinese accounting standards.

2. Differences in net profit and net assets in financial reports disclosed in accordance with overseas accounting standards and Chinese accounting standards
□Applicable √ Not applicable

During the reporting period, there was no difference in net profit and net assets in financial reports disclosed in accordance with overseas accounting standards and Chinese accounting standards.

3. Reasons for differences in accounting data under domestic and overseas accounting standards
□Applicable √ Not applicable

Quarterly financial indicators

(In RMB million)

Item	First Quarter of 2019	Second Quarter of 2019	Third Quarter of 2019	Fourth Quarter of 2019
Operating income	32,476	35,353	35,129	35,000
Net profit attributable to shareholders of the Company	7,446	7,957	8,218	4,574
Net profit attributable to shareholders of the Company after non-recurring gains/losses	7,422	7,894	8,211	4,559
Net cash flows from operating activities	53,184	(26,752)	58,048	(124,505)

Have the above financial indicators or their totals differed significantly from the relevant financial indicators in the quarterly report and half-year report disclosed by the Company?
□Yes √No

Information of loans and deposits

(In RMB million)

Item	31 December 2019	31 December 2018	31 December 2017	Change at the end of the year from the end of last year
1. Deposit principals due to customers	**2,436,935**	**2,128,557**	**2,000,420**	**14.5%**
Including: Corporate deposits	1,853,262	1,666,966	1,659,421	11.2%
Personal deposits	583,673	461,591	340,999	26.4%
2. Total principal of loans and advances to customers	**2,323,205**	**1,997,529**	**1,704,230**	**16.3%**
Including: Corporate loans	965,984	843,516	855,195	14.5%
General corporate loans	871,081	801,814	840,439	8.6%
Discounted bills	94,903	41,702	14,756	127.6%
Personal loans	1,357,221	1,154,013	849,035	17.6%

Note: (1) Pursuant to the Notice on the Statistical Standards for Adjusting the Deposits and Loans of the Financial Institutions by the People's Bank of China (Yin Fa [2015] No. 14), starting from 2015, the deposits placed by non-deposit financial institutions at deposit financial institutions are accounted for as "Total Deposits", whereas the loans extended by deposit financial institutions to non-deposit financial institutions are accounted for as "Total Loans". Based on the aforementioned statistical standards, as at 31 December 2019, the total deposits and the total loans amounted to RMB2,802.8 billion and RMB2,380.4 billion, respectively.

(2) Pursuant to the Circular on Revising and Issuing 2018 Versions of Financial Statement Templates for Financial Enterprises (Cai Kuai [2018] No. 36), interests accrued by the effective interest method was included in the carrying amount of financial instruments, and interests not been received or paid at the balance sheet date should be presented in "Other assets" or "Other liabilities". Unless otherwise stated, "Loans and advances to customers", "Deposits due to customers" and the specific items mentioned in the Report are amounts excluding interest.

Non-recurring gains/losses

During the reporting period, no items of non-recurring gains/losses as defined/stated pursuant to the *Explanatory Announcement on Information Disclosure by Companies Publicly Offering Securities No. 1 – Non-recurring Gains/Losses* were defined as recurring gains/losses.

(In RMB million)

Item	2019	2018	2017	Year-on-year change
Net gains or losses on disposal of non-current assets	(30)	98	101	(130.6%)
Gains/losses on contingency	(3)	1	(1)	(400.0%)
Others	173	54	(65)	220.4%
Income tax effect	(31)	(35)	(8)	(11.4%)
Total	109	118	27	(7.6%)

Note: The non-recurring gains/losses shall refer to the meaning as defined in the *Explanatory Announcement on Information Disclosure by Companies Publicly Offering Securities No. 1 – Non-recurring Gains/Losses*.

2.2 Supplementary financial ratios

(Unit: %)

Item	2019	2018	2017	Year-on-year change
Cost/income ratio	29.61	30.32	29.89	-0.71 percentage point
Credit costs	2.54	2.35	2.55	+0.19 percentage point
Deposit-loan spread	4.12	3.98	3.99	+0.14 percentage point
NIS	2.53	2.26	2.20	+0.27 percentage point
NIM	2.62	2.35	2.37	+0.27 percentage point

Notes: Credit costs = credit provisions for the period / average loan balance (including discounted bills) for the period. In 2019, average loan balance (including discounted bills) of the Bank was RMB2,096,394 million (2018: RMB1,858,353 million). Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities; net interest margin = net interest income/average balance of interest-earning assets.

2.3 Supplementary regulatory indicators

(Unit: %)

Item	Standard level of indicator	31 December 2019	31 December 2018	31 December 2017
Liquidity ratio (RMB and foreign currency)	≥25	62.54	60.86	52.23
Liquidity ratio (RMB)	≥25	61.46	59.23	52.57
Liquidity ratio (foreign currency)	≥25	91.18	96.40	55.41
Loan/deposit ratio including discounted bills (RMB and foreign currency)	N/A	93.72	92.38	83.58
Liquidity coverage ratio	≥100 (Note)	143.02	139.17	98.35
Capital adequacy ratio	≥10.5	13.22	11.50	11.20
Tier 1 capital adequacy ratio	≥8.5	10.54	9.39	9.18
Core tier 1 capital adequacy ratio	≥7.5	9.11	8.54	8.28
Ratio of loans to the single largest customer to net capital	≤10	3.80	5.13	5.20
Ratio of loans to top 10 customers to net capital	N/A	16.96	21.45	22.79
Ratio of accumulated foreign exchange exposure position to net capital	≤20	1.93	1.55	1.22
Pass loans flow rate	N/A	3.24	3.73	5.20
Special mentioned loans flow rate	N/A	31.44	37.91	30.41
Substandard loans flow rate	N/A	31.49	66.56	73.69
Doubtful loans flow rate	N/A	99.37	99.44	64.37
Non-performing loan ratio	≤5	1.65	1.75	1.70
Provision coverage ratio	≥150	183.12	155.24	151.08
Provision to loan ratio	≥2.5	3.01	2.71	2.57

Note: (1) Regulatory indicators are shown in accordance with the regulatory standards;

(2) Pursuant to the requirements of the *Administrative Measures for Liquidity Risks of Commercial Banks* issued by CBIRC, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

2.4 Data on operations of segments

2.4.1 Profit and scale

(In RMB million)

Item		Retail banking business		Wholesale banking business		Others		Total	
		2019	2018	2019	2018	2019	2018	2019	2018
Operating income	Amount	79,973	61,883	51,955	47,120	6,030	7,713	137,958	116,716
	%	58.0	53.0	37.6	40.4	4.4	6.6	100.0	100.0
Operating expenses	Amount	27,888	23,020	14,254	13,269	-	251	42,142	36,540
	%	66.2	63.0	33.8	36.3	-	0.7	100.0	100.0
Impairment losses on credit and other assets	Amount	27,043	16,604	33,000	32,484	(516)	(1,217)	59,527	47,871
	%	45.4	34.7	55.5	67.9	(0.9)	(2.6)	100.0	100.0
Profit before tax	Amount	25,055	22,245	4,706	1,366	6,479	8,620	36,240	32,231
	%	69.1	69.0	13.0	4.2	17.9	26.8	100.0	100.0
Net profit	Amount	19,493	17,129	3,661	1,052	5,041	6,637	28,195	24,818
	%	69.1	69.0	13.0	4.2	17.9	26.8	100.0	100.0

Item	31 December 2019		31 December 2018		Change at the end of the year from the end of last year
	Amount	%	Amount	%	
Total assets	**3,939,070**	**100.0**	**3,418,592**	**100.0**	**15.2%**
Including: Retail banking business	1,294,376	32.9	1,098,626	32.1	17.8%
Wholesale banking business	1,713,281	43.5	1,492,753	43.7	14.8%
Others	931,413	23.6	827,213	24.2	12.6%

Note: The retail banking business segment covers the provision of financial products and services to individual customers, including personal loans, deposit business, bank card business, personal wealth management service and various individual intermediary businesses.

The wholesale banking business segment mainly comprises services to corporates, banks and other financial institutions and small enterprises (including individuals and legal entities), covering the provision of financial products and services to corporate customers, government organisations and banks and other financial institutions. These products and services include corporate loans, deposit business, trading financing, wealth management service for corporates and banks and other financial institutions, and various corporate intermediary businesses and inter-bank businesses.

Other business segments refer to the bond investment and some monetary market businesses carried out by the head office of the Bank for the need of liquidity management, as well as non-performing assets and equity investments under central management of the Bank and the assets, liabilities, income and expenses not directly attributable to a certain segment. Common costs for the period are allocated to retail banking business line and wholesale banking business line as required in respond to management changes.

(In RMB million)

Item	31 December 2019		31 December 2018		Change at the end of the year from the end of last year
	Amount	%	Amount	%	
Deposit principals due to customers	**2,436,935**	**100.0**	**2,128,557**	**100.0**	**14.5%**
Including: Corporate deposits	1,853,262	76.0	1,666,966	78.3	11.2%
Personal deposits	583,673	24.0	461,591	21.7	26.4%
Total principals of loans and advances to customers	**2,323,205**	**100.0**	**1,997,529**	**100.0**	**16.3%**
Including: Corporate loans (including discounted bills)	965,984	41.6	843,516	42.2	14.5%
Personal loans (including credit cards)	1,357,221	58.4	1,154,013	57.8	17.6%

Note: Items in the above table are classified by customer nature. The legal entity business for small enterprises is attributable to corporate deposit and corporate loan business, while the individual business for small enterprises is attributable to personal deposit and personal loan business, the same below.

2.4.2 Quality and efficiency

Item	31 December 2019	31 December 2018	Change at the end of the year from the end of last year
Non-performing loan (NPL) ratio	**1.65%**	**1.75%**	**-0.10 percentage point**
Including: Corporate loans (including discounted bills)	2.29%	2.68%	-0.39 percentage point
Personal loans (including credit cards)	1.19%	1.07%	+0.12 percentage point

(In RMB million)

Item	Jan. - Dec. 2019			Jan. - Dec. 2018		
	Average daily balance	Interest income and expense	Average interest rate	Average daily balance	Interest income and expense	Average interest rate
Deposits due to customers	**2,274,753**	**56,002**	**2.46%**	**2,052,267**	**49,638**	**2.42%**
Including: Corporate deposits	1,762,693	42,574	2.42%	1,657,435	39,314	2.37%
Personal deposits	512,060	13,428	2.62%	394,832	10,324	2.61%
Loans and advances to customers (excluding discounted bills)	**2,025,073**	**133,278**	**6.58%**	**1,864,672**	**119,354**	**6.40%**
Including: Corporate loans (excluding discounted bills)	793,555	38,004	4.79%	859,967	40,428	4.70%
Personal loans (including credit cards)	1,231,518	95,274	7.74%	1,004,705	78,926	7.86%

2.5 Change of core technical team or key technicians during the reporting period (exclusive of directors, supervisors and the senior management)

□Applicable √ Not applicable

2.6 Significant changes in major assets

Significant changes in major assets

Major Assets	Explanations on Significant Changes
Equity assets	There were no significant changes during the reporting period
Property and equipment	There were no significant changes during the reporting period
Intangible assets	There were no significant changes during the reporting period
Construction in progress	There were no significant changes during the reporting period

Status of major overseas assets
□Applicable √ Not applicable

Section III. Discussion and Analysis of Operations

3.1 Overall analysis of operations

In 2019, the Bank closely followed the strategies of the nation, actively implemented the major policies as well as economic and financial policies, adhered to the strategic goal of building a "domestic best performer and global leader in intelligent retail banking", and persisted in the principle of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking". On the basis of achieving the results of the phased transformation, a "3 + 2 + 1" operational strategy for retail, corporate and capital interbank business is comprehensively established to achieve balanced business development. Meanwhile, the Bank continued to intensify support for private enterprises, small and micro enterprises, comprehensively promote data-based operations, strengthen financial risk prevention and control in all respects, vigorously promote financial poverty alleviation, and continuously improve its ability and level to serve the real economy.

In 2019, the Bank's overall operations have the following characteristics:

3.1.1 Stable and sound development

In 2019, the Bank recorded operating income of RMB137,958 million, representing a year-on-year increase of 18.2%, which included net interest income of RMB89,961 million, representing a year-on-year increase of 20.4%; the net non-interest income was RMB47,997 million, with a year-on-year increase of 14.4%. The operating profit before impairment losses was RMB95,816 million, increasing by 19.5% year on year; the net profit was RMB28,195 million, increasing by 13.6% year on year; the net interest spread and the net interest margin in 2019 were 2.53% and 2.62% respectively, both increasing by 27 basis points compared to those in 2018. The profitability remained stable.

At the end of 2019, the Bank's total assets amounted to RMB3,939,070 million, up 15.2% over the end of last year; the balance of deposits due to customers was RMB2,436,935 million, up 14.5% over the end of last year. The total loans and advances to customers (including discounted bills) amounted to RMB2,323,205 million, representing an increase of 16.3% as compared with the end of last year, which included personal loans (including credit cards) accounting for 58.4%, representing an increase of 0.6 percentage point as compared with the end of last year.

3.1.2 Preliminary results in technology-driven practice

The Bank regarded "being technology-driven" as its development strategy, and continued to advance science and technology into depth with preliminary results of technology-empowered business. **With respect to investment in technology**, in 2019, IT capital expenditure and other expenses increased by 35.8% year on year. The number of technology staff (including outsourcing staff) increased by over 34% over the end of last year. **With respect to R&D delivery**, a large number of key business projects have been put into production consecutively on schedule through the R&D model transformation, which has opened up the entire R&D process from demand to production and improved its rapid IT delivery capabilities, making the Bank's financial product services more intelligent, efficient, stable and reliable. **With respect to data-driven operation,** the Bank focused on the implementation of three major scientific and technological project groups, which are data governance, data platform, and AI platform. **With respect to construction of platforms,** the Bank accelerated technological transformation and comprehensively improved basic supporting capabilities of technology for business development; it strengthened the construction of such basic technology platforms as bank's privately-owned cloud platform, distributed PaaS platform, open platform, blockchain platform. Meanwhile, it continuously enhanced the level of automation of testing, production monitoring and application deployment via spread use of various tools. **With respect to innovation application,** the Bank relied on the core technologies and resources of Ping An Group in the fields of AI, cloud computing, blockchain, Internet of Things and other new technologies to enhance customer experience, improve risk control system, optimise operational efficiency and promote intelligent management.

3.1.3 Further advance of retail transformation

In 2019, with comprehensive finance and scientific innovation as the starting points, the Bank conformed to the strategy of "pursuing breakthroughs in retail banking", practising the data-driven operation principle, and thoroughly implementing the retail "3 + 2 + 1" business strategy. In this way, its transformation work was steadily advanced.

In 2019, the operating income of retail business reached RMB79,973 million, with a year-on-year increase of 29.2%, accounting for 58.0% of the Bank's total operating income; the net profit of retail business reached RMB19,493 million, with a year-on-year increase of 13.8%, accounting for 69.1% of the Bank's total net profit.

At the end of 2019, the balance of assets under management (AUM) of retail customers of the Bank amounted to RMB1,982,721 million, representing an increase of 39.9% over the end of the previous year. The balance of personal deposits amounted to RMB583,673 million, up 26.4% over the end of the previous year, among which the balance of personal demand deposits was RMB199,949 million, up 15.3% over the end of the previous year.

At the end of 2019, the balance of personal loans amounted to RMB1,357,221 million, up 17.6% over the end of the previous year; in 2019, the total transaction volume of credit cards amounted to RMB3,336,577 million, rising by 22.5% year on year.

At the end of 2019, the number of retail customers reached 97,077,300, an increase of 15.7% over the end of the previous year, among which, wealth customers reached 779,300, among which, qualified customers of private banks reached 43,800, representing an increase of 31.7% and 45.7% over the end of the previous year.

At the end of 2019, the number of registered customers and monthly active users (MAU) of Ping An Pocket Bank APP was 89,469,500 and 32,923,400 respectively, up 43.7% and 23.5% over the end of last year[1].

3.1.4 Reinvent and reinforce corporate business

In 2019, the Bank's corporate business adhered to customer-centric, strengthened the corporate ecosystem, refined the relationship with customers, and the Bank's corporate deposits realised a steady growth. The income structure was effectively improved, and the comprehensive finance realised a leap-forward growth.
The balance of the corporate deposits reached RMB1,853,262 million, rising by 11.2% compared with the end of the previous year. Continuous optimisation of deposit structure was strengthened through payment settlement and cash management products, including demand deposits of RMB595,317 million, rising by 11.6% compared with the end of the previous year.

In 2019, the net corporate non-interest income continued to increase, amounting to RMB5,363 million, representing a year-on-year increase of 5.7%; the proportion of net corporate non-interest income in the corporate operating income increased by 1.14 percentage points year on year.

In 2019, the premium of the Ping An group insurance sold by the Bank reached RMB1,331 million, representing a year-on-year increase of 326.6%; the new investment and cooperation projects between the Bank and professional companies within the Group amounted to RMB261,116 million, representing a year-on-year increase of 137.5%.

While developing its business, the Bank fully supported the development of the real economy and continued to increase its support for private, small and micro enterprises. At the end of 2019, the Bank's credit facilities to key industries of medical health, green and environmental protection and clean energy accounted for 46.9%.
In 2019, the Bank gradually shifted from controlling risks to business risks, with significant improvements in asset quality. At the end of 2019, corporate NPL ratio was 2.29%, with a decrease of 0.39 percentage point from the end of prior year.

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[1] Since this annual report, the statistical standard of MAU of the Pocket Bank APP has been changed from the number of customers login APP to the number of customers open APP, and the data of the same period last year have been adjusted accordingly.

3.1.5 Upgrading revolution of interbank capital business

The Bank’s interbank capital business focused on new transactions, new interbank and new asset management to enhance sales and transaction capabilities and build an intelligent platform for capital system that empowers businesses. In 2019, the Bank’s net income was RMB3,906 million, representing a year-on-year increase of 151.8%; the volume of bond transaction of the Bank was RMB3.51 trillion, representing a year-on-year increase of 178.3%. The volume of interest rate swap was RMB3.13 trillion, representing a year-on-year increase of 50.6%. With industry-leading capabilities of system technologies and trading, the Bank ranked the forefront of the market in market-making of bond, interest rate swap and standard bond forward in terms of quotations, transactions, positions and comprehensive rankings. According to the 2019 interbank local currency market evaluation results issued by the foreign exchange trading centre, the Bank won a number of transaction categories such as “Core Dealer”, “Excellent Bond Market Dealer”, “Excellent Derivatives Dealer”, and “Automated Trading Innovation Award”. Meanwhile, the Bank comprehensively builds a characteristic interbank sales system around four major areas, which are products, platforms, value-added services, and teams. At the end of 2019, the Bank's “Hang-E-Tong” has cooperated with almost 2,200 customers. In 2019, the sales volume of banks numbered RMB503,880 million, representing a year-on-year increase of 123.7%.

3.1.6 Continuous improvement of asset quality

The Bank proactively responded to external risks, adjusted business structure, and continuously improved asset quality indicators. Firstly, “being technology-driven”, the Bank leveraged the Group’s scientific and technological assets, along with cutting-edge technologies such as big data, blockchain, AI, etc., to create an intelligent risk control platform and enhance the level of intelligent risk management. Secondly, the Bank conformed to the strategy of “pursuing breakthroughs in retail banking”, emphatically invested new resources in retail business with better asset quality and strengthened access standard and management requirement for retail customers to ensure better retail asset quality. Finally, the bank kept “reinventing its corporate banking”, and new businesses were concentrated on industries with sound growth, which were in compliant with national strategic development direction. The Bank gathered its superior resources and invested them into high-quality and high-potential customers, drove upstream and downstream supply chain, industrial chain or ecosystem customers, and continued to maintain the good risk performance of new customers. Meanwhile, it continued to adjust the structure of existing assets and strengthened the recovery and disposal of problematic assets. As a result, continuous improvement in the asset quality had been achieved and the risk compensation capability of the Bank was continuously enhanced.

At the end of 2019, the Bank continuously improved main asset quality indicators in an all-around way. The balance and the proportion of overdue loans, loans overdue for more than 60 days and loans overdue for more than 90 days of the Bank both declined and the deviation ratios of loans overdue for more than 60 days and loans overdue for more than 90 days were both below 1. The balance of overdue loans amounted to RMB48,550 million, with a decrease of RMB930 million, accounting for 2.09% of total loans, decreasing by 0.39 percentage point over the end of last year; the balance of loans overdue for more than 60 days reached RMB36,782 million, with a decrease of RMB1,582 million, accounting for 1.58% of total loans, decreasing by 0.34 percentage point over the end of last year; the balance of loans overdue for more than 90 days reached RMB31,411 million, with a decrease of RMB2,573 million, accounting for 1.35% of total loans, decreasing by 0.35 percentage point over the end of last year. The balance of special mentioned loans was RMB46,665 million, a decrease of RMB7,887 million over the end of last year, accounting for 2.01%, decreasing by 0.72 percentage point over the end of last year. The NPL ratio was 1.65%, decreasing by 0.10 percentage point over the end of last year. The NPL deviation rate of loans overdue for more than 60 days was 96%, down 14 percentage points from the end of last year. The NPL deviation rate of loans overdue for more than 90 days was 82%, down 15 percentage points from the end of last year.

In 2019, the provision for impairment losses on credit and assets amounted to RMB59,527 million, with a year-on-year increase of 24.3%, including RMB53,288 million of provision for credit impairment losses on loans and advances to customers; at the end of 2019, the balance of loan impairment provision reached RMB70,013 million, with an increase of 29.2% over the end of last year; the provision to loan ratio was 3.01%, up 0.30 percentage point over the end of last year; the provision coverage ratio was 183.12%, up 27.88 percentage points over the end of last year; the provision coverage ratio of loans overdue for more than 60 days was 190.34%, up 49.10 percentage points over the end of last year; the provision coverage ratio of loans overdue for more than 90 days was 222.89%, up 63.44 percentage points over the end of last year. The risk compensation capability of the Bank was further enhanced.

In 2019, the Bank recovered a total of RMB21,366 million of non-performing assets, increasing by 14.0% year on year, including credit assets of RMB19,945 million (loan principal); recovered principals of loans included written-off loans of RMB11,110 million and unwritten-off NPL of RMB8,835 million; 91.4% of recovered amount for non-performing assets was recovered in cash and the rest was recovered in repayment by collaterals.

3.1.7 Improvement of serving real economy and targeted poverty alleviation

The Bank actively supported national strategies of supply-side structural reforms and finance serving real economy, insisted on the concept of technological innovation, and continuously improved its capability and level to provide services regarding the comprehensiveness, effectiveness and sustainability of serving the real economy. At the end of 2019, the Bank's total on-balance sheet and off-balance sheet credit facilities amounted to RMB3,348.9 billion, representing an increase of 18.0% over the end of last year.

The Bank refined regional policy and industry policy to formulate regional featured policies and service solutions, keeping a foothold in characteristics of regional development. Thus it underpinned the construction of economic belts such as "Guangdong-Hong Kong-Macao Greater Bay Area", "Belt and Road", "Yangtze River Delta Integration Area", strengthened regional industry transformation and upgrading, and promoted high-quality development of regional economy. Driven by industry researches, the Bank built a specialised and three-dimensional system for industry researches, strictly controlled the credit granting for “high pollution, high energy consumption and overcapacity” industries, and supported the development and upgrading of major industries.

The Bank actively fulfilled requirements of the state, enhanced financial services for private enterprises, and upheld the high-quality development of small and micro enterprises. First, in terms of technology application, the Bank relied on cutting-edge technologies such as AI, biological recognition, big data, blockchain and cloud computing to create exquisite businesses including “supply chain receivables cloud service platform”, “small business digital finance products” and “Xinyidai(unsecured personal loans)”, so as to effectively solve the problem of difficulty and high cost in financing for private enterprises and SMEs to support their development. Secondly, in terms of system implementation, the Bank adopted the strategy of “Differentiated relief + Precise services” to provide tailored financial services for enterprises and support private enterprises in normal operation but with temporary liquidity difficulties through Ping An Group’s relief fund and the group cooperation model; the Bank also holistically energised the development of SMEs via differentiated credit pricing policy and risk tolerance, with the assistance of innovation in technology, products and channels. Thirdly, in terms of implementation and policy effects, in 2019, private enterprise customers of newly issued loans accounted for above 70% of total customers of newly issued corporate loans; at the end of 2019, regarding the Bank's loans to small and micro enterprises, the credit of RMB10 million or less granted to single customers was up 24.9% over the beginning of this year, higher than the average growth rate of all loans in the Bank; the number of customers with loan balances was 22,900 more than that at the end of the previous year and loan interest rate for these small and micro enterprises declined by 2 percentage points over the end of last year with the NPL ratio within reasonable range.

The Bank continued to promote targeted poverty alleviation and formed a closed loop of poverty alleviation consisting of “wisdom supporting training, improvement of industrial productivity, one product for one village and empowerment by production and sales” through “Finance + Industry” poverty alleviation. In 2019, the Bank newly issued poverty alleviation fund of RMB8,096 million, helping 16,083 registered impoverished people directly and benefiting over 190,000 registered impoverished people. At the end of 2019, 126 kinds of agricultural products from 28 poverty-stricken counties in 17 provinces were on sale in the online agricultural mall for poverty alleviation, helping impoverished people to reach a total revenue of RMB49,054,000 in 2019.

3.1.8 Base consolidation and capital enhancement

The Bank continuously advocated refined capital management and established a centralised and customer-focused capital allocation mechanism with maximizing Economic Value Added (EVA) and Risk Adjusted Return on Capital (RAROC) as the core, while eliminating boundaries between on-balance sheet and off-balance sheet products as the goal. Such mechanism effectively improved capital efficiency of all business lines and branches, further elevating capital returns of the Bank.

On the basis of raising capital through retained earnings, the Bank actively expanded exogenous capital replenishment channels and continued to promote the issuance of capital instruments. The Bank completed the issuance of RMB26 billion of A-share convertible corporate bonds in January 2019, which replenished the core tier 1 capital of the Bank effectively after the conversion in September 2019; and issued tier 2 capital bonds of RMB30 billion in the inter-bank market on 25 April 2019. In addition, in December 2019, the Bank issued a total of RMB20 billion of initial capital bonds without fixed terms(“Perpetual bonds”) in the inter-bank market and raised funds after deducting issuance expenses were all included in other tier 1 capital. The above capital replenishment effectively improved level and quality of capital and laid solid foundation for future support of the real economy and development of the Bank’s businesses.

At the end of 2019, the Bank's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.11%, 10.54% and 13.22% respectively, all satisfying the regulatory requirements, and up 0.57 percentage point, 1.15 percentage points and 1.72 percentage points respectively over the end of last year.

3.1.9 Rational layout of branch outlets

The Bank continued to implement the intelligent construction of outlets and rationally arranged the layout. At the end of 2019, the Bank had 91 branches (including Hong Kong branch) and a total of 1,058 outlets. Meanwhile, the Bank continuously copied and promoted new off-line retail outlets under "light, community-based, intelligent, diversified" concept. At the end of 2019, 298 new retail outlets were opened nationwide.

3.2 Analysis of financial statements

3.2.1 Overview

Whether it is the same as the disclosure in the discussion and analysis of operations
√Yes □No

See “3.1 Overall operations” in “Section III Discussion and Analysis of Operations” for details.

3.2.2 Analysis of income statement items

3.2.2.1 Composition of and changes in operating income

In 2019, the Bank recorded operating income of RMB137,958 million, representing a year-on-year increase of 18.2%, which included net interest income of RMB89,961 million, representing a year-on-year increase of 20.4%; the net non-interest income was RMB47,997 million, with a year-on-year increase of 14.4%.

(In RMB million)

Item	2019		2018		Year-on-year change
	Amount	%	Amount	%	
Net interest income	**89,961**	**65.2%**	**74,745**	**64.0%**	**20.4%**
Interest income from balances with the Central bank	3,345	1.9%	4,002	2.5%	(16.4%)
Interest income from transactions with financial institutions	9,681	5.5%	10,933	6.7%	(11.5%)
Including: Interest income from deposits with banks and other financial institutions	2,962	1.7%	4,893	3.0%	(39.5%)
Interest income from placements with banks and other financial institutions	2,132	1.2%	1,759	1.1%	21.2%
Interest income from loans and advances to customers	133,610	75.2%	119,590	73.4%	11.7%
Interest income from financial investments	30,913	17.4%	28,363	17.4%	9.0%
Subtotal of interest income	**177,549**	**100.0%**	**162,888**	**100.0%**	**9.0%**
Interest expenses on borrowings from the Central bank	4,290	4.9%	4,299	4.9%	(0.2%)
Interest expenses for transactions with financial enterprises	12,615	14.4%	18,686	21.2%	(32.5%)
Interest expense on deposits due to customers	56,002	63.9%	49,638	56.3%	12.8%
Interest expenses on debt securities issued	14,477	16.6%	15,520	17.6%	(6.7%)
Other interest expenses	204	0.2%	-	-	Nil for last year
Subtotal of interest expenses	**87,588**	**100.0%**	**88,143**	**100.0%**	**(0.6%)**
Net fee and commission income	**36,743**	**26.6%**	**31,297**	**26.8%**	**17.4%**
Other net non-interest income	**11,254**	**8.2%**	**10,674**	**9.2%**	**5.4%**
Total operating income	**137,958**	**100.0%**	**116,716**	**100.0%**	**18.2%**

3.2.2.2 Net interest income

In 2019, the Bank recorded net interest income of RMB89,961 million, representing a year-on-year increase of 20.4% and accounting for 65.2% of operating income.

Average daily balance and average yield/cost rate of the major asset and liability items

(In RMB million)

Item	Jan. - Dec. 2019			Jan. - Dec. 2018		
	Average daily balance	Interest income/ expense	Average yield/ cost rate	Average daily balance	Interest income/ expense	Average yield/ cost rate
Assets						
Loans and advances to customers (excluding discounted bills)	2,025,073	133,278	6.58%	1,864,672	119,354	6.40%
Bond investment	642,686	21,415	3.33%	499,716	17,170	3.44%
Balances with the Central bank	222,097	3,345	1.51%	259,779	4,002	1.54%
Bills discounting and interbank business	543,900	19,511	3.59%	561,984	22,362	3.98%
Total interest-earning assets	3,433,756	177,549	5.17%	3,186,151	162,888	5.11%
Liabilities						
Deposits due to customers	2,274,753	56,002	2.46%	2,052,267	49,638	2.42%
Debt securities issued	405,019	14,477	3.57%	352,701	15,520	4.40%
Including: Interbank certificates of deposits	303,490	10,023	3.30%	306,243	13,095	4.28%
Inter-bank business and others	640,636	17,109	2.67%	691,892	22,985	3.32%
Total interest-bearing liabilities	3,320,408	87,588	2.64%	3,096,860	88,143	2.85%
Net interest income		**89,961**			**74,745**	
Deposit-loan spread			**4.12%**			**3.98%**
NIS			**2.53%**			**2.26%**
NIM			**2.62%**			**2.35%**

Average daily balance and average yield/cost rate of the major asset and liability items(continued)

(In RMB million)

Item	Oct. - Dec. 2019			Jul. - Sep. 2019		
	Average daily balance	Interest income/ expense	Average yield/ cost rate	Average daily balance	Interest income/ expense	Average yield/ cost rate
Assets						
Loans and advances to customers (excluding discounted bills)	2,115,504	34,359	6.44%	2,017,555	33,292	6.55%
Bond investment	695,037	5,784	3.30%	646,164	5,632	3.46%
Balances with the Central bank	220,420	833	1.50%	225,121	852	1.50%
Bills discounting and interbank business	557,616	4,760	3.39%	538,920	4,926	3.63%
Total interest-earning assets	3,588,577	45,736	5.06%	3,427,760	44,702	5.17%
Liabilities						
Deposits due to customers	2,340,869	14,174	2.40%	2,271,575	14,184	2.48%
Debt securities issued	419,173	3,516	3.33%	402,150	3,522	3.47%
Including: Interbank certificates of deposits	325,550	2,509	3.06%	290,811	2,312	3.15%
Interbank business and others	668,738	4,354	2.58%	662,648	4,366	2.61%
Total interest-bearing liabilities	3,428,780	22,044	2.55%	3,336,373	22,072	2.62%
Net interest income		**23,692**			**22,630**	
Deposit-loan spread			**4.04%**			**4.07%**
NIS			**2.51%**			**2.55%**
NIM			**2.62%**			**2.62%**

The Bank further optimised business structure to increase the scale and proportion of personal loans with high average yield rate, resulting in a slight rise in yield rate of interest-earning assets; the increase in the scale of deposits with low average cost rate and the overall easing of market funds in 2019 led to a further decline in the cost rate of interest-bearing liabilities; from January to December 2019, the NIS and NIM both increased by 27 basis points compared with the same period last year.

Average daily balance and yield of loans and advances to customers

(In RMB million)

Item	Jan. - Dec. 2019			Jan. - Dec. 2018		
	Average daily balance	Interest income	Average yield	Average daily balance	Interest income	Average yield
Corporate loans (excluding discounted bills)	793,555	38,004	4.79%	859,967	40,428	4.70%
Personal loans (including credit cards)	1,231,518	95,274	7.74%	1,004,705	78,926	7.86%
Loans and advances to customers (excluding discounted bills)	**2,025,073**	**133,278**	**6.58%**	**1,864,672**	**119,354**	**6.40%**

Item	Oct. - Dec. 2019			Jul. - Sep. 2019		
	Average daily balance	Interest income	Average yield	Average daily balance	Interest income	Average yield
Corporate loans (excluding discounted bills)	810,092	8,887	4.35%	773,199	9,094	4.67%
Personal loans (including credit cards)	1,305,412	25,472	7.74%	1,244,356	24,198	7.72%
Loans and advances to customers (excluding discounted bills)	**2,115,504**	**34,359**	**6.44%**	**2,017,555**	**33,292**	**6.55%**

Average daily balance and cost rate of deposits due to customers

(In RMB million)

Item	Jan. - Dec. 2019			Jan. - Dec. 2018		
	Average daily balance	Interest expense	Average cost rate	Average daily balance	Interest expense	Average cost rate
Corporate deposits	1,762,693	42,574	2.42%	1,657,435	39,314	2.37%
Including: Demand deposits	538,268	3,383	0.63%	528,838	3,229	0.61%
Time deposits	979,628	33,131	3.38%	879,273	29,837	3.39%
Including: Treasury deposits and agreement deposits	106,653	4,556	4.27%	108,062	4,925	4.56%
Margin deposits	244,797	6,060	2.48%	249,324	6,248	2.51%
Personal deposits	512,060	13,428	2.62%	394,832	10,324	2.61%
Including: Demand deposits	169,289	512	0.30%	149,338	450	0.30%
Time deposits	318,506	11,815	3.71%	220,437	8,697	3.95%
Margin deposits	24,265	1,101	4.54%	25,057	1,177	4.70%
Deposits due to customers	**2,274,753**	**56,002**	**2.46%**	**2,052,267**	**49,638**	**2.42%**

Item	Oct. - Dec. 2019			Jul. - Sep. 2019		
	Average daily balance	Interest expense	Average cost rate	Average daily balance	Interest expense	Average cost rate
Corporate deposits	1,801,254	10,694	2.36%	1,751,663	10,806	2.45%
Including: Demand deposits	534,633	919	0.68%	539,239	829	0.61%
Time deposits	984,518	8,059	3.25%	977,382	8,496	3.45%
Including: Treasury deposits and agreement deposits	93,134	911	3.88%	112,254	1,182	4.18%
Margin deposits	282,103	1,716	2.41%	235,042	1,481	2.50%
Personal deposits	539,615	3,480	2.56%	519,912	3,378	2.58%
Including: Demand deposits	177,446	137	0.31%	173,270	132	0.30%
Time deposits	339,026	3,102	3.63%	320,722	2,948	3.65%
Margin deposits	23,143	241	4.13%	25,920	298	4.56%
Deposits due to customers	**2,340,869**	**14,174**	**2.40%**	**2,271,575**	**14,184**	**2.48%**

3.2.2.3 Net non-interest income

Net fee and commission income

In 2019, the net fee and commission income of the Bank was RMB36,743 million, representing an increase of 17.4% year on year, mainly due to the increase in fee income from bank cards. The details were as follows:

(In RMB million)

Item	2019	2018	Year-on-year change
Settlement fee income	2,789	2,477	12.6%
Agency and trusteeship business fee income	6,841	4,123	65.9%
Bank card business fee income	30,200	25,266	19.5%
Consulting and advisory fee income	1,245	1,463	(14.9%)
Asset trusteeship fee income	2,181	2,856	(23.6%)
Others	2,647	3,177	(16.7%)
Subtotal of fee and commission income	**45,903**	**39,362**	**16.6%**
Agency business fee expense	1,705	1,210	40.9%
Bank card business fee expense	6,981	6,426	8.6%
Others	474	429	10.5%
Subtotal of fee and commission expense	**9,160**	**8,065**	**13.6%**
Net fee and commission income	**36,743**	**31,297**	**17.4%**

Other net non-interest income

Other net non-interest income included investment income, gains/losses on fair value changes, net gains from foreign exchange and foreign exchange products, other business income, gains/losses on disposal of assets and other gains. In 2019, the Bank recorded other net non-interest income of RMB11,254 million, representing a year-on-year increase of 5.4%, mainly due to the increase in investment income from financial assets at fair value through other comprehensive income and exchange gains or losses due to fluctuations in exchange rate.

3.2.2.4 Operating and administrative expense

The Bank continued to increase investment in strategic transformation. In 2019, operating and administrative expense of the Bank was RMB40,852 million, an increase of 15.4% year on year and the cost/income ratio was 29.61%, down 0.71 percentage point year on year. Included in the operating and administrative expense were staff expense of RMB20,071 million with a year-on-year increase of 13.3%, general business administrative expense of RMB14,471 million with a year-on-year increase of 16.1%, and depreciation, amortisation and rental expenses of RMB6,310 million with a year-on-year increase of 21.1%, which was mainly due to the increase in expenditures brought about by the decoration and transformation of new retail stores and the investment in technology development.

3.2.2.5 Impairment provision on credit and other assets

In 2019, the Bank's impairment provision on credit and other assets amounted to RMB59,527 million, with a year-on-year increase of RMB11,656 million or 24.3%, which included provision for credit impairment losses on loans and advances to customers of RMB53,288 million, an increase of RMB9,631 million or 22.1% year on year.

(In RMB million)

Item	Provision in 2019	Provision in 2018	Year-on-year change
Deposits with banks and other financial institutions	502	(94)	Negative in the previous year
Placements with and loans to banks and other financial institutions	64	85	(24.7%)
Financial assets held under resale agreements	50	1	4,900.0%
Loans and advances to customers	53,288	43,657	22.1%
Debt investments (Note)	2,185	3,318	(34.1%)
Other debt investments	946	265	257.0%
Expected loss of credit commitment for off-balance sheet items	868	218	298.2%
Foreclosed assets	794	57	1293.0%
Others	830	364	128.0%
Total	**59,527**	**47,871**	**24.3%**

Note: Credit impairment provision was mainly made for financial investments carried at amortised cost, including asset management plan/right to yields of asset management plan, and trust plan/right to yields of trust plan.

3.2.2.6 Income tax expense

In 2019, the Bank's provision on income tax expense amounted to RMB8,045 million, with a year-on-year increase of 8.5%, and the effective income tax rate was 22.20%, decreased by 0.80 percentage point on a year-on-year basis.

(In RMB million)

Item	2019	2018	Year-on-year change
Profit before tax	36,240	32,231	12.4%
Income tax expense	8,045	7,413	8.5%
Effective income tax rate	22.20%	23.00%	-0.80 percentage point

3.2.2.7 Regional segment of operating income and expense

See "IV. Operating Segment Information" in "Section X Financial Report" for details about regional segment of operating income and expense of the Bank in 2019.

3.2.3 Analysis of balance sheet items

3.2.3.1 Asset composition and changes

At the end of 2019, the Bank's total assets amounted to RMB3,939,070 million, up 15.2% over the end of last year; which included the total loans and advances to customers (including discounted bills) of RMB2,323,205 million, representing an increase of 16.3% as compared with the end of last year.

(In RMB million)

Item	**31 December 2019**		**31 December 2018**		Change at the end of the year from the end of last year
	Balance	%	Balance	%	
Total loans and advances to customers	2,328,909	59.1%	2,003,790	58.6%	16.2%
Including: Principal of loans and advances to customers	2,323,205	59.0%	1,997,529	58.4%	16.3%
Accrued interest on loans and advances to customers	5,704	0.1%	6,261	0.2%	(8.9%)
Impairment provision of loans and advances to customers	(69,560)	(1.8%)	(54,033)	(1.6%)	28.7%
Net loans and advances to customers	2,259,349	57.3%	1,949,757	57.0%	15.9%
Financial assets classified as investments (Note)	1,065,580	27.1%	871,777	25.5%	22.2%
Cash and balances with the Central bank	252,230	6.4%	278,528	8.1%	(9.4%)
Deposits with banks and other financial institutions	85,684	2.2%	85,098	2.5%	0.7%
Precious metals	51,191	1.3%	56,835	1.7%	(9.9%)
Placements with and loans to banks and other financial institutions and financial assets held under resale agreements	141,585	3.6%	109,919	3.2%	28.8%
Investment properties	247	0.0%	194	0.0%	27.3%
Property and equipment	11,092	0.3%	10,899	0.3%	1.8%
Right-of-use assets	7,517	0.2%	-	-	Nil at the end of last year
Intangible assets	4,361	0.1%	4,771	0.1%	(8.6%)
Goodwill	7,568	0.2%	7,568	0.2%	-
Deferred tax assets	34,725	0.9%	29,468	0.9%	17.8%
Other assets	17,941	0.4%	13,778	0.5%	30.2%
Total assets	**3,939,070**	**100.0%**	**3,418,592**	**100.0%**	**15.2%**

Note: "Financial assets classified as investments" include the "derivative financial assets, financial assets held for trading, investment on debts, other investment on debts and other equity investment" under the item of the balance sheet. See "3.2.4.1 Investment portfolio and overall situation" in this section for details.

Loans and advances to customers

See "3.2.8 Analysis on asset quality of loans" in this section for details about the Bank's loans and advances to customers.

3.2.3 Analysis of balance sheet items(continue)

3.2.3.1 Asset composition and changes(continue)

Goodwill

The Bank obtained goodwill when acquiring the former Ping An Bank in July 2011. The goodwill balance was RMB7,568 million on 31 December 2019.

(In RMB million)

Item	Balance	Impairment provision
Goodwill	7,568	-

Other assets - foreclosed assets

(In RMB million)

Item	Balance
Lands and buildings	4,879
Others	16
Subtotal	**4,895**
Impairment provision for foreclosed assets	(925)
Net amount of foreclosed assets	**3,970**

3.2.3.2 Liability structure and changes

At the end of 2019, the Bank's total liabilities were RMB3,626,087 million, representing an increase of 14.1% over the end of the previous year; which included the balance of deposits due to customers of RMB2,436,935 million, up 14.5% over the end of the previous year**.**

(In RMB million)

Item	31 December 2019		31 December 2018		Change at the end of the year from the end of last year
	Balance	%	Balance	%	
Deposits due to customers	2,459,768	67.8%	2,149,142	67.6%	14.5%
Including: Deposit principals due to customers	2,436,935	67.2%	2,128,557	67.0%	14.5%
Accrued interest on deposits due to customers	22,833	0.6%	20,585	0.6%	10.9%
Borrowings from the Central bank	113,331	3.1%	149,756	4.7%	(24.3%)
Deposits from banks and other financial institutions	368,691	10.2%	392,738	12.4%	(6.1%)
Placements from banks and other financial institutions	26,071	0.7%	24,606	0.8%	6.0%
Financial liabilities held for trading	29,691	0.8%	8,575	0.3%	246.3%
Derivative financial liabilities	21,404	0.6%	21,605	0.7%	(0.9%)
Financial assets sold under repurchase agreements	40,099	1.1%	7,988	0.3%	402.0%
Salaries and welfare payable	14,218	0.4%	12,238	0.4%	16.2%
Taxes payable	12,031	0.3%	9,366	0.3%	28.5%
Debt securities issued	513,762	14.2%	381,884	12.0%	34.5%
Lease liabilities	7,600	0.2%	-	-	Nil at the end of last year
Others (Note)	19,421	0.6%	20,652	0.5%	(6.0%)
Total liabilities	**3,626,087**	**100.0%**	**3,178,550**	**100.0%**	**14.1%**

Note: "Others" include items such as "provisions and other liabilities" in the statement.

Distribution of deposits due to customers as per customer type

(In RMB million)

Item	31 December 2019	31 December 2018	Change at the end of the year from the end of last year
Corporate deposits	1,853,262	1,666,966	11.2%
Personal deposits	583,673	461,591	26.4%
Total deposit principal due to customers	**2,436,935**	**2,128,557**	**14.5%**

Distribution of deposits due to customers as per regions

(In RMB million)

Item	31 December 2019		31 December 2018		Change at the end of the year from the end of last year
	Balance	%	Balance	%	
East region	639,014	26.2%	489,064	23.0%	30.7%
South region	812,790	33.4%	656,717	30.9%	23.8%
West region	198,661	8.2%	140,656	6.6%	41.2%
North region	459,606	18.9%	354,516	16.7%	29.6%
Head office	324,428	13.2%	487,604	22.8%	(33.5%)
Overseas	2,436	0.1%	-	-	Nil at the end of last year
Total deposit principal due to customers	**2,436,935**	**100.0%**	**2,128,557**	**100.0%**	**14.5%**

3.2.3.3 Changes in shareholders' equity

At the end of 2019, the Bank's shareholders' equity was RMB312,983 million, up 30.4% over the end of last year, among which, other equity instruments amounted to RMB39,948 million, representing an increase of 100.2% over the end of the previous year, due to capital bonds without fixed terms issued by the Bank included in other equity instruments after deducting issuance costs; capital reserve was RMB80,816 million, up 43.1% over the end of the previous year, due to increase in share premium caused by conversion of the convertible corporate bonds of the Bank; and undistributed profits amounted to RMB113,370 million, up 19.3% over the end of the previous year primarily due to net profit recorded and distributed of the year.

(In RMB million)

Item	Beginning balance	Increase in the current year	Decrease in the current year	Balance at the end of year
Share capital	17,170	2,236	-	19,406
Other equity instruments	19,953	19,995	-	39,948
Including: Preference shares	19,953	-	-	19,953
Perpetual bonds	-	19,995	-	19,995
Capital reserve	56,465	24,351	-	80,816
Other comprehensive income	786	1,528	-	2,314
Surplus reserve	10,781	-	-	10,781
General reserve	39,850	6,498	-	46,348
Retained earnings	95,037	28,195	(9,862)	113,370
Including: Dividend of ordinary shares proposed for distribution	2,490	4,230	(2,490)	4,230
Total shareholders' equity	**240,042**	**82,803**	**(9,862)**	**312,983**

3.2.3.4 Fair value measurement

See "VII. Risk disclosure 4. Fair value of financial instruments" and "XI. Other significant items - Assets and liabilities measured at fair value" in "Section X Financial Report" for the Bank's fair value measurement and items measured at fair value at the end of 2019.

3.2.3.5 Restrictions on major asset rights by the end of the reporting period

□Applicable √ Not applicable

3.2.4 Investment situation

3.2.4.1 Investment portfolio and overall situation

√ Applicable □ Not applicable

(In RMB million)

Item	31 December 2019		31 December 2018		Change at the end of the year from the end of last year
	Balance	%	Balance	%	
Derivative financial assets	18,500	1.7%	21,460	2.5%	(13.8%)
Financial assets held for trading	206,682	19.4%	148,768	17.1%	38.9%
Debt investments	656,290	61.6%	629,366	72.1%	4.3%
Other debt investments	182,264	17.1%	70,664	8.1%	157.9%
Investments in other equity instruments	1,844	0.2%	1,519	0.2%	21.4%
Total financial assets classified as investments	**1,065,580**	**100.0%**	**871,777**	**100.0%**	**22.2%**

3.2.4.2 Significant equity investment acquired in the reporting period

□Applicable √ Not applicable

3.2.4.3 Significant non-equity investment ongoing in the reporting period

□Applicable √ Not applicable

3.2.4.4 Financial bonds held

At the end of 2019, the carrying amount of financial bonds (policy bank bonds, various general financial bonds, subordinated financial bonds, excluding corporate bonds) held by the Bank was RMB230.669 billion, among which ten financial bonds with the highest book value are detailed as follows:

(In RMB million)

Name of Bonds	Par value	Annual coupon rate (%)	Maturity date	Impairment provision
2018 Policy Bank Bonds	6,300	4.88	9 February 2028	-
2019 Commercial Bank Bonds	4,500	3.13	16 December 2020	0.47
2018 Policy Bank Bonds	4,200	4.15	26 October 2025	-
2010 Policy Bank Bonds	3,860	2.09	25 February 2020	-
2019 Commercial Bank Bonds	3,350	3.13	16 December 2020	0.25
2016 Policy Bank Bonds	3,300	2.96	18 February 2021	-
2019 Policy Bank Bonds	3,160	3.28	11 February 2024	-
2019 Policy Bank Bonds	3,074	3.30	1 February 2024	-
2019 Commercial Bank Bonds	3,050	3.50	27 March 2022	2.95
2017 Policy Bank Bonds	3,040	4.44	9 November 2022	-

3.2.4.5 Derivative financial instruments held

Derivative investment

Risk analysis and control measures for derivative positions in the reporting period (including but not limited to market risk, liquidity risk, operational risk, legal risk, etc.)	The Bank carried out capital transactions and investment covering derivatives within the overall limit framework of risk preference and market risk established by the Board of Directors. The Bank built a targeted system for risk management and internal control to effectively identify measure, monitor report and control the risks associated with derivative investment.
For changes in market price or fair value of products during the reporting period of invested derivatives, analysis of the fair value of derivatives shall disclose the specific measures used and related hypotheses and parameter setting	In the reporting period, changes in the fair value of the derivatives invested by the Bank were within reasonable and controllable range. The Bank adopted valuation methods generally recognised by market players and verified to be reliable by the previous actual market transaction price, and market observable parameters to determine the fair value of the derivatives.
Description of whether the specific principles of the accounting policies and accounting for the Company's derivatives during the reporting period changed significantly compared with those in the previous reporting period	The Bank developed the accounting policies and accounting measures for derivatives according to the *Accounting Standards for Business Enterprises* and there was no significant change in relevant policies during the reporting period.
Special opinions of independent directors on the derivative investment and risk control of the Company	The Bank's derivative trading is a commercial bank business approved by regulatory authorities. The Bank has set up a special risk management organisation and established a targeted risk management system to effectively manage the risk of derivative investment business.

Positions of derivative investment

(In RMB million)

Contract type	Beginning contract amount (Nominal amount)	Ending contract amount (Nominal amount)	Fair value changes during the reporting period
Foreign exchange derivatives	874,747	496,223	708
Interest rate derivatives	3,168,549	4,768,243	240
Precious metal derivatives	84,071	89,851	(5,264)
Total	**4,127,367**	**5,354,317**	**(4,316)**

Note: (1) The nominal amount of derivative financial instruments only demonstrated the trading volume, but did not reflect the actual risk exposure. The Bank mainly adopted hedging strategy to the foreign exchange and interest rate derivative business, so there was little actual risk exposure of foreign exchange rate and interest rate.

(2) The Bank implemented trading hedging strategy by using various product portfolios, such as spot precious metals, forward contracts, options and extendable option. During the reporting period, the fair value losses of precious metal derivatives and the realised income of precious metals were hedged as positive returns.

3.2.4.6 Usage of raised funds

Overall utilisation of raised funds

√ Applicable ☐ Not applicable

(In RMB million)

Year	Way of raising	Net amount of raised funds	Total amount used in the current period	Accumulated amount used	Total amount with of purpose changed during the reporting period	Accumulated amount with purpose changed	% of accumulated amount with purpose changed	Remaining amount	Purpose and direction of remaining amount	Amount being idle for more than two years
2019	A-share convertible corporate bonds	25,913.87	25,913.87	25,913.87	-	-	-	-	Not applicable	-
Total	-	25,913.87	25,913.87	25,913.87	-	-	-	-	Not applicable	-

Description of overall utilisation of raised funds
The Company's raised funds after deducting issuance expenses were all used to support the development of future business and effectively replenish the core tier 1 capital of the Bank after the conversion of convertible bonds in accordance with relevant regulatory requirements, which was consistent with the purposes as disclosed in the Prospectus.

3.2.4.6 Usage of raised funds

Project with raised funds committed
√ Applicable □ Not applicable

(In RMB million)

Projects invested and investment direction of excess funds	Whether project is changed (including partial change)	Total amount of raised funds to be invested	Total investment after adjustment (1) (Note)	Amount invested in the current year	Accumulated amount invested as at the end of the reporting period (2)	Investment progress as at the end of the reporting period (%)(3)=(2)/(1)	Date of project available for use	Benefits achieved in the current year	Whether the expected benefits are achieved	Whether there are significant changes in project feasibility
Projects invested										
Supporting the development of future business and effectively replenish the core tier 1 capital of the Bank after the conversion of convertible bonds in accordance with relevant regulatory requirements	No	25,914.83	25,913.87	25,913.87	25,913.87	100%	Not applicable	Not applicable	Not applicable	No
Subtotal of projects invested	-	25,914.83	25,913.87	25,913.87	25,913.87	100%	-	-	-	-
Direction of excess funds										
Repayment of bank loans	-	-	-	-	-	-	-	-	-	-
Replenishment to working capital	-	-	-	-	-	-	-	-	-	-
Subtotal of direction of excess funds	-	-	-	-	-	-	-	-	-	-
Total	-	25,914.83	25,913.87	25,913.87	25,913.87	100%	-	-	-	-
Conditions and reasons for not achieving the planning progress or expected benefits (considering specific projects)	-									
Description of the significant changes in project feasibility	-									
Amount, use and condition of use of excess funds	-									
Change in the location of projects invested	-									
Adjustment of implementation of projects invested	-									
Early investment and exchange of projects invested	-									
Temporary replenishment of working capital with idle funds	-									
The amount and reason of the raised fund balance in project implementation	-									
Use and direction of unused raised funds	-									
Problems or other situations in the use and disclosure of raised funds	-									

Note: The adjusted total investment excluded "Ping Yin Convertible Bonds" redeemed by the Company.

Project with changes in raised funds
☐Applicable √ Not applicable

During the reporting period, the Company did not have any project with changes in raised funds.

3.2.4.7 The Bank sold no significant assets and equities during the reporting period and since previous period lasting to the reporting period.

3.2.4.8 Analysis on main holding companies and joint stock companies

Analysis on operating conditions and performance of main subsidiaries
□Applicable √ Not applicable

Shares held in other listed companies

(In RMB million)

Security code	Security abbreviation	Initial investment amount	Shareholding proportion in the company as at the end of the period	Ending book value	Investment gains/losses during the reporting period	Changes in owners' equity in the reporting period	Accounting items	Source of shares
601975	Zhaoshang Nanyou (Note 1)	314	2.72%	384	(205)	-	Financial assets held for trading	Debt to equity
600725	ST Yunwei	158	0.85%	27	2	-		Debt to equity
601916	Zheshang Bank (Note 2)	59	0.05%	42	9	-		Debt to equity
400053	Jiazhi 3	11	1.76%	11	-	-		Debt to equity
900951	ST Dahua B	4	0.50%	3	-	(1)	Investments in other equity instruments	Debt to equity
-	Visa Inc.	-	0.01%	11	-	3		Historical investment
Total		**546**		**478**	**(194)**	**2**		

Note: (1) In 2019, due to the re-listing and trading of Changyou 5 stocks (original stock code: 400061) held by the Bank, the relevant security information was updated to the post-relisting announcement information.
(2) In 2014, the Bank acquired 10 million shares of equity interests in China Zheshang Bank Co., Ltd ("Zheshang Bank") as repayment in kind; in November 2019, given Zheshang Bank as a A-share listed bank, the equity interests held by the Bank were transferred to domestic restricted shares.

Shares held in unlisted financial companies and Pre-IPOs

(In RMB million)

Invested entities	Investment amount	Fair value changes	Ending net value
China UnionPay Co., Ltd.	74	-	74
Shares of SWIFT member	1	-	1
Clearing Centre for City Commercial Banks	1	-	1
Total	**76**	**-**	**76**

3.2.4.9 Structured entities controlled by the Company

At the end of 2019, the Bank's balance of principal-guaranteed wealth management products (WMPs) amounted to RM67,217 million, a decrease of 18.7% over the end of last year, the balance of structured deposits was RMB507,711 million, up 17.1% compared with the end of last year and the balance of non-principal-guaranteed WMPs was RMB590,499, increasing by 9.8% compared with the end of last year. See "III. Notes to key items in the financial statements - Note 50. Structured entities" in "Section X Financial Report" for details about the Bank's structured entities.

3.2.5 Balance of off-balance sheet items which may have significant influences on business performance at the end of the reporting period

See "V. Commitments and contingent liabilities" in "Section X Financial Report" for the Bank's items, such as "capital expenditure commitments, operating lease commitments and credit commitments".

3.2.6 Analysis on items with changes over 30% in comparative accounting statement

(In RMB million)

Item	Amount for the period	Amount of change	Rate of change	Analysis on reasons of change
Financial assets held under resale agreements	62,216	25,231	68.2%	Increase in scale of bonds held under resale agreements
Financial assets held for trading	206,682	57,914	38.9%	Increase in scale of bond investments held for trading
Other investment on debts	182,264	111,600	157.9%	Increase in scale of bond investments and interbank investments designated at fair value and changes included into other comprehensive income
Right-of-use assets	7,517	7,517	Nil at the end of last year	The line item is newly added in accordance with the standard on lease this year
Other assets	17,941	4,163	30.2%	Increase in settlements receivable and fees receivable
Financial liabilities held for trading	29,691	21,116	246.3%	Increase in financial liabilities held for trading caused by increase in scale of the short position of bond lending
Financial assets sold under repurchase agreements	40,099	32,111	402.0%	Increase in scale of bonds sold under repurchase agreements
Debt securities issued	513,762	131,878	34.5%	Increase in scale of interbank certificates of deposits issued by the Bank
Lease liabilities	7,600	7,600	Nil at the end of last year	The line item is newly added in accordance with the standard on lease this year
Provisions	1,734	874	101.6%	Loss provision for contingencies and financial guarantee contracts
Other equity instruments	39,948	19,995	100.2%	Capital bonds with indefinite terms issued by the Bank were included in other equity instruments after deducting issuance costs.
Capital reserve	80,816	24,351	43.1%	Increase in share premium caused by conversion of the convertible corporate bonds issued by the Bank
Other comprehensive income	2,314	1,528	194.4%	Increase in fair value of other debt investments
Gains/losses on fair value changes	49	(843)	(94.5%)	Transfer of current realised income of financial bonds held for trading, fund investments and other products from gains/losses on fair value changes to investment income
Exchange gains or losses	1,196	987	472.2%	Increase in exchange gains or losses due to fluctuations in exchange rate
Other operating income	110	(60)	(35.3%)	Small base period number of RMB170 million for the same period of last year
Gains on disposal of assets	(30)	(118)	(134.1%)	Small base period number of RMB88 million for the same period of last year
Other income	219	90	69.8%	Small base period number of RMB129 million for the same period of last year
Impairment losses on other assets	1,056	999	1,752.6%	Increase in impairment losses on foreclosed assets; Small base period number of RMB57 million for the same period of last year
Non-operating income	99	71	253.6%	Small base period number of RMB28 million for the same period of last year
Non-operating expenses	148	46	45.1%	Small base period number of RMB102 million for the same period of last year

3.2.7 Cash flows

In 2019, the Bank's net cash flows generated from operating activities amounted to RMB-40,025 million, a year-on-year increase of RMB17,298 million, primarily due to the year-on-year increase in cash inflow as a result of increased in amount of deposits from customers ; net cash flows generating from investing activities amounted to RMB-102,056 million, a year-on-year decrease of RMB163,438 million, mainly due to the year-on-year increase in cash outflow from investment paid; net cash flows generated from financing activities amounted to RMB158,667 million, a year-on-year increase of RMB139,646 million, primarily due to the decrease in net cash outflow arising from principal repayment of debt securities.

3.2.8 alysis on asset quality of loans

In 2019, the Bank actively coped with the external macroeconomic changes, continued to optimise credit structure and strictly managed and controlled incremental business risks to prevent and dissolve various possible risks in existing loans. By taking a series of actions, the Bank strengthened the efforts to recover and dispose of non-performing assets and continuously improved the asset quality. In this way, the risk compensation capabilities of the Bank were significantly enhanced. Both the balance and the proportion of overdue loans, loans overdue for more than 60 days and loans overdue for more than 90 days declined and the deviation ratios of loans overdue for more than 60 days and 90 days were both below 1; the provision coverage ratio of NPL, loans overdue for more than 60 days and loans overdue for more than 90 days were 183.12%, 190.34% and 222.89% respectively, up 27.88, 49.10 and 63.44 percentage points over the end of last year respectively.

3.2.8.1 Five-tier classification of loans and advances to customers

(In RMB million)

Item	31 December 2019		31 December 2018		Change at the end of the year from the end of last year
	Balance	%	Balance	%	
Normal loans	2,238,307	96.34%	1,908,072	95.52%	17.3%
Special mentioned loans	46,665	2.01%	54,552	2.73%	(14.5%)
Non-performing loans	38,233	1.65%	34,905	1.75%	9.5%
Including: Substandard	18,891	0.81%	17,955	0.90%	5.2%
Doubtful	6,272	0.27%	4,509	0.23%	39.1%
Loss	13,070	0.57%	12,441	0.62%	5.1%
Total principal of loans and advances to customers	**2,323,205**	**100.00%**	**1,997,529**	**100.00%**	**16.3%**
Impairment provision of loans and advances to customers	(70,013)		(54,187)		29.2%
Including: Impairment provision of loans and advances to customers measured at amortised cost	(69,560)		(54,033)		28.7%
Impairment provision for loans and advances to customers designated at fair value and changes included into other comprehensive income	(453)		(154)		194.2%
NPL ratio	1.65%		1.75%		-0.10 percentage point
Deviation ratio of loans overdue for more than 60 days (Note 1)	82%		97%		-15 percentage points
Deviation ratio of loans overdue for more than 90 days (Note 2)	96%		110%		-14 percentage points
Provision coverage ratio	183.12%		155.24%		+27.88 percentage points
Provision coverage ratio for loans overdue for more than 90 days	222.89%		159.45%		+63.44 percentage points
Provision coverage ratio for loans overdue for more than 60 days	190.34%		141.24%		+49.10 percentage points
Provision to loan ratio	3.01%		2.71%		+0.30 percentage point

Note: (1) Deviation ratio of loans overdue for more than 90 days=Balance of loans overdue for more than 90 days/Balance of non-performing loans

(2) Deviation ratio of loans overdue for more than 60 days=Balance of loans overdue for more than 60 days/Balance of non-performing loans

3.2.8.2 Structural distribution and quality of loans and advances to customers as per products

(In RMB million)

Item	31 December 2019			31 December 2018			Increase/decrease in non-performing ratio
	Balance	%	NPL ratio	Balance	%	NPL ratio	
Corporate loans	**965,984**	**41.6%**	**2.29%**	**843,516**	**42.2%**	**2.68%**	**-0.39 percentage point**
Including: General corporate loans	871,081	**37.5%**	2.54%	801,814	40.1%	2.82%	-0.28 percentage point
Discounted bills	94,903	4.1%	-	41,702	2.1%	-	-
Personal loans	**1,357,221**	**58.4%**	**1.19%**	**1,154,013**	**57.8%**	**1.07%**	**+0.12 percentage point**
Including:Mortgage loans and licensed mortgage loans	411,066	17.7%	0.30%	310,793	15.6%	0.11%	+0.19 percentage point
New Generation Loan	157,364	6.8%	1.34%	153,745	7.7%	1.00%	+0.34 percentage point
Auto financial loans	179,224	7.7%	0.74%	172,029	8.6%	0.54%	+0.20 percentage point
Credit card receivables	540,434	23.3%	1.66%	473,295	23.7%	1.32%	+0.34 percentage point
Others (Note)	69,133	2.9%	3.55%	44,151	2.2%	7.29%	-3.74 percentage points
Total principal of loans and advances to customers	**2,323,205**	**100.0%**	**1.65%**	**1,997,529**	**100.0%**	**1.75%**	**-0.10 percentage point**

Note: "Others" included personal operating loans, small consumer loans and other guaranteed or pledged loans.

1. Corporate NPL ratio decreased by 0.39 percentage point as compared to the end of the last year and the asset quality was gradually improved. The Bank keeps refining the corporate business, continuously optimises the credit structure, enhances the asset quality management and control mechanism and intensifies the efforts to recover and dispose of stock non-performing assets in order to further strengthen asset quality. The details are as follows:

(1) For strict control on incremental business, the Bank established stringent entry standard to control asset quality from its source, providing support for key industries, key regions and key customers.

(2) For proper management on existing business, the Bank followed post-loan requirements by enhancing the pre-control on recovery of loans' principal and interest, improving early warning management and decreasing or terminating business with enterprises holding risk assets in advance; the Bank invested more in risk investigation of key areas to identify potential non-performing assets promptly, intervene in advance and accelerate the risk response process.

(3) With respect to enhancement on recovery and disposal of stock non-performing assets, the special asset management department fully exploit its centralised and professional advantage of asset liquidation and recovery to strengthen assessment and supervision process and improve the effectiveness of recovery and disposal work.

2. Affected by external factors such as complex and volatile international and domestic economic and financial situation, rising risk of common debts and sluggish auto consumption, risks in the consumer finance industry have increased as a whole. Meanwhile, based on more prudent risk management and control principle, the Bank adopted stricter five-tier classification standard. At the end of December 2019, the NPL ratio of the Bank's personal loans was 1.19%, up 0.12 percentage point from the end of last year. The NPL ratio would be down 0.09 percentage point under the original five-tier classification standard. The overall NPL remained steady and controllable. The details are as follows:

(1)The Bank has gradually increased the delivery of mortgage loans for residents to purchase first homes and buy a second home if their first homes are inadequate. However, due to the lagged nature of mortgage risk, the NPL ratios of mortgage loans and licensed mortgage loans increased compared with the end of 2018. Since 2019, the Bank further adjusted the housing mortgage customer group structure, strengthened efforts for high-quality customers and effectively improved the quality of new mortgage loans and licensed mortgage loans. Meanwhile, the Bank executed diversified risk management and control measures based on the city level of the area in which the collateral belongs. As a result, the NPL ratios of mortgage loans and licensed mortgage loans were maintained at a low level.

(2) Regarding the "New Generation Loan", the Bank strictly followed the requirements of the examination before, when and after granting loans. It checked at all levels under cross-validation rule in terms of pre-loan sales, on-site negotiation and contract conclusion, loan approval, and post-loan management, and dynamically adjusted risk policies with the advanced scoring card technology and multi-dimensional risk monitoring system. For various customers of high risk, the Bank comprehensively upgraded the means of investigation, prevention and control while enhancing and detailing multi-dimensional collection and recovery with more resources invested in, so as to stabilise the asset quality at a reasonable level.

(3) In auto financing business, due to changes in the structure of credit products, the structure of high-yield product portfolios was improved rapidly, portfolio returns increased significantly, and the non-performing ratio was up but under control. The Bank gradually improved the structure and quality of the new customers and optimised the stock structure with the establishment of AI intelligent decision making and the full use of quantitative model tools; meanwhile, it implemented whole-process risk management concept to effectively ensure sustainable development of the asset portfolios. For collection, the Bank thoroughly implemented national laws and regulations and various regulatory requirements, carrying out operations compliantly via judicial litigation as the main means of collection, while improving operation efficiency via technical methods, such as AI, to maintain the overall asset quality within a stable and controllable range.

(4) The Bank had implemented whole-process risk management concept for credit card business, made full use of quantitative tools and effectively managed and controlled risks. On the one hand, the structure and quality of the new customers and the stock structure were effectively improved through big data platform and advanced quantitative analysis techniques, combined with risk control model and the introduction of AI technology and big data model. And the ability to identify customer qualification and risks was continuously enhanced while external common debt risks were strictly controlled to ensure the asset quality and develop healthy and positive business. On the other hand, the Bank upgraded the control of collection and recovery, and intensified efforts in recovery through application of AI intelligent collection; the differentiated collection strategy was further advanced by optimising scoring model; superior outsourcing resources were introduced with more resources invested in collection and recovery. The collection model was further upgraded, and the joint collection model of "collection-litigation-negotiation" was explored.

(5) The Bank's NPL ratio of other personal loans, which were mainly business loans for small enterprise customers, slightly decreased from the end of last year. To support the development of inclusive businesses, the Bank actively developed digital financial products for small enterprises, and built and continued to iterate the credit models of small enterprises by applying big data, effectively improving the capabilities of risk control admission and post-loan risk warning. The new business kept good asset quality while maintaining a rapid growth. At the same time, for the existing businesses of small enterprises, the Bank continued to leverage the professional advantage of the special asset management department in collection and recovery, intensify efforts in collection and recovery and actively mitigate risk of existing assets by taking multiple measures.

3.2.8.3 Structural distribution and quality of loans and advances to customers as per industries

(In RMB million)

Industry	31 December 2019 Balance	%	NPL ratio	31 December 2018 Balance	%	NPL ratio	Increase/decrease in non-performing ratio
Husbandry and fishery	4,619	0.2%	0.11%	5,837	0.3%	4.90%	-4.79 percentage points
Mining (heavy industry)	31,891	1.4%	13.55%	41,140	2.1%	2.19%	+11.36 percentage points
Manufacturing (light industry)	114,789	4.9%	3.43%	119,845	6.0%	6.75%	-3.32 percentage points
Energy	19,484	0.8%	0.90%	21,745	1.1%	0.62%	+0.28 percentage point
Transportation, post and telecommunications	43,768	1.9%	3.09%	39,131	2.0%	2.16%	+0.93 percentage point
Commerce	94,407	4.2%	7.24%	101,104	5.1%	7.94%	-0.70 percentage point
Real estate	228,663	9.8%	1.18%	176,016	8.8%	1.56%	-0.38 percentage point
Social service, science and technology, culture and sanitary	158,747	6.8%	1.18%	144,186	7.2%	0.31%	+0.87 percentage point
Construction	40,031	1.7%	2.23%	45,403	2.3%	2.24%	-0.01 percentage point
Discounted bills	94,903	4.1%	-	41,702	2.1%	-	-
Personal loans (including credit cards)	1,357,221	58.4%	1.19%	1,154,013	57.8%	1.07%	+0.12 percentage point
Others	134,682	5.8%	0.04%	107,407	5.4%	0.09%	-0.05 percentage point
Total principal of loans and advances to customers	**2,323,205**	**100.0%**	**1.65%**	**1,997,529**	**100.0%**	**1.75%**	**-0.10 percentage point**

During the reporting period, the Bank adhered to reinventing its corporate banking, focused on advantageous industries and important customers, kept up with the major national strategic planning, actively supported the development of real economy and continued to optimise assets portfolio allocation. Moreover, the Bank implemented differentiated industrial policies, continued to take reduction measures on customers of high risk, further intensified the disposal of non-performing assets, and increased the amount for provision and the amount written off, maintaining steady asset quality.

At the end of 2019, the Bank's non-performing loans were mainly concentrated in mining (heavy industry), manufacturing and commerce, accounting for 39% of the total non-performing loans. The increase of NPL ratio in energy was mainly led by decrease in the scale of loans; the increase of NPL ratio in mining (heavy industry), transportation and post and telecommunications and social service, science and technology, culture and sanitary was mainly caused by scale-down of several major accounts. However, overall risks were controllable.

3.2.8.4 Quality of loans and advances to customers as per regions

(In RMB million)

Item	31 December 2019 Balance	%	NPL ratio	31 December 2018 Balance	%	NPL ratio	Increase/decrease in non-performing ratio
Eastern District	452,166	19.5%	2.32%	588,078	29.4%	1.62%	+0.70 percentage point
Southern District	434,909	18.7%	1.01%	349,964	17.6%	1.48%	-0.47 percentage point
Western District	213,246	9.2%	2.51%	184,593	9.2%	2.22%	+0.29 percentage point
Northern District	338,676	14.6%	2.69%	298,178	14.9%	3.28%	-0.59 percentage point
Head office	883,511	38.0%	1.01%	576,716	28.9%	1.10%	-0.09 percentage point
Overseas	697	0.0%		-	-	-	
Total principal of loans and advances to customers	**2,323,205**	**100.0%**	**1.65%**	**1,997,529**	**100.0%**	**1.75%**	**-0.10 percentage point**

3.2.8.5 Restructured and overdue loans

(In RMB million)

Item	31 December 2019 Balance	31 December 2019 % of total loans	31 December 2018 Balance	31 December 2018 % of total loans
Restructured loans	19,707	0.85%	23,039	1.15%
Loans with principal and interest overdue for no more than 90 days	17,139	0.74%	15,496	0.78%
Loans with principal or interest overdue for more than 90 days	31,411	1.35%	33,984	1.70%

At the end of 2019, the Bank's restructured loans balance amounted to RMB19,707 million representing a decrease of 14.5% over the end of last year. The Bank intensified the dissolving for collection and restructure on problematic credit corporates, optimised business structure step by step to mitigate and dissolve credit risks.

At the end of 2019, the Bank's balance of loans overdue for no more than 90 days (including loans with principal paid and interest overdue for no more than 90 days) amounted to RMB17,139 million, an increase of 10.6% as compared with the end of the previous year; the balance of loans overdue for more than 90 days (including loans with principal paid and interest overdue for more than 90 days) amounted to RMB31,411 million, a decrease of 7.6% as compared with the end of the previous year. The Bank actively took multiple actions and developed recovery and restructuring conversion plans by types. It further enhanced risk management and elimination. Currently, overall risks were controllable.

3.2.8.6 Movements in impairment provision of loans

The Bank started to implement new accounting standards for financial instruments from 1 January 2018 and set up an expected credit loss rate model to accurately measure expected credit losses. In 2019, the Bank's provision for credit impairment losses on loans and advances to customers amounted to RMB53,288 million, an increase of RMB9,631 million or 22.1% year on year.

(In RMB million)

Item	Amount
Beginning balance	54,187
Add: Provision for the year	53,288
Less: Write-offs for the year	(47,555)
Add: Written-off loans recovered for the year	11,110
Less: Transfer upon asset disposal for the year	(126)
Less: Decrease in loans due to increase in discounted value	(481)
Add: Other changes	(410)
Ending balance	70,013

Non-performing loans fully provided will be written off to the extent that they conform to the write-off conditions and complete relevant write-off procedures; written-off loans will be managed in accordance with the principle of "filing after witting-off and continuous recovery" where the operating unit is responsible for the ongoing dissolve and disposal of written-off loans. For recovery of written-off loans, litigation fees due from borrower advanced from the Bank will be withheld first. For the remaining amount, principal amount of the loans was deducted before the debit interest was deducted. The principals of loans would be used to increase the provision for loss of loans of the Bank, and the recovered interest and expenses would be used to increase interest income in the current period and bad-debt provision.

3.2.8.7 Loan balance of top ten loan customers and its proportion to total loans

At the end of 2019, the Bank's loan balance of the top ten loan customers amounted to RMB62,458 million, accounting for 2.7% of the ending loan balance, including the Bank's loan balance of the top five loan customers of RMB38,919 million, accounting for 1.7% of the ending loan balance. Among the Bank's top five loan customers, the loan balance of related parties in which China Ping An and its holding subsidiaries had equity amounted to RMB14 billion, accounting for 0.6% of the ending loan balance. The rest loan customers of the Bank's top five loan customers had no association relationship with the Bank.

3.2.8.8 Loans on the governmental financing platform

At the end of 2019, the Bank's loan balance of governmental financing platform (including loans rectified to general corporate loans and loans still managed by platform) was RMB51,413 million, an increase of RMB20,019 million or 63.8% as compared with the end of the previous year, accounting for 2.2% of the balance of all loans, up 0.6 percentage point over the end of previous year.
Among that, from the view of classification, the Bank's balance of the loans that were rectified to general corporate loans was RMB46,558 million, accounting for 2.0% of the total loan balance. The balance of the loans still managed by platform was RMB4,855 million, accounting for 0.2% of the total loan balance. The quality of loans on the Bank's platform was good and there were no non-performing loans currently.

3.2.8.9 Distribution of loans by type of collateral

For information of "distribution of loans by type of collateral", please refer to "III. Notes to key items in the financial statements 8.3 Loans and advances to customers--Analysis of distribution of loans by type of collateral" in "Section X Financial Report" for details.

3.2.8.10 Green credit

In 2019, following the development requirements of "building a beautiful China" of report at the 19th CPC National Congress and the principles and requirements of Guidance on Green Credit formulated by China Banking and Insurance Regulatory Commission (CBIRC), the Bank developed and implemented the *Green Credit Guidelines of Ping An Bank*. According to the common practice of international leading banks' implementation of the "Equator Principles" and adhering to the concept of sustainable development, the Bank further promoted the construction of green finance relevant systems, clearly proposed to organically unify economic, social and ecological benefits and integrate low carbon, green and environmental protection and biodiversity conservation into credit policies and business philosophy. It strengthened environmental and social risk management, speeded up the adjustment and optimisation of the credit structure, and restricted the involvement of the industries that did not meet the national policies for environmental protection and industries. Furthermore, the Bank continued to strictly control credit availability to "Non-green Industries" (industries with high pollution, high energy consumption and excess capacity), enhanced support to emerging industries, low-carbon economy, circular economy, energy-saving and emission reduction and other green economy, proactively carried out the innovation of green finance and provided preferential credit support in loan pricing and distribution of economic capital. At the same time, the Bank continued to strengthen the perspective study in the field of green finance, kept in line with international standards, constantly improved the construction of green credit policy system framework and mechanism, and strived to build a green bank.

With the increasing improvement of the green credit policy system, the social and environmental benefits of green finance was further revealed. The Bank was committed to building an internationally leading green bank. Benchmarking with international best practices, it established a complete green credit policy system, and implemented green credit development strategy in the whole bank to enhance support in this regard and take the lead in green financial products creation by integrating green low-carbon concept into the entire process of financial services, which has been included in the *Three-year Development Strategic Plan of Ping An Bank (2019-2021)*. The Bank formulated *Risk Policy Guidance of Ping An Bank in 2019* and implemented quota management on credit facilities granted to "Non-green Industries" and backward production capacity on the grouping basis to reasonably control the scale of credit, and continued to strictly control credit availability to "Non-green Industries", resulting in a gradual decline in proportion. It took strict control over risks from high pollution and high energy consumption business. The Bank took strict control over risks from high pollution and high energy consumption business. The Bank strictly abided by the national industry policy compliance bottom line and implemented strict credit list management policy. For projects eliminated by the *Guiding Catalog for Adjustment in the Structure of Industries*, environmentally illegal projects and other projects not compliant with national policy of energy-saving and emission reduction and backward production projects expressly required to be eliminated by the State, the Bank would not provide any form of new credit and has to take appropriate measures to ensure the safe recovery of credit granted. It will take a strict list management of high pollution and high-energy consumption industries, and gradually reduce and adjust the credit balance granted to "Non-green Industries" and "excess capacity". The Bank steadily practised its firm commitment of supporting the development of green finance and the transformation of green economy.

It specified key sectors under the support of green credit, and advanced the development of green finance into depth. In terms of industry selection, the Bank focused on supporting clean transportation and clean energy projects that contributed to reducing greenhouse gas emissions; provided support for pollution prevention and control projects that helped improve the quality of air, water and soil; and also supported enterprises in adopting new equipment and technologies for energy conservation and emission reduction to promote the restructuring of traditional industries and technological upgrading. The Bank had focused on the green credit business boundary, including energy saving and environmental protection manufacturing and service industries, green and environmental protection, clean energy industry, green transportation and green building industry, and put forward the target customers and credit program guidelines. Additionally, it optimised organisational and institutional setup, established an energy finance business unit, focused on clean energy, green and environmental protection businesses in accordance with its strategic positioning, and increased support for clean energy industries such as hydropower, nuclear power, wind power, solar power and garbage power. Underpinned by dual-wheel of "professional industry researches + comprehensive financial services", it promoted the new energy field customer strategy and the overall product design, provided professional comprehensive finance services to the customers, and actively supported the energy-saving and emission reduction technology innovation, technological transformation, technical services and product promotion, so as to promote orderly progress of green credit. It strived to make new contributions to the high-quality and sustainable development of green finance in China.

3.3 Effect and analysis of changes in operational environment

The year 2019 witnesses the 70th anniversary of the founding of the People's Republic of China and is a crucial year for building a moderately well-off society in an all-round way. In spite of the complex international environment, the Chinese economy registered, on the whole, steady growth and solid progress, demonstrating strong resilience, potential and greater leeway.

From the development of the whole banking industry, financial reforms were continuously deepened, financial regulation was strengthened, and synchronous progress was made between maintaining stable growth and preventing risks. The banking industry maintained a sound momentum of steady operation. In terms of maintaining steady growth, the banking industry continued to strengthen its services to the real economy, kept strengthening the support to private enterprises, small and micro enterprises and inclusive finance, and effectively improved the availability, effectiveness and inclusiveness of financial services, providing strong financial support for "six stabilising measures (to stabilise employment, finance, foreign trade, foreign capital, investment and expectations)". In terms of preventing risks, the banking industry strictly complied with the requirements of the state and regulatory authorities, and relied on the development of science and technology to continuously enhance the capabilities of risk prevention and control. The financial risk presented a trend of gradual convergence, which provided conditions for and strengthened the foundation for the sustainable and sound development of the banking industry.

3.4 Key issues of concern in operations

3.4.1 NIM

For the period from January to December2019, NIM of the Bank was 2.62%, a period-on-period increase of 27 basis points. The Central bank launched the reform of Loan Prime Rate (LPR) mechanism in August and repeatedly lowered the policy rate. The loose monetary policy showed good results in the real economy. In addition, due to the loose monetary policy, the Bank's cost rate of interest-bearing liabilities was effectively improved while the yield rate of high-yield retail assets kept growing and the Bank's NIM improved steadily.

Since the beginning of this year, the Bank's NIM kept a good momentum of steady growth. First, Centring on the Bank's transformation and breakthrough strategy of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking", the Bank strengthened the implementation of "3+2+1" business strategy respectively for the retail business, the corporate business and interbank capital business, kept reinventing the corporate banking, boosted the comprehensive finance business "1+N" development mode, bridged deposit, loan and revenue from intermediate business under the pricing principle based on customers' comprehensive income to realise a customer-oriented differentiated pricing mechanism of "one policy for one account", actively promoted the application of LPR in the business, and reinforced the pricing management of strategic customers. Its pre-risk management was effective and the overall asset quality was continuously improved. At the same time, the Bank strengthened resources allocation, gave priority to lending to the real economy, and further promoted retail transformation and upgrading. Second, the Bank established a market-based internal pricing adjustment mechanism based on LPR to accelerate the transmission of market interest rates and increase the agility of business pricing to follow the market. The Bank also gave full play to the role of internal pricing as a "baton", strengthened guidance on the short duration strategy of liabilities, optimised the source of interbank liabilities, and effectively reduced the Bank's cost of liabilities. Third, the Bank took the initiative to respond to changes in the macro market, implemented dynamic management on asset and liability portfolio to realise dynamic planning, forward-looking layout and proactive adjustment, and used portfolio management tools to flexibly manage the allocation of major assets.

The Bank's upgrade and transformation have entered into a new phase. In the context of continuously improving interest rates merger by PBoC, the Bank's assets were guided by a reform of pricing existing loans with new benchmark rates carried out by PBoC, it is predicted that the market interest rates would enter a downward range due to marketisation of interest rates, and the Bank's return on assets would decline with the market. In terms of liabilities, the Bank closely followed the market changes and balanced the "volume price" relationship, stabilised and increased deposits through diversifying liability sources, properly controlled high-cost liabilities and guided the cost to be reduced. In the future, the Bank will strengthen the retail, improve the utilisation rate of LUM resources, strive for scenario-based customer operation that explores customer operation scenarios, driving the growth of low-cost deposits; through improving the professional service level of private banking clients, the Bank will strengthen the ties between corporate banking and individual banking, thereby strengthening the ability of batch customers attraction. Under the premise of controllable risks for corporate business, the Bank will accelerate the provision of high-quality credit, appropriately extend the duration of assets, and lock in asset returns in advance; at the same time, the Bank will also accelerate the cultivation of strategic and small and micro customers, and use technology to enhance comprehensive financial services..

3.4.2 Cost/income ratio

In 2019, the cost/income ratio of the Bank was 29.61%, with a decrease of 0.71 percentage point year on year. The general and administrative expenses in 2019 amounted to RMB40,852 million, up 15.4% year on year.

In 2019, the Bank further promoted the transformation of retail strategy, and made every effort to build an industrial leader intelligent retail banking. The technology investment in retail platforms continued to increase, and the outlet transformation continued to upgrade. In the future, the Bank will keep refining the management of expenses, strengthen the production control, make full use of the advantages of technology empowerment and enhance capacity and efficiency.

3.4.3 Deposit business

At the end of 2019, the Bank's deposits due to customers amounted to RMB2,436,935 million, representing an increase of RMB308,378 million or 14.5% over the end of last year. The overall growth of deposits maintained steady.

The balance of personal deposits reached RMB583,673 million, rising by 26.4% compared with the end of the previous year. The Bank's inflow of deposits mainly depended on two major measures: first, the Bank placed more AUM in natural derivatives, and improved customer deposit retention by facilitating the binding to credit card or repayment accounts of other loan products; second, the Bank kept expanding the agency and bank card acceptance business, driving the growth of settlement deposits, enlarging the size of demand deposits and optimising the structure of deposit growth. At the end of 2019, the balance of deposits due to customers from agency and batch businesses was RMB88,645 million, up 27.5% over the end of last year. The Bank had served 560,600 customers in its bank card acceptance business, up by 47.8% over the end of the previous year; the balance of personal demand deposits amounted to RMB199,949 million, up by 15.3% compared with the end of the previous year.

The balance of personal deposits reached RMB1,853,262 million, rising by 11.2% compared with the end of the previous year. In 2019, the Bank stayed customer-oriented and technology-driven, and intensified the corporate ecosystem by refining the three business pillars of industrial bank, transaction bank and comprehensive finance. Thus, the corporate deposits were steadily increasing and the deposit structure was continuously optimised: (1) The Bank went deep into government financial ecology, embedded scenarios, gave entry to the platform, proactively carried out marketing activities to attract deposits from the government, including three main categories such as finance, housing and social security, won the local government to open various settlement accounts at the Bank by the way of bidding, including accounts for non-tax agency, court deposit, real estate transaction margin, land auction deposit, and other sedimentary deposits. (2) Making full use of its advantageous account system and collection & payment ability, the Bank strengthened the connection with Internet platforms for E-commence, asset exchange and industrial supply chain service to attract fund collection deposits from platform customers. (3) With more efforts in the marketing of large deposit certificates of corporates, the Bank sorted out the portraits of customers of its products, and continued to optimise functions of these products; at the end of 2019, large deposit certificates of corporates amounted to RMB89,837 million, up by 49.8% over the end of the previous year. (4) Adhering to technology-empowerment of products, the Bank connected its system with ERP systems, fund management systems, third-party service platforms and government service platforms, provided customers with in-depth product services and upstream-downstream services such as cash management, payment settlement and accounts, so as to strengthen customers engagement, increase settlement frequency and raise settlement deposits.

3.4.4 Asset quality

The Bank adhered to the philosophy of "asset quality is the primary lifeline", actively took various measures to enhance the Bank's capabilities for risk prevention and control and improved the level of intelligent risk control through big data and artificial intelligence to enable steady improvement of asset quality. Firstly, it strictly controlled the incremental business, set strict access standards for corporate banking, focused on supporting advantageous industries, key regions and key customers to control asset quality from the source. Secondly, it managed existing businesses, implemented the post-loan management actions, intensified the pre-control on the recovery of loan principal and interest, strengthened the early warning management and took reduction measures on risk assets; intensified efforts to screen out risks in key risk areas, timely identified potential problematic assets and got involved in such issues in advance to accelerate the risk management. Thirdly, it strengthened the recovery and disposal of problematic assets, and continuously leveraged the advantage of centralised and specialised collection of the special asset management business unit. It also strengthened assessment supervision supported by incentive policies to promote the effects of collection and disposal. Fourthly, it improved the level of intelligent risk control, made full use of such cutting-edge technologies as big data, AI and blockchain to create an intelligent risk control platform, constantly promoted intelligent warning, intelligent decision-making, intelligent control and management, and continuously improved the efficiency and effectiveness of risk management.

At the end of 2019, the Bank's quality indicators for major assets achieved further improvement. The balance of overdue loans accounted for 2.09% of total loans, decreasing by 0.39 percentage point compared with the end of last year, of which loans overdue for more than 60 days accounted for 1.58%, decreasing by 0.34 percentage point compared with the end of last year, loans overdue for more than 90 days accounted for 1.35% of total loans, decreasing by 0.35 percentage point compared with the end of last year. The ratio of special-mention loans was 2.01%, down 0.72 percentage point over the end of last year; the NPL rate was 1.65%, down by 0.10 percentage point compared with the end of last year; the provision coverage ratio of the Bank was 183.12%, up 27.88 percentage points over the end of last year; the provision coverage ratio of loans overdue for more than 60 days was 190.34%, increasing by 49.10 percentage points over the end of last year; the provision coverage ratio of loans overdue for more than 90 days was 222.89%, increasing by 63.44 percentage points over the end of last year. The provision to loan ratio was 3.01%, up by 0.30 percentage point compared with the end of last year. The risk compensation capability of the Bank was further enhanced.
In 2019, the Bank's NPL formation ratio[2] was 2.12%, a decrease of 0.39 percentage point year on year.
At the end of 2019, the deviation ratio of loans overdue for more than 60 days was 96%, declining by 14 percentage points over the end of last year; the deviation ratio of loans overdue for more than 90 days was 82%, declining by 15 percentage points over the end of last year, experiencing a significant drop.

2. NPL formation ratio = NPL formation amount (write-off for the year)/(loan balance at the beginning of the year + balance of bank acceptance, letter of credit, guarantee and other traditional off-balance-sheet businesses)

3.4.5 Provision for loans

On the basis of strengthened recovery and disposal of problematic assets, the Bank continued to increase the amount for provision and the amount written off. From 2016 to 2019, the accumulated provision for impairment losses on credit and other assets reached RMB196.8 billion, including RMB59.5 billion newly provided in 2019, an increase of RMB11.6 billion year on year; the accumulated loans written off amounted to RMB162.6 billion, including RMB47.6 billion written off in 2019, increasing by RMB1.8 billion year on year. Meanwhile, the Bank fully took advantage of professional collection in special assets management business unit and intensified the efforts for collection of written-off loans to reduce the consumption of profits caused by subsequent provisions and further promote the provision coverage ratio, provision coverage ratio of loans overdue for more than 60 days, provision coverage ratio of loans overdue for more than 90 days, the provision to loan ratio and other risk compensation indicators. In 2019, the Bank's written-off loans amounted to RMB11.1 billion, increasing by RMB1.7 billion year on year or an increase rate of 18% with notable results in collection.

3.4.6 Capital management and planning

To thoroughly implement the strategy of "being technology-driven, pursuing breakthroughs in retail banking and reinventing its corporate banking", the Bank continued to advance capital management reform. On the one hand, the Bank promoted meticulous capital management, carried out active dynamic capital allocation, optimised asset business structure under the strategy of "light assets and light capital", and implemented various capital conservation and capital release measures to continuously improve the return on capital of the Bank. On the other hand, the Bank enhanced the constraint of economic capital management on the risk-weighted assets of the Bank, incorporated economic capital management into performance assessment, guided all levels of institutions to cultivate a sense of capital constraint, to ensure that the concepts of capital cost and capital management were integrated into all aspects of business management.

In addition, in order to further meet the increasingly stringent regulatory requirements and actively respond to the increasingly fierce market competition environment, the Bank will actively improve the internal and external capital replenishment mechanism, optimise risk-weighted asset management, strive to improve its overall capital strength, enhance its capital adequacy, gradually boost the capital buffers during the planning period, and steadily raise the capital adequacy level.

At the end of 2019, the Bank's core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.11%, 10.54% and 13.22% respectively, all satisfying the regulatory requirements, and up 0.57 percentage point, 1.15 percentage points and 1.72 percentage points respectively over the end of last year.
On the basis of internal capital replenishment such as stable profit retention, the Bank actively promoted the work of external capital replenishment and continuously consolidated the capital strength of the Bank. According to the Bank’s capital planning and capital replenishment plan, the Bank completed the issuance of RMB26 billion convertible corporate bonds of A shares on 25 January 2019 to effectively supplement the Bank’s core tier 1 capital after the share conversion completed in September 2019; on 25 April 2019, the Bank made a public issuance of RMB30 billion tier 2 capital bonds in the national interbank bond market, from which the funds raised were used to replenish the Bank’s secondary capital.

In addition, in order to actively respond to the state’s current policy of supporting banks to replenish capital through multiple channels, and to accelerate the pilot program of issuing innovative capital tools, in December 2019, the Bank was approved to issue capital bonds without fixed term amounting to RMB50 billion on the National Interbank Bond Market, and completed the issuance of the first batch of the above capital bonds amounting to RMB20 billion. The remaining RMB30 billion will be issued at appropriate time in 2020. The funds raised by the Bonds would be used to replenish other tier 1 capital of the Bank to further expand the Bank's capital financing channels, optimise the Bank’s capital structure, and enhance the Bank's ability to resist risks according to applicable laws and the approval of the regulators.

Upon completion of the above-mentioned capital replenishment plan, the Bank’s capital adequacy level and capability for risk prevention had been significantly improved, which will provide a strong guarantee for sound business development and strategic transformation.

3.4.7 Achievements on the landing of science and technology

Relying on Ping An Group’s core technologies and resources, the Bank continuously used new technologies including artificial intelligence, cloud computing, blockchain, and Internet of things to empower its business, kept improving business productivity, efficiency and cost-saving ability, and optimised the risk control system. At present, breakthroughs have been made at certain points. In the future, with further development of technology-leading and technology-empowering businesses, breakthroughs will line up to offer more benefits.
In terms of productivity and efficiency improvements, the Bank implemented of AI strategies, widely applied new technologies such as natural language processing (NLP) and biometrics, so as to empower businesses to improve quality and efficiency. First, the retail manpower capacity was further improved, with per capita revenue up by 17.7% year on year; second, the retail business has realised 7 x 24 hours closed-loop operation to attract customers, with per capita customer acquisition up by 50% year on year; third, through internet, customers were able to complete the whole application process of small business digital finance within seconds, increasing the efficiency of customer managers of mortgage products by 5 times; fourth, “one-click to obtain card and discounts” technology services have been launched for the credit card, achieving scenario-based customer acquisition and sales and reducing the card issuance time from 2 days to 2 minutes to the shortest; fifth, from the perspective of data-based operation and management of business-finance integration, the Bank optimised the business-finance processes, reduced manual operation and improved the efficiency through the intelligent finance. At present, more than 500 finance management and business application scenarios have been created, 3,322 nodes of business-finance processes have been sorted out and optimised, saving manpower by 116.5 man-days/month, and the timeliness of report analysis output increased by 50%.

In terms of cost control, the Bank widely used new technologies such as cloud computing and AI to reduce costs. First, in terms of cloud computing, the Bank put more applications in the cloud system, reducing the cost of IT infrastructure to 1/3 of the previous and the cost of the credit card new core based on the PaaS platform to 1/3 of the original; second, the Bank built 7 X 24 hours “AI+customer service” system in which unmanned AI provided 86.1% of the services, saving Debit card customer service expenses by 50% and debit card customer service expenses by 30% in 2019; third, retail loans have realised online business scenarios such as training, customer acquisition, undertaking, and performance tracking through mobile internet, saving cost of training and operating by RMB 60 million annually; fourth, the air counter services offered by pocket finance converted many traditional over-the-counter services into mobile and intelligent services, saving operating manpower cost by over RMB 3.7 million every month.

In terms of the risk control system, the Bank fully utilised artificial intelligence and big data technologies to enhance the level of risk control. First, the Bank built the retail Apollo approval platform that reduced the approval time of loan products to less than 10 seconds; second, the intelligent loan granting system of corporate business has reduced its charge-off time from 4 hours to 5 minutes, greatly improving the efficiency; third, the Bank created SAFE anti-fraud smart system that unified fraud risk detection measures, prevented the fraud loss of over RMB 1 billion by the end of 2019, and effectively improved the ability to prevent fraud risk.; fourth, the Bank used big data and other technologies to intelligently identify high-risk customers and suspicious cases in its cross-border businesses, and conducted in-process control and post-process verification through various verification rules, therefore effectively controlled over 90% of procedural compliance risks, reduced 80% of the manual verification workload of balance of payments.

3.5 Discussion and analysis of the main businesses

3.5.1 Retail business

In 2019, the Bank resolutely deepened its reform and transformation, actively implemented the data-based operation principle, thoroughly implemented the retail “3 + 2 + 1” operation strategy, comprehensively developed the three operation sectors of “basic retail, private banking wealth management and consumer finance”, improved the two core capabilities of “risk control and cost control”, and built the “One ecosystem” to drive integration. In this way, its transformation work was steadily advanced.

At the same time, the Bank continued to optimise customer experience. The Bank established the “Customer Voice Feedback Mechanism”, at the core of which lays the Net Promoter Score (NPS) monitoring and survey system platform. Daily NPS survey had been conducted through outlets, online banking, mobile banking and other customer experience channels to get customers’ voice and care customers’ needs. Based on the survey results, the Bank was able to take measures to address the pain points of customer experience and provide customers with high-quality and considerate services.

1. Three business segments
(1) Basic retail

At the end 2019, the balance of assets under management (AUM) of retail customers of the Bank amounted to RMB1,982,721 million, representing an increase of 39.9% over the end of the previous year; the balance of personal deposits amounted to RMB583,673 million, representing an increase of 26.4% over the end of the previous year; the number of retail customers reached 97,077,300, representing an increase of 15.7% over the end of the previous year; the number of registered customers of Ping An Pocket Bank APP reached 89,469,500, representing an increase of 43.7% over the end of the previous year; and the number of monthly active users (MAU) of Ping An Pocket Bank APP was 32,923,400, representing an increase of 23.5% over the end of the previous year.

In 2019, the Bank continued to focus on acquiring and managing customers of basic retail business. By adopting scenario-based and technological approaches, the Bank created multiple ways to attract customers with distinct Internet scenarios and adhered to use of technologies and big data to enhance business strategy development, so as to promote the efficiency and productivity in acquiring and managing customers.

With respect to enhancing customer acquisition capabilities, first, relying on the Group's ecosystem, the Bank developed comprehensive finance and promoted customer acquisition through multiple channels. Second, the Bank innovated the internet access to customers, and created low-cost and efficient model to acquire batch online customers through open banking. The Bank also perfected the online ecosystem by continuously optimising the functional experience of Pocket Bank APP, and centred on the core scenarios to proceed traffic operation that turns users into customers. With respect to strengthening customer operations, first, the Bank upheld the management philosophy of “relying on data instead of experience” and drove the automation and intelligence of front-end, middle-end, and back-end management and decision-making through AI, BI (Business Intelligence) and other technical means, so as to form an agile and efficient management model. Second, the Bank promoted targeted customer management for all scenarios, and boosted integrated and funnel-type operations on the basis of traditional financial scenarios and new life scenarios. The Bank also provided customers with appropriate services and products as well as improved customer satisfaction and product penetration by segmenting customers through big data, precisely accessing to different customer groups through multiple online scenarios, offering online services to customers through remote server, and getting isochronous and real-time contact with offline customers through OMO strategy, Third, the Bank empowered its teams with technology. Taking advantages of tools such as AI and OMO customer operation platform, the Bank empowered the teams of its branches, sub-branches and sales business, helped the teams accurately manage customers in real time, improve operating efficiency and optimise costs.

In 2019, the number of corporate customers from the Bank's agency and batch business (the batch business refers to the business that attract other high-quality retail customers in batches mainly by connected corporate banking and retail banking) was 32,738, representing a year-on-year increase of 22.0%; the amount of effective customers was 2,797,600, representing a year-on-year increase of 5.7%. At the end of 2019, the AUM balance brought from customers of agency and batch business amounted to RMB269,218 million, up 33.2% over the end of the previous year; the balance of deposits from customers of agency business amounted to RMB88,645 million, increasing by 27.5% over the end of the previous year. Since 2017, the Bank comprehensively optimised the agency and batch business by focussing on processes, rights and interests, and systems, built an online management platform to assist in acquiring customers. The Bank also paid attention to customer management, added a special area for "Ping An Salary" customers and such functions as exclusive welfare activities in the Pocket Bank APP to help improving payroll customers' AUM.

At the end of 2019, the Bank's customers of bank card merchant acquiring business increased to 560,600, up by 47.8% over the end of the previous year. The Bank's bank card acceptance business has accelerated its expansion since 2018, entering a synchronisation phase of development and ecological construction. While maintaining rapid growth, the Bank has made a great breakthrough in the batch customer acquisition model by creating industrial ecology and working with partners to serve the customers of bank card acceptance business. In the second half of 2019, while intensively engaged in managing customers of bank card acceptance business, the Bank focused on expanding the range of these customers and promoted in-depth operations for the customers in the bank card acceptance business, especially the small and micro merchant customers.

(2) Private banking wealth management

At the end of 2019, the Bank's wealth customers reached 779,300, representing an increase of 31.7% over the end of the previous year; the Bank's qualified customers of private banking (the standard for customers of private banking is that the daily average balance of any month in the recent three months exceeds RMB6 million) reached 43,800, representing an increase of 45.7% over the end of the previous year, among which, the AUM of qualified customers of private banks amounted to RMB733,941 million, representing an increase of 60.3% over the end of the previous year.

In 2019, the Bank continued to strengthen its business transformation in the areas of private banking and wealth management, and proactively propelled strategy implementation from the perspectives of operating mechanism, product platforms and equity systems, and internal management. In terms of operating mechanism, based on the concept of offering tiered services to customers, the Bank comprehensively applied the data management tools, accurately empowered the frontline teams, kept enhancing the ability of private banking customer service and asset allocation ability, and improved customer experience. By vigorously promoting the building of investment research teams, investment consulting teams and family office teams, the Bank made full use of AI technology and the Group's comprehensive finance, created a professional and intelligent investment advisory team, established the online & offline "1+N" operating model with one private banker (PB) and N expertise teams as well as an open product platform, optimising the radius and professionalism of the private banking customer service. The Bank has fully upgraded the family offices of private banks. Its services cover asset planning, investment management, risk planning, top-level legal framework design, charity, etc., helping high-net-worth clients to achieve wealth preservation and appreciation, risk management and prevention; the premium trust business has taken the lead in the market since it has been launched one year ago, and is the first in the industry to achieve full-process online operations. In terms of product platform and equity system optimisation, the Bank fully integrated internal and external resources, enriched product portfolios and upgraded rewards programs and customer service framework to optimise customer experience. In terms of internal management, the Bank diversified the introduction of high-quality assets and met private customers' demands for asset allocation by promoting the product management committee mechanism, and improved the embedded risk control compliance team to strictly control asset risk.

(3) Consumer finance

At the end of 2019, the balance of individual loans was RMB1,357,221 million, up 17.6% over the end of the previous year. As the downward pressure of the domestic macro economy still existed, the Bank took the initiative to properly raise the underwriting standard for credit cards and “Xinyidai” and steered towards customer at higher quality spectrum, and actively strengthened the linkage between consumer finance business and private banking wealth business under the premise of ensuring stable asset quality. To meet the financing needs of middle-end and high-end customers, the Bank comprehensively promoted product innovation and upgrading, and optimised the loan business structure and customer group structure. At the end of 2019, the proportion of personal property mortgage loans and licensed mortgage loans to personal loans increased from 26.9% at the beginning of the year to 30.3%; meanwhile, through online transformation and AI transformation, the Bank upgraded loan business processes and services, improved customer experience, served more customers and ensured stable and healthy business growth.

Credit card: As at the end of 2019, the number of credit cards in circulation was 60,329,100, increasing by 17.1% compared with the end of last year; the balance of credit card loans was RMB540,434 million, up 14.2% over the end of last year. In 2019, the total transaction through credit cards valued RMB3,336,577 million, up 22.5% year on year; the transaction volume of Credit Card Mall increased by 23.1% over the same time last year. Relying on the advantages of financial technology, the Bank continued to create the ultimate customer experience of "fast, easy and good". The main measures included:

First, the Bank continued to enrich product portfolio and deepen crossover integration. In 2019, the Bank reshaped the strategic alliance of credit cards, focused on the industries including life and entertainment, business travel, auto and auto ecological system, and mall & supermarket. It sought for cooperative enterprises of high strategic value in these industries, conducted in-depth cooperation with top enterprises such as Costco and “Eleme” to match the online and offline flows and integrate diverse scenarios, and provided customers with a wide range of products and services. The Bank continued to deepen the customer segmentation management. For youngsters, the Bank enriched the “Youni Credit Card” family by adding card themes of female, “WeMatch Band” and QQ wallet to fully meet the young customers’ personalised card demand; for car owners, the Bank actively promoted the car owner credit card that integrated owner's rights, transaction services and financial services, so as to provide the car owners with high-quality and convenient one-stop life service experience. In the meantime, aiming at high-end customers, the Bank not only issued JCB platinum card, but also upgraded elite platinum card to create customised high-quality service.

Second, the Bank actively expanded the APP services and improved customer experience in an all-round way. The Bank made every effort to upgrade the level of financial services, enhanced targeted marketing capabilities, and used personalised labels to precisely promote marketing activities. The establishment of “Happy Share” platform rewarded the Bank with a new social and scenario-based customer acquisition and marketing model. The Bank continued to improve the scenario-based operating ability of Pocket Mall, optimised the shopping procedures featuring “high frequency, excellence and sharing”, and cooperated with excellent brands to create scenario-based online consuming ecology. At present, there are 40 excellent brands on the shelves of the Pocket Mall, effectively helping to attract more new customers and making existing customers more active. By introducing the “one-touch application for a card” service, the Bank has built unobstructed service processes from card application to card use, so as to help customers “get what they expect”. With excellent service experience, the Bank was awarded the “2019 User Experience InnoAward” by CFV (China Financial Value Ranking), the “Awards for Credit Cards with Best Smart Experience in 2019” by 21st Century Business Herald, and the “Smart Innovation Credit Card of the Year” by Jiemian.com during the reporting period.

“Xinyidai”: In 2019, “Xinyidai” newly issued by the Bank totalled RMB112,033 million and the balance at the end of 2019 reached RMB157,364 million, rising by 2.4% over the end of the previous year. Always being customer-centred, the Bank further enriched costumer finance service scenarios and improved consumption loan products based on the reasonable consumer financing requirements from individual customers by seizing the opportunity of national consumption upgrade; it also improved its ability of serving inclusive finance and continued to attract high-quality customers with an increasing number of well-matched customer plans through diversified product strategy.

The Bank actively explored financial services associated with the “Xinyidai” for mass customers, strove to satisfy the financing needs of small and micro business owners and individual industrial and commercial customers, and supported the development of the real economy. For the capital demand of small and micro business owners, the Bank effectively streamlined application process. Meanwhile, it also implemented risk-differentiated pricing to support loans for small and micro enterprises. The Bank actively expanded Internet channels and traffic portals, strengthened the connection with payment data, transaction data and scenario platforms, enriched loan scenarios, extended customer coverage and, achieved online and offline interaction, benefiting more customers with the banking service. At the same time, the Bank made full use of Internet technology to enhance product competitiveness, launched and applied cutting-edge technologies such as facial recognition, micro-expression technology and intelligent voice successively to set up a new business process. By means of centralised, automated strategy, and intelligent online operation processing, direct connection of data, intelligent review, remote video, and electronic signature, the Bank optimised business process, enabling customer to enjoy a high-quality experience of applying at all times and places, fast approval and loan disbursement upon agreement at any outlet across the Bank. After the new process was launched, the average length of time from application to loan disbursement was shortened from 4 hours to 1 hour.

Personal property mortgage loans and collateral mortgage loans: In 2019, the Bank's personal property mortgage loans and licensed mortgage loans accumulated to RMB193,045 million; at the end of 2019, the balance of personal property mortgage loans and licensed mortgage loans reached RMB411,066 million, increasing by 32.3% over the end of last year; among them, the property mortgage balance amounted to RMB199,371 million, representing an increase of 9.3% over the end of last year.

The Bank strictly conformed to the regulations of national policies and regulatory requirements to support the need of resident families for purchasing their first self-occupied houses and that of small and micro customers to develop. Meanwhile, the Bank strengthened product innovation and resource inclination to property mortgage business in accordance with regulatory requirements, trying best to attract high-quality property mortgage customers. It optimised the structure of customer base and business on the one hand, and continuously improved the comprehensive operational capabilities for better serving the customers on the other hand. The Bank has actively expanded Internet channels and platforms to attract customers and develop property mortgage business, and through online and offline cooperation, it further extended customer coverage. Meanwhile, the Bank made full use of Internet technology to enhance product competitiveness, continuously improved the online and intelligent degree of business processes, and improved the business processing timeliness and customer experience.

Auto finance loans: In 2019, the Bank's new auto finance loans amounted to RMB156,674 million; at the end of 2019, the balance of Bank's auto finance loans was RMB179,224 million, an increase of 4.2% over the end of the previous year. Under the overall slowdown of the auto consumption, the Bank continued to rely on technology empowerment, deepened the auto eco-management strategy by measures of product innovation, process optimisation, AI intelligence, and constantly improved customer experience and service efficiency.
The Bank actively propelled the transformation, promoted the development of second-hand car business, focused on the traditional second-hand car business and continued to increase the number of cooperative second-hand car merchants, with the number of active cooperative merchants exceeding 3,400 throughout the year; with regard to the business model innovation of second-hand cars, the Bank took the lead to cooperate with second-hand car market offline and auction platform online in the pilot areas. Through uninterrupted reliance on technology empowerment, the Bank launched “Che-E-Tong” APP to realise online financial service and solved the problems of car and client sources for car dealers to build an auto ecological system. At the end of 2019, there were over 8,000 registered car dealers. Meanwhile, the Bank focused on the management of existing customers to constantly improve new customer experience, and released a loan extending product plan with all procedures operated online to further tap the potential of the auto consumer financial market.

2. Two core capabilities
(1) Risk control

The Bank gives high priority to risk management and control in the course of business development. In 2019, affected by external factors such as the complexity and volatility of international and domestic economic and financial situation, rising multiple debt risks and sluggish auto consumption, overall risks in the consumer finance industry have increased. In compliance with a more prudent risk control principle, the Bank implemented a more rigid standard for five-tier classification. At the end of December 2019, the NPL ratio of the Bank’s personal loans was 1.19%, up 0.12 percentage point from the end of last year. Had the former standard been applied, the NPL ratio would drop by 0.09 percentage point. The overall NPL ratio was steady and controllable. Specifically, the NPL ratio of credit cards was 1.66%, up 0.34 percentage point from the end of last year, among which standard adjustment contributed to an increase of 0.33 percentage point; the NPL ratio of the “Xinyidai” was 1.34%, up 0.34 percentage point from the end of last year, among which standard adjustment contributed to an increase of 0.33 percentage point; the NPL ratio of auto financial transactions was 0.74%, up 0.2 percentage point from the end of last year, among which standard adjustment contributed to an increase of 0.14 percentage point.

Since the end of 2017, the Bank has been, from a forward-looking perspective, proactively adjusting risk policy, focusing on the prevention of the multiple debt risks and taking measures like amount limit control and prudent credit facilities for customers in areas of common debt, high liabilities and high risk, which effectively controls and reduces the proportion of high-risk customers. Thus, the overall risk of new customers remains historically low.

The proportion of the balance of loans past due over 30 days at the ageing of 6 months:

The period of loan origination	Credit card receivables	"Xinyidai"	Auto finance loans
2016	0.45%	0.16%	0.12%
2017	0.35%	0.20%	0.18%
2018	0.29%	0.17%	0.17%
2019	0.35%	0.13%	0.23%

Note: (1) "Ageing analysis", also known as vintage analysis or analysis on accumulated default rate via static sample pool, is to track the credit assets of accounts opened in different periods, and simultaneously compare them based on the length of the ageing to learn about the asset quality of owners who opened accounts in different periods. The proportion of the balances of the loan over 30 days due at the ageing of 6 months = the balance of new loans or credit cards over 30 days at the end of the 6th month / the amount of new loans issued or the overdraft balance of new credit cards in the same year as the ageing of 6 months.

(2) 2019 statistics represents the ageing analysis of loans granted from January 2019 to July 2019. The ageing of loans granted from August to December is less than six months, so the loans will be included in the analysis after their ageing exceeds 6 months.

(2) Cost control

In 2019, the Bank improved operational efficiency and productivity of staff by means of refined cost control and AI strategy empowerment, and continued to increase investment in technology and innovation to maintain sustained growth momentum and drove continuous cost/income ratio optimisation.

In terms of operating costs, the Bank further cut down expenses on operating and administrative management via comprehensive refined management and process transformation, as well as streamlining the operation process and management chain, and reduced retail operating costs, for example, the cost per piece of centralised operation decreased by 13.3%, the electronic bills accounted for 99.0% of all the credit card bills, etc., both aiming at facilitating gradual decrease of the overall operation costs. In terms of fixed costs, during the transformation to standard, intelligent and light-weight outlets, the Bank reduced the cost of single outlets. The rental cut covered an area of 29,400 square meters, and the comprehensive benefits of outlets continued to improve throughout the year; the above measures have reduced operating and fixed costs by RMB447 million. And in terms of capacity efficiency, capacities of retail per capita and per outlet were further improved based on empowerment of AI strategy to business and management, with operating income of retail per capita and per outlet increasing by 17.7% and 30.5% year on year respectively. While the retail business kept fast growth in the transformation, the cost/income ratio of the retail business continues optimisation.

The Bank's retail department intends to enhance the driving force for optimisation of cost/income ratio by continuously increase technology and innovation investment. For the goal of prospering traditional businesses with the support of the power of technology, on one hand, projects such as AI sales assist and AI customer acquisition robot were established at the front-end to help front-line teams to expand business, developing customer and improving customer service experience; on the other hand, the Bank improved the capacity of AI central platform. Taking more intelligent and efficient AI projects as management starting points, the Bank improved the management efficiency as well as consolidating the data management capabilities.

3. One ecosystem

In 2019, based on an agile mechanism, the Bank's retail used AI Bank as the internal drive to build an open banking ecosystem, achieving the connection, empowerment and integration of customers, employees and partners, and promoting the comprehensive innovation of business models.

Centring around the three objectives of "open capacity", "open flows" and "open operation", the Bank is actively advancing the construction of open bank, promoting its vision of "banking services anywhere", and providing customers with a full range of financial services covering all sides of life. At this stage, the Bank mainly focuses on "open capacity".

"AI Bank" construction serves as the basis and internal drive for the construction of the Bank's open banking ecosystem. In 2019, the Bank launched full-scale AI application in its retail banking and focused on improving the capacity of AI central platform. From the perspective of resource intensification and capacity sharing, in line with the principle of modularisation, parametrisation and closed-loop, the Bank achieved agile support for and rapid launch of front-end business scenarios by integrating reusable and shareable general capabilities. At present, the underlying AI technology is basically complete, and the results of AI customer service, AI marketing, AI risk control, and AI management have strengthened the capability of AI central platform, thus, the technology is basically ready for comprehensive promotion.

In terms of AI customer service, the Bank has established a 7×24-hour "AI Customer Service" system. At the end of 2019, the unmanned AI customer service ratio was 86.1%, representing an increase of 6 percentage points from the end of the previous year. Relying on the leading intelligent voice technology, the intelligent voice business centre platform has been created, helping to realise digital transformation, upgrading and comprehensive empowerment. At present, it has connected more than 20 business scenarios, made over 1.5 million outbound calls, won the "Qianhai Outstanding Financial Innovation Case in 2019", and was successfully included into 2019 Fintech Application Pilot Project by the six ministries and commissions.

In terms of AI marketing, the Bank has been committed to providing customers with intelligent wealth management services, and has launched smart investment and smart investment research services to help customers choose more suitable investment solutions. In terms of credit card business, the Bank strives to meet customer demands based on consumption scenarios and draws on big data and technology to establish unobstructed service processes from card application to card use. In 2019, over 4 million customers got their credit cards through the "one-click to obtain a card" process.

In terms of risk management, the Bank has accomplished an all-round grade and optimisation based on the "AI + Risk Control" project in 2018, by promoting the construction of a new generation of intelligent risk management system – "Risk 3.0" based on the full-scale AI and total value management, creating AI risk control robots before, during and after loans granting, and connecting the risk management system of products such as loans to individuals, auto financing and credit cards, so as to achieve the full-scale AI and real-time customer risk management before, during and after risks. In 2019, the Bank newly issued 14.3 million credit cards, nearly 90% of which were automatically approved by AI; the cumulative amount from fraud attack prevention by unified retailing anti-fraud platforms increased by 58.7% year on year.

Agile organisation is the basis for the Bank to promote the open banking ecosystem. In 2019, the retail industry further carried out the transformation of agile organisation. In light of agile projects, pilots of agile organisation and the establishment of a systematic talent training system, the Bank is building an agile team that comprises IT and business personnel and making continuous improvement in delivery efficiency and customer service satisfaction.

In 2019, for online business, the Bank conducted a further upgrade functional modules and user experience of the online Pocket Bank APP and the Pocket Banker APP; while for offline business, the Bank promoted new retail outlets under the "light, community-based, intelligent and diversified" concept. At the end of 2019, there are 298 new outlets in the country. Meanwhile, it integrated and built a new one-stop financial retail model featuring more intelligent and OMO (Online Merge Offline, realising online and offline integration) service system to bring better financial life experience for customers through an intelligent switch between online and offline business featured with integration, contextualisation and personalisation.

4. Continuous enhancement of contribution in comprehensive finance

The Bank develops comprehensive financial business through the model of MGM (Member Get Member). In 2019, the number of new customers represented a net increase of 2,489,100 through the MGM model (excluding credit cards), accounting for 27.8% of the overall new retail customers, of which, the number of wealth customers represented a net increase of 77,100, accounting for 41.1% of the overall new wealth customers, and the balance of assets under management of retail customers (AUM) represented a net increase by RMB218,368 million, accounting for 38.6% of the overall asset balance of the new retail customers. "Xinyidai" granted through the MGM model amounted to RMB68,682 million, accounting for 61.3% of the overall issuance of "Xinyidai"; auto finance loans amounted to RMB54,676 million, accounting for 34.9% of the overall issuance of auto finance loans; the number of credit cards issued through the MGM model was 4,876,500, accounting for 34.1% of the total number of newly issued cards.

In terms of asset quality of customers, the asset quality of customers obtained through the MGM model is in generally superior to that of other customer groups. At the end of 2019, the NPL ratio of the customer group of "Xinyidai" obtained through the MGM model was 0.69%, which was 0.65 percentage point lower than the overall NPL ratio. The NPL ratio of the customer group of credit cards obtained through the MGM model was

1.46%, which was 0.20 percentage point lower than the overall NPL ratio. For the customer group of auto finance obtained through the MGM model, the NPL ratio was 0.74%, which was almost at par with the overall NPL ratio and maintained at a relatively low level.

In 2019, the total net non-interest income from group insurance sold by all retail channels of the Bank on a commission basis was RMB2,789 million, representing a year-on-year increase of 13.2%.

3.5.2 Corporate business

Always being customer-centred and technology-driven, the Bank practised the "3+2+1" corporate business strategy, centring around the three business pillars of industry banking, transaction banking and comprehensive finance, focusing on the two core customer groups of strategic customers and small and micro enterprises customers, and held fast to the lifeline of asset quality in 2019. The Bank strove to create an industrial banking system with distinctive characteristics of investment banking, integrated the Group's business resources and edges of technology services, continued to strengthen its ability to provide comprehensive financial services, and created an "engine" for the Group's comprehensive financial services. In addition, assisted by technologies such as AI, block chain, Internet of Things and big data in an extensive and comprehensive way, the Bank formed an intelligent superior corporate banking business system.

1. Three business pillars
(1) Industry banking

The Bank's industry division and investment banking department are deeply integrated, and is positioned as the "business leader of industry customers, pioneer team for major customer development and responsible body for integrated solutions", striving to create an industrial banking system with distinctive characteristics of investment banking.

In order to better serve customers, the Bank got in-depth understanding about customer needs, deeply integrated the underwriting, issuance and product innovation ability of investment banking with the industrial research and customer segmentation service ability of the industry division, integrated internal and external resources of the Group, and customised comprehensive financial solutions with unique advantages for customers; to improve efficiency, the Bank set up an agile action team to flatten the operation process and realise the efficient linkage of "commercial bank + investment bank + investment", and gained trust and recognition from customers by professionalism, uniqueness and efficiency. At the end of 2019, the Bank's credit facilities to key industries accounted for 46.9% of total volume; the Bank has created more than 30 benchmarking models with unique advantages. In the future, the Bank will deeply bind with the industrial leading customers, and continuously enhance customer value through service.

In the field of government finance, based on the Group's advantages of "Finance + Technology", the Bank was transformed from a traditional financial service provider to a partner of reform promoter, and continued to propel the innovation of the "Smart City" platform by enhancing the comprehensive service capabilities and focusing on the major ecosystems of finance, housing and justice. At the end of 2019, the Bank had 127 new governmental financial platforms, with a total of 570.

Meanwhile, under the new operation model of industry banking, the investment banking business will also usher in a new development period. In 2019, the bonds underwriting of the investment banking amounted to RMB247,306 million, including financial bonds of RMB64,316 million and non-financial bonds of RMB182,990 million. According to the data released by www.chinawealth.com.cn, the underwriting scale of the Bank's wealth management direct sales was RMB64,625 million, accounting for 51% of the market share. The scale of syndicated loans led or jointly led by the Bank exceeded RMB80 billion with rapid growth in scale and revenue. The newly added scale came top among national joint-stock commercial banks.

(2) Transaction banking

Internet payment and settlement
Based on the transformation strategy, the Bank strengthened the in-depth operational capabilities of enterprise customers on the platform. Focused on platform customers of industrial Internet and consumer Internet, the Bank integrated its superior product capabilities, and provided platform customers and their B-end and C-end customers with integrated Internet payment settlement service solutions that better meet their needs. In 2019, the Bank launched over 2.15 billion transactions relating to Internet payment and settlement business to serve the

enterprises on the platforms, an increase of 216.2% year on year; the amount of transactions reached RMB4.18 trillion, representing a year-on-year increase of 64.5%.

Intelligent supply chain finance

The Bank upgraded the supply chain receivables cloud service platform, launched the brand of Ping An Good Chain, optimised the complete business process of registration, approval and charge-off through technological means such as cloud computing, block chain and artificial intelligence, and greatly improved the user experience. Meanwhile, focusing on key industries such as infrastructure, electronics and medicine, the Bank offered packages of comprehensive finance and management services to upstream and downstream enterprises in the supply chain, so as to achieve mass customer acquisition.

At the end of 2019, the transaction volume of the Bank's supply chain receivables cloud service platform accumulated to RMB34,038 million, with the Bank's financial services provided for 450 core enterprises and their upstream suppliers in an accumulated way, effectively resolving the financing difficulty of small and medium enterprises and supporting the development of the real economy.

Cross-border finance

The Bank's cross-border finance focused on the financial service needs for the internationalisation of Chinese-funded enterprise operation, investment and financing. Featured by offshore finance, it integrated five cross-border financial service systems including onshore, offshore, free trade zone, NRA (non-resident account), and overseas branches, gave full play to the linkage advantages at home and abroad, domestic and foreign currency, as well as offshore and onshore. Moreover, the Bank dug deeper into the five major product systems including "Cross-border Investment and Financing", "Cross-border Fund Management", "Cross-border Trade Finance", "Cross-border Inter-bank Finance", and "Cross-border e-Finance" to help the Chinese-funded enterprises to support the blossom of real economy. Meanwhile, the Bank relied on the core technologies of Ping An Group and strove to build and continued to improve the "Cross-border e-Finance" platform. Through a series of leading online services such as offshore business multi-centre system, online banking, Pocket Finance, Trading One, Cross-border Host-to-Host, Cross-border Smart Collection, offshore global wages distribution agency service, the Bank provided customers with an intelligent online cross-border financial service that integrates settlement and exchange, trade financing, information inquiry and business flow management in the whole process to constantly improve business efficiency and customer experience.

At the end of 2019, the scale of offshore business asset of the Bank reached USD22,910 million, the offshore deposit balance was USD20,225 million, and the offshore loan balance was USD13,082 million. During the reporting period, the scales of offshore business asset, deposits, loans and profitability ranked first among Chinese-funded off-shore banks.

Open banking

After continuous exploration, in 2019, the Bank launched open banking platform and applied open API technology to create a shared platform cooperation model in order to settle the demands of fast access, automatic upgrade, standard output, and efficient services, and committed to making high-quality financial services more embedded in diverse scenarios. The platform made banking services more focused, more agile, more intelligent and more open by taking customer needs as the guide, scenario services as the carrier, integrating ecology and building platform as the goal, and API / SDK as tools. Moreover, it gradually combined traditional access methods such as Host-to-Host and B2Bi (Business to Business Integration) to provide customers with the best open banking experience.

At the end of 2019, the Bank's open banking accessed 1,072 customers through API, SDK, H5 and other methods, and the average daily deposits of customers reached RMB39,575 million; the Bank's Host-to-Host accessed 2,965 group enterprises, and the average daily deposits were RMB284,379 million, which had formed a good reputation in the market and brought huge benefits to the Bank.

(3) Comprehensive finance

As a "1+N" engine for the Group's comprehensive financial services, the Bank continuously strengthened its comprehensive financial service capabilities through the "1+N" model of "1 customer and N products services", and operated collaboratively with various professional companies in the Group, committing to being the "Founder" of comprehensive financial solutions for customers.

The Bank gave full play to the advantages of its banking channels and the Group's comprehensive finance, attached special importance on the two core customer groups of strategic customers and small and micro enterprises customers and focused on building two comprehensive financial services modes. Under the first mode, the diversified financing needs of customers were met based on in-depth understanding of the characteristics of investment and financing of strategic customers, by cooperating with securities, trusts, leasing, asset management, real estate, pension investment and other investment and financing subsidiaries of Ping An Group as the main partners and through the “Commercial bank + Investment bank + Investment” programme, while using insurance and technology products and services to continuously improve the customer experience. Under another mode, which focused on platform customers and small and micro enterprise customers, customers' payment settlement and financing needs were met through transaction banking and inclusive financial product services, and differentiated and personalised insurance products were provided according to customer scenarios to meet corporate needs. In addition, a scenario-based banking and insurance service mode was developed to empower platform customers, small and micro enterprise customers.

In 2019, the scale of the premiums of Ping An’s group insurance products sold by the Bank as a commission agent reached RMB1,331 million, representing a year-on-year increase of 326.8%. The scale of the newly-increased investment and financing projects between the Bank and professional companies within the Group was RMB261,116 million, representing a year-on-year increase of 137.5%.

2. Two core customer groups

(1) Focusing on strategic customers

By systematic, industrial, professional and collective approaches, the Bank focused on strategic customers to formulate “one policy for one account” for the sake of customers’ needs, providing comprehensive financial service of “Commercial bank + Investment bank + Investment” for customers.

By the systematic approach, the Bank has established a strategic customers marketing management system, built a smart economic analysis and smart business development platform for strategic customers, and helped the front-line business development operation; by the industrial approach, the Bank has taken the industry division as the lead, focusing on key industries and customers, creating a distinctive strategic customers benchmark; by the professional approach, the Bank has established an agile team of “channel pioneer + product support + risk management in advance” to form customised solutions; by the collective approach, the Bank has invested the group platform resources into the strategic customers and their ecosystem, and provided customers with comprehensive financial solutions. Strategic customers have gradually become the mainstream of the bank's corporate business. At the end of 2019, the balance of loans to strategic customers increased by 53.3% as compared to the end of the previous year, and its share in corporate loans of the Bank increased by 4.8 percentage points from the end of the previous year.

(2) Promotion of small and micro enterprises customers

The Bank strengthened the integration of resources and channels of the Group, enhanced the overall operation capabilities of private enterprises and small and micro enterprises, and innovated business models such as intelligent supply chain, Pocket Finance and small enterprise digital finance, so as to continuously enhance the support for private enterprises.

In 2019, Pocket Finance focused on three themes of “opening-up, integration, and intelligence” to build a one-stop operation service platform. The Bank introduced new enterprise services together with third-party partners, to provide small and micro enterprises customers with scenario-based services such as travelling, enterprise consumption and enterprise vehicle service, and it launched online counters for such customers to get access to banking services anytime and anywhere. The Bank provided integrated services between public and private accounts and single operator mode focusing on operational characteristics of small and micro enterprises, so as to fully exploit its comprehensive finance advantages to deliver insurance products and guarantee services tailored for small and micro loan customers and provide convenience for operation and transaction. At the end of 2019, registered enterprise customers of Pocket Finance accumulated to 359,800 while transactions in the year accumulated to 5.9873 million, representing a year-on-year increase of 374.6%, and the transaction amount was RMB3.72 trillion, representing a year-on-year increase of 338.3%.

The Bank’s small enterprise digital finance revealed the real operation status of enterprises via “data+models”; realised online, automated and real-time batch loan granting with standardised products, by applying technologies such as Internet of Things and big data; further reached scenarios and industrial chain customers with customised products, so as to efficiently solve the problems of difficulty and high cost in financing for SMEs. At the end 2019, the Bank's small enterprise digital financial service customers numbered 34,156, up 142.2% over the end of the previous year. In 2019, the Bank, in an accumulated way, issued loans of RMB22,376 million through small enterprise digital finance.

3. One lifeline

In 2019, the Bank shifted its focus from controlling risks to business risks, strengthened connection between risks and businesses and prepended risk management, covering risks with returns, managing risks through schemes and circumventing risks by management. The Bank employed “big data+artificial intelligence” technology to establish an intelligent risk control platform, so as to effectively provide guidance on business direction and reasonable allocation of corporate resources. The Bank continued to maintain good risk performance of new customers. Meanwhile, it also continued to adjust the structure of existing assets and strengthened the recovery and disposal of problematic assets, which gradually improved the corporate asset quality. At the end of 2019, corporate NPL ratio was 2.29%, a decrease of 0.39 percentage point from the end of prior year.

3.5.3 Interbank capital business

In 2019, adhering to the customer-centric and technology-driven principles, the Bank constructed a “3+2+1” business strategy for interbank capital business which centred on the three major business directions of “new transactions, new interbank and new asset management”, strengthened the two core capabilities of “sales and transaction”, and created the “one system platform” to empower businesses.

1. Three major business directions
(1) New transactions

In 2019, the Bank recruited global top talents for FICC (fixed income, currencies and commodities) trade, built industry-leading transaction business segments and organised transaction teams with international perspective and local advantages, thus realised comprehensive layout of FICC business. Empowering transactions with technology, the Bank developed market-leading intelligent quantitative transaction system with a forward-looking vision, and thus improved its capabilities of data processing, pricing, trade executing and real-time risk control in conducting business. During the reporting period, with the goal of establishing an efficient and flexible FICC business integrated operation system, the Bank established quantitative analysis supporting system, resource allocation mechanism, transaction system and middle-end and back-end supporting system all in a unified manner. As a result, the Bank made tremendous progress in digitalised transaction, with net income increasing greatly on a year-on-year basis, also, trading varieties and scales and market ranking taking the lead in the market. In 2019, the Bank’s net income was RMB3,906 million, representing a year-on-year increase of 151.8%; the volume of bond transaction of the Bank was RMB3.51 trillion, representing a year-on-year increase of 178.3%. The volume of interest rate swap was RMB3.13 trillion, representing a year-on-year increase of 50.6%. The volume of self- operated precious metal transaction was RMB1,741.6 billion, representing a year-on-year increase of 112.4%. The volume of commissioned precious metal transaction was RMB821 billion, representing a year-on-year increase of 57.9%. With industry-leading system technology strength and trading capability, the Bank ranked the forefront of the market in terms of the quoted volume, trading volume, position, comprehensive ranking and other indicators in the market making of bonds, interest rate swaps and standard bond forwards. According to the 2019 interbank local currency market evaluation results issued by the foreign exchange trading centre, the Bank won a number of transaction categories such as “Core Dealer”, “Excellent Bond Market Dealer”, “Excellent Derivatives Dealer”, and “Automated Trading Innovation Award”.

(2) New interbank

In 2019, the Bank accelerated the transformation of interbank institutional sales with effectiveness preliminarily shown in operation reform. The Bank practised the customer-centric business philosophy by intensifying construction of financial ecosystem, exploring customers' needs and exploiting its comprehensive finance advantages to provide institutional customers with a package of products/business solutions and enhance the breadth and depth of services provided to interbank customers; the Bank upgraded the customer portrait system of interbank institutions by improving construction of customer basic data and highlighting scenarios application function.

The Bank centred on aspects of products, platforms, value-added services and teams to comprehensively build a characteristic and ecological interbank institutional sales system. First is enriching product portfolios to achieve full coverage of product categories in main institutions. Second is combining online platforms with offline channels to connect assets and funds efficiently; promoting reconstruction of "Hang-E-Tong" platform, establishing one-stop open transaction platform for financial institutions, covering the whole process of user scenarios and empowering business management with AI to realise the upgrade of online sales transaction and service. Third is strengthening product researches, providing customers with professional investment advice and initiating establishment of development optimism and intelligent investment consultant functions to improve investment value of institutional customers. Fourth is organising a specialised sales team, with scientific training programs and talent cultivation system to improve specialisation, market insight and risk prevention and control capabilities of the team. Functions like technology-empowered sales and mobile integrated terminal realised whole-process tracking management of business expansion and high-quality standardised promotion.
At the end of 2019, the Bank's "Hang-E-Tong" platform has cooperated with 2,200 customers. In 2019, the volume of interbank sales was RMB503,880 million, representing a year-on-year increase of 123.7%.

(3) New asset management

In 2019, the Bank actively coped with challenges and opportunities brought by new regulation policies and promoted sound transformation and development of wealth management business in terms of platforms, products, investment researches and technologies. First is steadily advancing the preparatory work of a wealth management subsidiary. The Bank strived to construct smart wealth management transaction platform, smart investment research platform and smart risk control platform and establish open-ended wealth management platform for all products through technologies. The Bank received the approval by CBIRC on establishment of Ping An Wealth Management Co., Ltd. (hereinafter "Ping An Wealth Management") on 31 December 2019, and the Bank is advancing the preparatory work of Ping An Wealth Management which will be officially operated once approved. Second is vigorously promoting the transformation of wealth management products to taking net value as basis, innovatively launching core product lines "growth" series, accelerating the new products issuance and perfecting products system. Third is improving the capacity of investment research, establishing an investment research system focusing on major assets allocation and linking fields of macroeconomics, monetary market, bonds market, trading strategy, equity market and foreign exchange and commodities market. Fourth is continuously promoting technology empowerment, improving market risk monitoring, credit risk management and post-investment management capabilities by fully exploiting technologies, reducing operational risk by labelling, process and online operation, independently developing and launching a new generation of valuation measurement system, unified wealth management bookkeeping system, investment portfolio management system and risk management and performance evaluation system, and achieving integrated management consisting of portion registration, product management, investment transaction and valuation and liquidation.
At the end of 2019, the Bank's balance of principal-guaranteed wealth management products (WMPs) amounted to RMB67,217 million, representing a decrease of 18.7% over the end of last year, the balance of structured deposits was RMB507,711 million, up 17.1% compared with the end of last year, and the balance of non-principal-guaranteed WMPs was RMB590,499 million, increasing by 9.8% compared with the end of last year, among which, net-value-based products in compliance with requirements in new asset management regulations amounted to RMB257,206 million, representing an increase of 152.2% over the end of previous year and its proportion in non-principal-guaranteed WMPs increased from 19.0% to 43.6%.

2. Two core capabilities

The Bank improved two capabilities of sales and transaction in regarding three business directions of new transactions, new interbank and new asset management to form integrated measures and build up core competence of the Bank's interbank capital business. First is strengthening sales capabilities, upgrading sales mode and integrating sales into ecosystem to improve channel contribution. Customer portrait system supports in-depth analysis on customer groups, focuses on strategic customers and cornerstone customers, forms a chain integrating funds, products, assets, and services, and thus becomes a "product expert" and "customer expert" to provide customers with one-stop integrated financial services such as scenario-based product design, asset recommendation and sales channels; second is relying on the industry-leading transaction capabilities, to expand and enrich the application scenarios of transaction capabilities. By constructing an intelligent transaction platform, the Bank integrates with interbank, asset management and retail businesses to serve the interbank, companies and retail customers in the industry.

3. One platform

The Bank achieved precise pricing, intelligent execution, and real-time risk control and empowered three business directions through smart capital system. The new generation financial market business system was launched in Mid July 2019. With its integrated front, middle and back-end overall design, stable and efficient operation efficiency, multiple asset management capabilities and massive data processing abilities, the system helped the Bank significantly improved the stability and efficiency of infrastructure in financial market business, achieved process automation and specialised management of financial market business, reinforced competitiveness in bonds, foreign exchange and precious metals fields and created continuously leading core competitiveness in financial market business.

3.5.4 Technology-driven

The Bank adopted the strategic principle of "being technology-driven" as the driving force for strategic transformation and data-driven operation, continued to increase investment in finance technology, optimised the development processes, improved delivery efficiency and empowered data-driven operation. At the end of 2019, technical personnel of the Bank (including outsourced talents) numbered over 7,500, an increase over 34% compared to the end of last year. In 2019, IT capital expenditures and costs experienced a year-on-year increase of 35.8%, of which RMB1,091 million was invested in innovative research and application.

1. Continuously deepening agile transformation

In 2019, the Bank implemented the Starlink (development-operation-maintenance integration) and SDLC (safe development life cycle) projects, connected the whole process of research and development from demand to production and improved its rapid IT delivery capabilities. In 2019, response to business development demands of the Bank increased by more than 30% year on year. Meanwhile, the Bank upgraded and improved a number of major business systems, and consecutively put projects into production on schedule like intelligent risk control platform, new core system for financial market, corporate cloud bank card acceptance and intelligent trusteeship, so as to provide financial products and services in a more intelligent, efficient, stable and reliable manner. In 2019, the Bank made new breakthroughs in supporting work of overseas business and constructed the core business system and data centre for Hong Kong Branch and put them into operation, providing safe, stable and efficient environment for operation and maintenance of overseas business.

2. Comprehensively promoting data-driven operation

To make data-based operation real-time, refined, visualised and value-based, the Bank implemented three major scientific and technological project groups, which are data governance, data middle platform, and AI platform. For data governance, the Bank continuously promoted the implementation of data governance system and long-term control mechanism. The Bank formulated over 900 basic data standards and nearly 2,000 indicator standards in 2019. For data middle platform, the Bank accelerated the construction of data indicator platform, data service platform and "five databases" of customers, products, staff, channels and cases. For AI platform, the Bank has put 11 AI middle platforms projects into operation, realising closed-loop management based on modules and parameters, and empowered front-end business through robots projects of AI customer service, AI risk control, AI marketing, AI voice, AI quality inspection and intelligent recommendation platform. For instance, the Bank precisely ran marketing advertising on the homepage of "Pocket Bank" and credit card APPs via an intelligent recommendation platform, and the conversion effect was over 50% higher than manual advertising delivery.

3. Establishing leading basic technology platforms

The Bank accelerated technological transformation and comprehensively improved basic supporting capabilities of technology for business development. First is establishing and improving basic technology platforms such as private cloud platform, PaaS platform, open platform and enterprise-level big data platform. In 2019, the Bank strengthened the promotion and construction of private cloud platform and the proportion of applications on the cloud reached 35%. Construction work of distributed PaaS platform was completed and the platform won the "2019 Outstanding Contribution Award for Financial Science and Technology Innovation" of the Financial Computerisation Magazine. The platform was piloted in over 70 projects, and it effectively enhanced the security and controllability of the Bank's systems and reduced development and operation and maintenance costs. For instance, the new core business system for credit cards was researched and developed based on the PaaS platform and its maximal business processing capabilities were approximately 10 times greater than those of the original system with just 1/3 costs of the latter. Second is continuously promoting the construction of refined tools for production, operation and maintenance monitoring and improving the automation level of basic resources and application allocation. In 2019, the Bank achieved an operation and maintenance automation level of 80% by transformation of tools and platforms, with the number of versions released increasing by 150% year on year and automated testing coverage reaching 55%.

4. Deepening innovation and application of financial technologies

Relying on the core technology and resources of Ping An Group, the Bank accelerated the integration of emerging technologies with banking scenarios, so as to improve its capabilities of customer marketing, operation management and risk control. For AI Bank, retail banking business extensively applied technologies like Natural Language Processing (NLP), Optical Character Recognition (OCR) and biological recognition, realising 7x24-hour closed-loop operation to attract customers. For example, the Bank developed an "AI Quick-build Station" to help users build various customised marketing pages using H5 technology. In 2019, the "AI Quick-build Station" launched more than 5,000 activities with more than 400 million viewers, facilitating more than 7 million financial transaction orders; the scenario coverage rate of credit card intelligent voice business reached 90%, which was equivalent to saving 1,200 employees. For big data, the Bank established intelligent risk control platform by using big data and AI technologies and applied it to intelligent decision-making, intelligent control, intelligent loan granting, intelligent warning and intelligent management and other fields. As for retail customer promotion business, the Bank exploited data labelling capabilities to provide tailored services for different customers and launched promotion activities rapidly, so as to reduce labour costs such as operation and development costs to 1/3 of the original, and time to 1/5 of the original. For block chain, the Bank established unified block chain integrated service platform and applied it to business fields like supply chain finance, bankruptcy liquidation voting, cloud signing certificate and traceability with the number of transactions in 2019 exceeded 350,000. For open banks, the Bank comprehensively transformed and upgraded the open banking technology platform. As of the end of 2019, it had released a total of 351 application programming interface (API) services of 24 categories, attracting customers and outputting capabilities effectively. For Internet of Things, the Bank built an IoT middle platform to implement online operations and intelligent control of vehicles and logistics, so as to reduce monitoring costs.

In addition, the number of patent applications for intellectual property in technology lines exceeded 150 items in 2019, with 5 projects successfully selected as 2019 Fintech Application Pilot Project by the six national ministries and commissions; meanwhile, the Bank held innovation activities such as the Technology Innovation Competition, the Geek Competition and Technology Opening Day, to encourage all-involvement innovation and promote the spirit of workmanship.

3.6 Business innovation

Led by the innovation culture, the Bank relied on its core technologies and resources in the sectors such as artificial intelligence, biological recognition, blockchain and big data to steadily push forward innovation in financial technology. Through the application of cutting-edge technologies to product innovation, customer marketing, business operations and risk control and others, the Bank realised intelligent upgrading, better support the Bank's strategic transformation, and improved its ability to serve the customers and the real economy.

In terms of product innovation, in 2019, the Bank built and upgraded the "Ping An Good Chain" supply chain financial service platform that provided core enterprises with a comprehensive package of financial services such as online financing, treasury management and smart operations. The Bank further upgraded the intelligent OMO (Online Merge Offline, realising online and offline integration) service system to offer better financial life product to customers through an intelligent switch between online and offline business featured with integration, contextualisation and personalisation.

For management innovation, the Bank comprehensively promoted data-driven operation, and facilitated the construction of data indicator platform and data service platform. It replaced experience with data as the driving force and empowered its operation with AI, improving operation capabilities through technologies including AI and BI.

In terms of service innovation, centring on the goal of creating an industry-leading AI Bank, the Bank deeply embedded new technologies into the entire process of financial services, and established a digital customer service system embracing "AI + Marketing" and "AI + Customer Service" to effectively address pain points such as tedious customer consultation process and long waiting time to improve customer experience.

3.7 Risk management

3.7.1 Credit risk

Credit risk refers to the risk that borrowers or counter parties of the Bank cannot fulfil obligations according to the agreement reached in advance.

The Bank has established a centralised, vertical and independent overall risk management framework and a risk management model with "dispatch-based risk management and matrix report through two channels". The risk management committee of the head office is in charge of overall plan on risk management at all levels. The professional departments of the head office including the risk management department, company credit approval department and retail risk management department are responsible for the Bank's credit risk management. Based on the transformation guideline of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking", the Bank stuck to the principle of risk management of "coordination between risk and development, balance between risk and profit, adaptation between risk and capital", continued to improve the full-process management of credit risk, and effectively enhanced the level of credit risk management.

1. Optimising the Bank's asset structure.

Retail businesses implemented main task of "pursuing breakthroughs in retail banking" to realise rapid growth in the number of retail customers, assets under management (AUM) of retail customers, the scale of retail deposit and to maintain good and controllable retail asset quality along with a steady growth in the scale of personal loans through the driving effect of customer finance. For corporate assets, the Bank focused on key industries, integrated superior resources to invest in high-quality and high-potential customers, helped customers in upstream and downstream supply chain, industry chain or ecological circles, and continuously advocated the optimisation of the portfolio structure of credit risk assets.

2. Improving centralised risk management.

The Bank continued to optimise the authorisation management system, enhanced the differentiated authorisation management of operation units and the centralised post-supervision management of the head office, and improved the centralised management of the Bank's approval; The Bank also steadily push forwarded the centralised management mechanism in its head office for loans, intensified the centralised and unified management and control over the confirmation of granting conditions when loans were provided, and effectively improved the risk control level for loan issuance.

3. Enhancing the asset quality management and control mechanism.

Early warning management was strengthened, various risk information inside and outside the Bank was summarised, and an automatic pre-warning system based on big data was established and continuously improved to ensure early detection and early resolution of risks. The Bank strictly followed the post-loan requirements by implementing the concerted management mechanism in branches by the chief leader of the branch making an overall plan and the leader in charge of risk management carrying out the plan, and regularly check the major non-performing asset accounts and the overall quality of assets in the charge of the branch; the head office guided, supervised and urged the branches to effectively implement post-loan management through crucial links such as daily monitoring and early warning management, guidance for and supervision on customers with large amount loans and early-warnings, management and control over key institutions, and management of group customer with large amount loans.

4. Intensifying the disposal of non-performing assets.

The Bank exploited its advantage in professional disposal of non-performing assets by setting up the special asset management department, established refined clearing and recovery management with plan before the process, control during the process and review after the process through pre-judgement of clearing and recovery, guidance and supervision during the process of projects and review of operation results, and intensified the overall disposal of non-performing assets to effectively increase the speed for the disposal of stock non-performing assets. In 2019, the Bank recovered non-performing assets of RMB21,366 million in total, a year-on-year increase of 14.0%; including RMB15,239 million recovered by the special asset management department, a year-on-year increase of 4.6%, representing 71.3% of the total non-performing assets recovered.
During the reporting period, through the key measures mentioned above, the Bank’s overall quality of credit risk assets was effectively managed and controlled and key indicators for asset quality was continuously improved. At the end of 2019, the overdue loans of the Bank accounted for 2.09% of total loans, down by 0.39 percentage point over the end of previous year; loans past due over 90 days accounted for 1.35%, down by 0.35 percentage point over the end of previous year; special mentioned loans accounted for 2.01% of total loans, down by 0.72 percentage point over the end of previous year; non-performing loans ratio was 1.65%, down 0.10 percentage point over the end of previous year.

3.7.2 Market risk

Market risk refers to the risk of losses arising from unfavourable changes in market prices (including interest rates, exchange rates, stock prices, commodity prices, etc.). The market risk of the Bank mainly arises from trading accounts and bank accounts. Main market risk represents interest rate risk and exchange rate risk. The Bank uses indicators such as market risk value indicators, pressure test, interest rate sensitivity, foreign exchange exposure, etc. to measure and monitor interest rate risk of major trading accounts and exchange rate risk of the Bank.

The Bank has established an effective market risk governance structure and division of management responsibilities. The Board is the ultimate decision-making body of market risk management and assumes the ultimate responsibility of market risk management. The senior management and its committees are responsible for approving the major issues of market risk management to the extent of the scope of authority and regularly listening to the report on the implementation of market risk management. The risk management department leads the management and specific implementation of the Bank's market risk, and is independent of the front desk business department. The Bank has set up a market risk management system including the basic system of market risk, general management measures and operational processes, and covering the whole process of market risk identification, measurement, monitoring, reporting and control. The Bank regularly examines various systems and management measures for assessing market risks and continuously perfects, improves and optimises the process according to the business and development status. The Bank has established a relatively complete market risk management process, from the beforehand business authorisation management and account division, to the risk identification, measurement monitoring and control in the process, and to the afterwards back-testing and stress test, fully covering the entire process of risk management.

During the reporting period, in order to address the increasing challenges in market risk management, the Bank took the following measures: First, the Bank further optimised the market risk management limit system on the basis of business reorganization, ensuring that risks remain controllable; second, the Bank enhanced market risk process management, went through all the risk processes before, during and after the trading, and strengthened risk measures for key risk points, established effective risk monitoring plans and improved the risk control and risk response ability; third, the Bank intensified the market risk system construction, with control before the process, monitoring during the process and assessment, analysis, and reporting after the process as the objectives for risk management, and the preliminary results were achieved; fourth, the Bank established a market risk management policy system in line with the nature, scale, complexity and risk characteristics of the Bank's business, fully reviewed the market risk system, and further optimised the market risk system to support market risk management in an all-around way.

In the future, in addition to further improvement of the policy system and process, the Bank will optimise the market risk measurement model, upgrade the market risk management system, and strengthen daily risk monitoring, to effectively manage the market risk and control the market risk within the bearable range.

3.7.3 Liquidity risk

Liquidity risk refers to the risk that a commercial bank cannot obtain sufficient funds at a reasonable cost for timely repayment of debts, performance of other payment obligations and satisfaction of other financial needs for normal business. According to the *Administrative Measures for Liquidity Risks of Commercial Banks* issued by the China Banking and Insurance Regulatory Commission, the Bank adheres to a cautious liquidity risk management principle and a prudent management strategy, timely establishes a reasonable and effective liquidity risk management mechanism to identify, measure, monitor and control liquidity risk, and ensures sufficient fund to handle the growth in assets and the payment for due debts, whether the Bank is in normal condition or under pressure.

1. The Board of the Bank assumes the ultimate responsibility of liquidity risk management. The Asset and Liability Management Committee is the top management body of liquidity risk management. The Asset and Liability Management Department is responsible for the daily liquidity risk management of the Bank under the guidance of the Asset and Liability Management Committee. The Supervisory Committee regularly supervises and evaluates the performance of the Board and senior management in liquidity risk management. The Audit and Supervision Department performs internal audit over liquidity risk management.
2. The Bank attaches great importance to liquidity risk management, continuously optimises the liquidity risk management framework and management strategies, and has established a sound liquidity risk management system. The Bank monitors and optimises the asset and liability structure in time, enhances the management over active liability, promotes steady growth in core liability, strengthens liquidity risk index limit management, and manages the mismatched liquidity risk reasonably; moreover, it regularly conducts liquidity risk pressure test, assesses future liquidity demand on a prudent basis, maintains sufficient high-quality liquidity assets, and continuously optimises the liquidity emergency management system to effectively guard against emergency liquidity risk; It also strengthens the analysis of macroeconomic situation and market liquidity and improves the forward-looking and initiative liquidity emergency management, to cope with market liquidity risk in time. As at the end of the reporting period, each of the Bank's businesses grew at a stable pace, with abundant high-quality liquidity asset reserve, safe and prudent liquidity condition, and liquidity risk regulatory indicators meeting the requirements of CBIRC. As at the end of the reporting period, the liquidity ratio of the Bank was 62.54%. Liquidity coverage ratio (LCR) was 143.02%. Net stable funding ratio was 109.03%.
3. The Bank conducts full identification, accurate measurement, continuous monitoring and effective control of liquidity risk and applies a number of measures for continuous monitoring of the Bank's liquidity risk, including cash flow measurement and analysis, liquidity risk limit management, fund source management and high-quality liquidity assets management.
4. The liquidity risk indices of the Bank are divided into management indices and monitoring indices. The Bank sets the liquidity risk index limit based on liquidity risk preference, liquidity risk management strategy, asset and liability structure, financing ability and other factors.
5. The liquidity risk stress test is an important tool for analysis and assessment for quantitative management of liquidity risk and provides basis for decision making on the Bank's formulation and revision of liquidity risk preference, liquidity risk management strategy and liquidity risk limits. Based on the regulatory requirements, the Bank conducts liquidity risk stress tests on a regular basis based on the asset and liability structure, product type and data status of the Bank and reports to the Asset and Liability Management Committee, senior management and the Board level by level.

3.7.4 Operational risk

Operational risk refers to the risk of losses caused by imperfect or problematic internal procedures, employee and information technology systems as well as external events. During the reporting period, the Bank proactively promoted the implementation and improvement of the Bank's operational risk management system, continuously optimised and upgraded the operational risk management structure, regime and system to promote the formation of a standardised, normalised and scientific operational risk management mechanism. The Bank continued to lay solid foundation for operational risk management, strengthened the identification, assessment, monitoring, report and rectification of operational risks, conducted operational risk monitoring and report in a normalised way, and actively prevented and resolved all kinds of operational risks, to achieve effective control of operational risk losses rate and support the healthy development of business.

1. The Bank continued to optimise the basic functions of three operational risk management tools, i.e. “operational risk and control self-assessment (RCSA), key risk indicators (KRI) and losses data collection (LDC)” and deepen the role of data governance in supporting above tools and various management mechanisms to improve the effectiveness and timeliness of risk prevention and control.
2. The Bank further upheld the principle of being technology-driven and data-driven, promoted communication and information sharing between head office and branches and among various sectors in head office, improved data quality, further conducted data discovery, analysis and interpretation, and facilitated standardised and intelligent programs for operational risk and internal control management, enabling the overall work to transform into intelligence-based.
3. The Bank optimised operational risk management tools, and upgraded risk heat map rating system, while strengthening monitoring, alert/warnings, analysis and reporting of operational risk; the Bank established measurements for economic capital with operational risk, while monitoring, analysing, reporting measurement data of economic capital regularly and guiding all authorities to improve the level of operational risk management; it also improved the Department Control Function Checklist (DCFC) system, and continuously enhanced the risk management and control ability of business departments and front-line managers.
4. The Bank strengthened business continuity management, The Bank strengthened business continuity management, improved the business continuity management system and corresponding system management, and further regulated the planning, implementation, summary and reporting works of business continuity. In this way, the Bank kept elevating its overall level of business continuity management.
5. The Bank strengthened the operational risk training and publicity, continued to give business guidance, support and evaluation to institutions at all levels to improve the operational risk management capabilities across the Bank.

During the reporting period, the operational risk identification, assessment, monitoring, early warning and rectification capacity were steadily improved.

3.7.5 Country risk

Country risk refers to the risk that the borrower or debtor of a foreign country or region has no capacity or refuses to repay the debts to banking financial institutions, or the banking financial institution in the country or region suffers from business losses or other losses, due to the economic, political, social changes and events of the country or region.

During the reporting period, the Bank revised and optimised the *Measures for Management of Country Risks of Ping An Bank* to further define division of risk management responsibilities and country risk ratings and the process for approval of country risk limit. According to the result of country risk rating, the Bank divides country risks into five classes: low country risk, relatively low country risk, medium country risk, relatively high country risk, and high country risk, based on risk severity, and manages risks by their classes accordingly. The Bank integrated all business activities that bear overseas entity country risk into unified management under the country risk limit, and checked country risk limit annually according to the result of country risk rating, situation of development of country economy and business needs, and adjusted country risk limit dynamically according to the changes in country risk. During the reporting period, the Bank’s country risk exposure was strictly limited. The exposure of country risk was relatively small, the country risk class was relatively low, and sufficient country risk reserve had been provided for in accordance with regulations. The overall country risk was controllable.

3.7.6 Bank account interest rate risk

Bank account interest rate risk refers to the risk of losses of the overall income and economic value of bank accounts as a result of adverse changes in interest rate level, maturity structure and other factors . Based on the latest requirements of the *Guidelines for the Management of Interest Rate Risk in the Banking Book of Commercial Banks (Revised),* the Bank continued to improve risk government structure, optimised the interest rate risk management related systems, established interest rate risk standard measurement framework, to ensure that the structure, measurement and system of interest rate risk governance meet the regulatory requirements. The Bank improved the refinement of interest rate risk management to ensure that the Bank can effectively identify, measure, monitor and control interest rate risk arising from various business.

Following the principle of being reasonable and prudent, the Bank effectively measured bank account interest rate risk by means of interest rate sensitivity gap analysis, duration analysis, scenario simulation and pressure test, etc. Based on the above measurements, the Bank continued to improve bank account interest rate risk limit indicator system, regularly measured and monitored risk exposure, and regularly reported to the Asset and Liability Management Committee about interest rate risk management. With a comprehensive consideration of interest rate risk characteristics and actual business development, the Bank strictly controlled indicators related to interest risk and implemented prudent risk management measures. And it proactively adjusted the asset and liability structure and optimised interest rate risk exposure with reference to analysis, research and judgement of market trend.

In this year, the process of interest rate marketisation has been further promoted, reform of Loan Prime Rate (LPR) mechanism was formed, and market interest rate has encountered gradually greater fluctuations. The Bank continuously paid attention to changes in external interest rate environment, enhanced macro analysis and research and judgement on interest rate trend, implemented active interest rate risk management strategy, designed the asset and liability structure in a reasonable way, and constantly guided the improvement of business portfolio re-pricing term to maintain a reasonable overall bank account interest rate risk level.

3.7.7 Reputation risk

Reputation risk management is an important component of corporate governance and comprehensive risk management system and covers the Bank's business management, business activities, employee behaviour and other fields.

In 2019, the Bank maintained relatively stable public opinion on the whole, and made important breakthroughs in public opinion control and reputation risk management. In addition to always complying with the supervision and guidance of the regulatory authorities, the Bank has taken active action to coordinate throughout the Bank and excavate its synergy in upgrading the reputation risk management system and optimising the crisis response mechanism.

In 2019, in terms of reputation risk management, the Bank comprehensively focused on the five key sections of "strengthened early warning, upgraded monitoring, crisis response, positive guidance, and risk training", which were translated into seven specific tasks: i.) The Bank strengthened public opinion early warning and risk screening and improved the Bank's risk assessment mechanism included in its KPI assessment of each unit. ii.) The Bank comprehensively upgraded the public opinion monitoring mechanism. In addition to building a visualised big data monitoring system, it also customised specific public opinion monitoring mechanism of various types. iii.) The Bank deployed crisis prevention and control on special occasions, specifically, it formulated response plans and special monitoring mechanism against the "two sessions" (National People's Congress and Chinese People's Political Consultative Conference), "70th anniversary of the founding of the People's Republic of China", "3.15 consumer rights protection day", "the double 11 Shopping Festival" and other important events that were prone to receiving negative public opinions. iv.) The Bank continued to deepen its development goal of retail transformation, comprehensively implemented the guidance of positive public opinion. It enhanced its brand image all around with "traditional media" and "new media" in a supplementary way. v.) The Bank strengthened the training of internal reputation risk management and held multiple training sessions of reputation risk management for heads of departments in the head office and heads of product promotion departments in branches. vi.) The Bank conducted drills for crisis response and disposal from time to time to improve the reputation management and control ability of relevant personnel in real cases. vii.) The Bank continued to screen potential major complaint letters and visits or class actions against the head office and branches, and formulated and issued relevant rules such *Ping An Bank's Emergency Plan for Complaint Letters and Visits* and *Ping An Bank's Prevention and Emergency Response Manual for Mass Petition Incidents* to establish a comprehensive early warning mechanism.

3.7.8 Strategic risk

In 2019, with the complex and volatile international situation and continued pressure on economic operation, the Bank actively responded to the national development strategy, resolutely returned to the basic of serving the real economy, and firmly supported the development of the real economy. The Bank adhered to the strategic direction of retail transformation and the principle of twelve-word policy of “being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking”. It comprehensively built the “3+2+1” business strategy respectively for the retail business, the corporate business and interbank business and strived to get the strategies implemented and goals attained.

In terms of retail business, the Bank actively implemented the data-based operation principle, and vigorously promoted the three major operation sectors of “basic retail, private banking wealth management and consumer finance”. It also continued to improve the two core capabilities of “risk control and cost control”, built “one ecosystem” to drive its integration, and strived to “be a domestic best performer and global leader in intelligent retail banking”.

In terms of corporate banking, the Bank focused on refining the three business pillars of “industrial banking, transaction banking and comprehensive finance”, attached special importance to the two core customer groups of “strategic customers and small and micro enterprise customers”, and held fast to the “lifeline” of asset quality. It remained committed to the road of sustainable and high-quality development to provide solid support for its strategic transformation.

For interbank businesses, the Bank has been focusing on the three business directions of “new transactions, new interbanks and new asset management plans”. It enhanced the two core capabilities of “sales and transactions”, and established “one system platform” to empower businesses and comprehensively promote the continuous reform and upgrade of the interbank business.

In terms of Party construction, the Bank has unswervingly adhered to the core leadership of the Party. Upholding the Party’s advantages in politics, thoughts and organisation, it carefully rearranged its management structure, strengthened moral education of all employees and continued to improve the decision-making process to secure the core leadership of the Party in all links of the Bank's operation and management. Meanwhile, the Bank adhered to promoting development, strengthening management and preventing risks through Party construction, and unifying thoughts, retaining cohesion, raising morale and guiding work with the Party's guidelines and policies to provide a solid ideological foundation and organisational guarantee for the Bank’s strategic transformation.

So far, the Bank's strategy meets the core requirements of the national development strategy, the development trend of macroeconomics and finance environment, and the changing trend of diversified needs of customers. The Bank’s overall strategic execution has been improved continuously and its strategic risk is generally controllable.

3.7.9 Information technology risk

In 2019, the Bank’s information technology (“IT”) focused on business transformation and technological innovation to promote smart operation of the Bank with data and technology. The goal of IT risk management is to manage risk and prevent major scientific and technological emergencies while taking advantage of enabling science and technology under the risk appetite of the Bank's stable operation.

The Bank implemented comprehensive IT risk management: First, it established three lines of defence against IT risks which are clear in division of work, relatively independent, inter-inhibitive and each has their own responsibilities; second, the Information Technology Department took the lead in the first defensive line to strengthen the process risk control involved in development and quality control, information security, system operation and maintenance, and modification and emergency response; third, the Risk Management Department took the lead in the second defensive line to continuously improve the IT risk management tools and establish effective mechanism to identify, analyse, assess and defuse IT risks in combination with the Bank's actual situations; fourth, the Audit and Supervision Department took the lead in the third defensive line and was engaged in post-dimensional risk management and control.

During the reporting period, the Bank's IT risk was under control as a whole and all the systems were operating well. The Bank conducted IT risk identification, monitoring and analysis on a regular basis, issued timely IT risk warnings, and urged all departments to take measures to reduce risk exposure. What's more, it evaluated comprehensively the risk level of the Bank's various IT areas, updated the risk heat map, and strengthened risk management and control.

3.7.10 Other risks

Other risks exposed to the Bank include legal risks and compliance risks.

1. Legal risk
The Bank continued to enhance legal risk control. Further improvement was made in terms of the format of legal instruments, and standard legal instruments were reviewed and modified in accordance with the latest requirements of laws and regulations and regulatory authorities; the daily legal review and consulting were carried out in an orderly manner to provide prompt, professional and efficient legal support for the Bank's new product research and development, new business development and major projects, etc.; for key businesses, legal research and legal risk warning and prompting were conducted to support healthy development of business; in terms of case management, the Bank established a unified case management system applicable to all departments, strengthened external lawyer management, and established a unified pool of lawyers; meanwhile, it actively and properly handled litigation cases and non-litigation risk events to prevent legal litigation risk and reputation risk.
During the reporting period, the legal risk management of the Bank focused on three levels, beforehand risk prevention, in-process risk control and post-risk mitigation, and an institutionalised, standardised and systematic management mechanism was established for the main fields of legal risk management, to continuously enhance the effectiveness of the Bank's legal risk management for businesses.

2. Compliance risk
(1) The Bank attached great importance to compliance management, internal control and case prevention and control, and established and kept improving the corresponding mechanisms.
The Compliance, Internal Control and Case Prevention and Control Committee of the head office is a leadership organisation for senior management to implement compliance, internal control, management over case prevention of the Bank. The committee is in charge of ordination, deciding, coordinating and supervising significant affairs relevant to compliance, internal control and management over case prevention according to authorisation and requirements of the Board of Directors (or the special committees set under it). The head office's and branches' Compliance, Internal Control and Case Prevention and Control Committee was under orderly and effective operation, responsible for reviewing risk level of each line of services and branches as well as risk control over major fields on a regular basis. The Bank formulated the rules for the behaviour of personnel on business line, establishing a behaviour management system for employees; the Bank built a behaviour management information system (smart KYS system) for employees to improve their behaviour management level; it also carried out specialised operations like "Thunder Action" and "Remedying and Purging" to rectify employees' violations, and construction of compliance culture and warning education activities for case prevention to enhance the concept of compliance value and strengthen professional integrity of employees. The Bank consolidated the working achievements of rectification for irregularities, implemented rectification measures, dug deep into the root causes of the problems, made up for the weakness of system, promoted compliance operation and strengthened the compliance supervision of branches over case prevention while maintaining high pressure over case prevention against front-line personnel and primary authorities. The Bank also enhanced coordination of the three lines of defence within the compliance management system, unceasingly conducted "work in one office" in internal control departments while pushing multiple departments to improve coordinative management of internal control over compliance, and included case prevention compliance into the performance assessment of each facility and its responsible leadership to assure the case prevention compliance responsibility level by level while recruiting legal compliance staff for the Bank and standardising assessment mechanism for branches' leaders of legal compliance to perfect the compliance and internal control management system and continuously improve the compliance and internal control management level.
(2) The Bank continued to strengthen the professionalism of legal compliance review and management to advance the quality and effectiveness of the support to business. It actively advocated such measures as optimising review process, fulfilling review preposition and implementing "one-to-one" support for legal compliance. Meanwhile, the key changes in regulatory policies were paid close attention to and transmitted promptly to identify compliance risk and promote operating agencies to improve their resistance against compliance risk and boost the healthy development of business.

(3) The Bank strengthened its system management to further improve the compliance risk management system. Additionally, the Bank organised the preparation of annual system plan, performed systematic examination over key business sectors, enhanced system management quality, and further consolidated the management base for business development throughout the Bank and internal control.
(4) The Bank deepened the compliance culture with intensive cultivation, organised the compliance culture system and issued the *Guidelines for Compliance Culture Construction of Ping An Bank (Provisional)* so as to enhance the compliance awareness of the personnel in the Bank; it also arranged special publicity campaigns on compliance within the Bank to create a favourable culture of compliance. It also provided professional training on legal compliance for the heads of legal compliance departments and key business personnel of branches and business divisions. Staff of business department, compliance staff and new recruits accepted training in the forms of on-site training, "Zhiniao" course, etc., to strengthen the concept that "everyone is responsible for compliance".
(5) The Bank has always been attaching great importance to anti-money laundering management. It continuously enhanced the internal control system of anti-money laundering and the risk control system of money laundering. It actively organised trainings for internal personnel and constantly improved monitoring effectiveness of the anti-laundering system and blacklist system to preventing risks of money laundering, terrorism financing and international sanction.

3.8 Other regulatory indexes of commercial banks

3.8.1 Capital adequacy ratio

(In RMB million)

Item	31 December 2019	31 December 2018	31 December 2017
Net core tier 1 capital	253,646	199,782	184,340
Other tier 1 capital	39,948	19,953	19,953
Net tier 1 capital	293,594	219,735	204,293
Tier 2 capital	74,599	49,380	44,934
Net capital	368,193	269,115	249,227
Total risk-weighted assets	2,784,405	2,340,236	2,226,112
Credit risk-weighted assets	2,508,004	2,090,152	2,000,758
On-balance-sheet risk-weighted assets	2,223,516	1,892,934	1,820,051
Off-balance-sheet risk-weighted assets	275,106	194,921	176,352
Risk-weighted assets of counterparty credit risk exposure	9,382	2,297	4,355
Market risk-weighted assets	51,320	43,264	31,645
Operational risk-weighted assets	225,081	206,820	193,709
Core Tier 1 Capital adequacy ratio	9.11%	8.54%	8.28%
Tier 1 Capital Adequacy Ratio	10.54%	9.39%	9.18%
Capital adequacy ratio	13.22%	11.50%	11.20%
Balance of mitigated risk exposures of credit risk asset portfolio:			
Balance of mitigated risk exposures of on-balance sheet credit risk asset portfolio	3,528,250	3,051,056	2,858,326
Risk exposure of off-balance sheet assets after conversion	611,856	401,108	348,412
Counterparty credit exposures	3,807,400	3,684,396	2,812,303

Note: The Bank adopted the weighted approach, standardised approach and basic indicator approach to measure capital requirements for its credit risk, market risk and operational risk, respectively; during the reporting period, there were no material changes in the measurement approaches, risk measurement systems and corresponding capital requirements for credit risk, market risk and operational risk. For more details of capital management, please refer to the Bank's website (http://bank.pingan.com).

3.8.2 Leverage ratio

(In RMB million)

Item	31 December 2019	30 September 2019	30 June 2019	31 March 2019
Leverage ratio	**6.44%**	**6.31%**	**5.81%**	**5.80%**
Net tier 1 capital	293,594	268,117	234,742	229,415
Balance of on-and off-balance sheet assets after adjustment	4,557,021	4,247,731	4,040,702	3,953,768

Note: At end of the reporting period, the increase in leverage ratio over the end of September 2019 was mainly due to an increase in net core tier 1 capital. For more details of leverage ratio, please refer to the Bank's website (http://bank.pingan.com).

3.8.3 Liquidity coverage ratio

(In RMB million)

Item	31 December 2019	30 September 2019	31 December 2018
Liquidity coverage ratio	**143.02%**	**128.61%**	**139.17%**
Qualified current assets	497,673	465,287	406,359
Net cash outflow	347,984	361,774	291,995

Note: The Bank disclosed the information of liquidity coverage ratio according to *the Measures for the Disclosure of Information on Liquidity Coverage Ratio by Commercial Banks* issued by CBIRC.

3.8.4 Net stable funding ratio

(In RMB million)

Item	31 December 2019	30 September 2019	31 December 2018
Net stable funding ratio	**109.03%**	**108.84%**	**111.42%**
Available stable funding	2,249,567	2,102,669	1,947,006
Stable funding required	2,063,215	1,931,931	1,747,431

Note: The Bank disclosed the information of net stable funding ratio according to the *Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks* issued by CBIRC.

3.9 Prospects of the Bank

Forecast of operational performance from January to March 2020

Warnings on any potential loss in accumulated net profit from the beginning of the year to the end of the next reporting period or any material change as compared with that in the same period of last year and the reasons
□Applicable √ Not applicable

3.9.1 Prospects of macro environment

2020 marks a completion of "building a well-off society in an all-round way" and the 13th Five-Year Plan. Standing at the historical intersection of accomplishing the two centenary goals, China's economy faces more complicated domestic and international environment. From the perspective of international situation, the overall growth of world economy and trade still shows a trend of slowing down, and instabilities and uncertainties still exist. From the perspective of domestic situation, China's economy is still at a critical phase for development model transformation, economic structure optimisation, and growth momentum transition. There will be a mix of structural, institutional, and cyclical issues, and China's economy still faces downward pressure. However, the basic trend of stability and long-term improvement of China's economy has not changed.

China will adhere to the general tone of seeking progress while maintaining stability, uphold the new concept of development, continue to pursue supply-side structural reform as our main task, continue to take "reform and opening up" as the momentum to promote high-quality development and resolutely win the "three tough battles" of preventing financial risks, reducing poverty and tackling pollution. China will comprehensively carry out the "six stabilities" to ensure stability on China's employment, finance, trade, foreign capital flow, investment and expectations, take coordinated steps to achieve stable growth, deepen reform, adjust structure, improve livelihood and prevent risks, and continue to implement a proactive fiscal policy and a prudent monetary policy to ensure that the economy can achieve reasonable quantitative growth with steady quality improvement.

The banking industry must further strengthen its responsibilities, continue to elevate its capability to serve the real economy. It should actively develop inclusive finance, continue to provide more support for private economy, small and micro enterprises, and inclusive finance, and actively help alleviate difficulties and lower the cost in financing. The industry must also actively explore financial ways and methods for poverty alleviation, continue to prevent and control financial risks, maintain financial stability and security, and provide strong support for the sustainable and healthy development of China's economy.

3.9.2 Competition situation and development trend of the industry

Looking forward into 2020, the economic and financial situation at home and abroad will remain complex and volatile, and the financial supply-side reform will be deepened continuously. Industry competition will be more intense with the presence of new business models and diversified product and service patterns. The new development landscape and market pattern will set new requirements on the banking industry. The banking industry will comprehensively strengthen technology-enabled finance, continue to optimise products and services, strengthen financial risk prevention and control and improve the capability, quality and efficiency to serve the real economy to escort for the sustainable and healthy development of the national economy.

First, comprehensively enhancing the financial sector's ability to serve real economy remains the top priority. Commercial banks will thoroughly study industry trends and deeply excavate customer needs to improve the quality and efficiency of financial products and service solutions in the round. They will improve the availability, effectiveness, and inclusiveness of financial services, and remove financing barriers and lower financing costs to alleviate the restriction to the real economy, so as to promote the continuous transformation and upgrading of real economy.

Second, continuously strengthening the prevention and control of financial risks is also imperative. Under the situation of strict supervision, commercial banks will continue to strictly abide by the regulatory requirements, continuously raise own risk management level and continue to improve the quality of bank assets to lay a solid foundation for promoting financial stability and security.

Third, it is still an inevitable trend to drive and enable finance by technology. Against the backdrop of the ongoing development of science and technology, commercial banks will closely follow the development trend of leading technologies, promote the further integration of finance and technology, continuously drive the development of technology-enabled finance, and continue to innovate means and methods of financial services. They will actively explore new approaches and models to serve private enterprises, small and micro enterprises, "inclusive finance", "agriculture, rural areas and farmers" and targeted poverty alleviation to promote the healthy and rapid development of the real economy and satisfy the yearning and pursuit for a better life of the broad masses of people.

3.9.3 Operation plan

In 2020, the Bank will adapt to the situations, closely follow the national strategy, and combine its own advantages to continue to strengthen the finance capability to serve the real economy, enhance the prevention and control of financial risks and deepen the use of financial technologies. On the basis of the staged victory of the transformation, it will adhere to the strategic goal of constructing "a domestic best performer and global leader in intelligent retail banking", unswervingly uphold the twelve-word strategic principle of "being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking" and comprehensively build the "3+2+1" business strategy respectively for the retail business, the corporate business and interbank capital business to achieve balanced development of various businesses, the strategic goal of retail transformation and a comprehensive take-off of operation and management.

First, the Bank will comprehensively promote data-driven operation. The Bank will always adhere to the "technology-driven" principle, taking technology as the primary productivity in strategic transformation, and relying on data instead of experience to reduce costs and improve efficiency and services; meanwhile, it will empower businesses with AI and manage its operation by virtue of technologies including AI, BI and big data. Driven by technology, data, business model and talents, the Bank will be committed to applying cutting-edge technology to all links of operation and management including product innovation, customer service, business operation and risk control. It will continuously upgrade traditional businesses, innovate business models, greatly optimise management decisions and enhance user experience, so that it can realise the comprehensive transformation to a data-driven enterprise.

Second, the Bank will turn itself into a "platform and ecological bank" in an all-round way. The Bank will actively take the advantage as a comprehensive financial platform, continuously integrate resources, optimise services, expand bank customer acquisition and enhance customer service capabilities to significantly improve core competitiveness and build up stronger barriers to compete with others. Meanwhile, it will actively integrate into the Group 's "Five Ecosystems", go through the full life cycle of customer service, continue to build an ecological loop to enhance the comprehensive operation capabilities for customers and fully meet customers' growing financial service demands which are diversified, personalised and multi-faceted.

Third, the Bank will build a "1 + N" engine for comprehensive financial services. The Bank will continue to heighten internal collaborative innovation through the "1 + N" model that provides one customer with N products and services. It will focus on product "portfolio" and "innovation" to improve customer loyalty and profitability and provide strong support for better serving the development of the real economy.

Fourth, the Bank will continuously strengthen risk management. The Bank will pay close attention to changes in the macro and industry environment, strictly abide by requirements at national and regulatory levels, and comprehensively strengthen management of credit risk, liquidity risk, market risk, operational risk, compliance risk and reputation risk. The Bank will vigorously take technical measures to continuously complement the risk defence and control mechanism, improve its credit structure, strictly control increment risk, guard against and resolve stock risk, and hold the bottom-line of zero systematic risk. The Bank will adhere to the Party's core leadership position and strictly hold the bottom line of compliance. It will promote development and prevent risks through Party construction to achieve the steady and healthy development of various banking businesses.

3.9.4 Risk management

In 2020, the Bank will proactively respond to opportunities and challenges, holistically improve the ability of risk management, and support business development in an effective way. In 2020, the Bank's risk management mainly includes the following aspects:

1. Reinforcing asset quality. The Bank will (1) enhance industry-research-driven the risk attribution analysis, continuously improve the entry standard for industries, regions, products, customers and strictly control the threshold for entry in terms of areas, industries and customers with higher risk; (2) intensify management for risk portfolio and manage the high-risk industry limit in a strict manner based on the regulatory requirements and the changes in economic situation; (3) reinforce the establishment of quality management system for assets and improve internal appraisal and assessment mechanism for risk management; (4) consolidate the basis of refined management after issuance of loans and investments, identify negative information affecting credit risk, perform prompt early warning and risk screening and map out corresponding risk control measures to achieve early study, anticipation and implementation; (5) regularly review and evaluate the existing customers, and specify the credit strategy for each customer; (6) accelerate risk resolution on problematic loans, customise suitable plans for each problematic loan and assign specific person to manage the loans, to ensure the resolution is performed in an effective manner.

2. Guiding business development. (1) The Bank will selectively serve major industries. With perspective industry study, the Bank will explore subdivided fields with development potential, identify and prejudge potential risks in the fields, make dynamic adjustment to major industries and formulate standards for business entry and exit and the white list or negative list in such fields, to develop industrial risk policies based on the industrial study results in an effectively manner. (2) The Bank will dive deep to serve major customers. By establishing a customer evaluation model and concentrating on industrial and regional leading companies and core enterprises in the industrial chain, the Bank will mainly support customers with high rating and give up high-risk customers. (3) The Bank will formulate regional characteristics. Aiming at regional major industries, regional featured products and regional customer groups with obvious cluster characteristics in cities with faster economic growth surrounding Guangdong-Hong Kong-Macao Greater Bay Area, Yangtze River Delta, Pearl River Delta and Bohai Economic Rim, the Bank will execute diversified regional service programs. (4) The Bank will enhance the foresight on risk management with appropriate initiatives, improve the communication with risk control and marketing teams, and strengthen pre-risk management mechanism for major credit projects and the support and guidance to businesses. (5) The Bank will dig into customer demands and exploit product advantages to build up a comprehensive financial service system.

3. Intensifying compliance risk management and control. (1) The Bank will stick to the compliance bottom line and strictly control case risk. (2) The Bank will rebuild the legal compliance review process and mechanism to review the businesses and personnel in a collective way online, improve efficiency and professionalism, and support the healthy development of business. (3) The Bank will conduct compliance risk monitoring beforehand, strengthen the management of money laundering risk and operational risk, tighten employee behaviour control, set compliance constraints, and cultivate a compliance culture that employees do "not intend or are afraid of and unable to violate regulations".

4. Enhancing the construction of system instruments. The Bank will (1) perform construction of platform instruments and systems centred on AI to build an intelligent risk control platform and improve the intelligent risk management; (2) build a sound data quality control mechanism to cumulate real, accurate, continuous and complete internal and external data for identifying, calculating, evaluating, supervising and reporting risks, and for evaluating capital and liquidity adequacy; (3) improve the function of the risk management information system to support risk reporting and management decision making.

5. Enhancing the risk team building. The Bank will continuously (1) strengthen the awareness of comprehensive risk management, advocate the establishment of risk and compliance culture, and stress compliance operation; (2) improve a training system for different people, expand the coverage by a variety of training programs, i.e., by means of integrating on-line and off-line courses, and improve the results of the training; (3) recruit talented personnel in every business sector, optimise and improve the performance assessment system to improve the productivity of the staff.

Section IV Other Significant Items

4.1. Profit distribution of ordinary shares and capital reserve converted into share capital of the Company

4.1.1 Formulation, implementation or adjustment of profit distribution policy, particularly cash dividends policy during the reporting period

The Bank reviewed and approved the *Plan of Returns to Shareholders of Ping An Bank Co., Ltd. for the period from 2018 to 2020* at the second Extraordinary Shareholders' General Meeting of 2017 held on 21 December 2017. From 2018 to 2020, the profit distributed in cash every year is between 10% and 30% of the distributable profit achieved in the current year. The Bank is currently in a mature stage with major capital expenditure arrangements. From 2018 to 2020, on the premise that the Company's capital adequacy ratio meets the regulatory requirements, when the Company distributes the dividends by way of cash or stock or a combination of both, the proportion of cash dividends in the current year's profit distribution is not less than 40% (including 40%).

The profit distribution proposal of the Bank for 2018 is based on the total share capital of 17,170,411,366 as at 31 December 2018. Cash dividends of RMB1.45 (including tax) were distributed for every 10 shares. There was no proposal to issue bonus shares or to convert public reserve to share capital. The Bank issued the *Announcement on the Implementation of 2018 Annual Interest Distribution of Ping An Bank Co., Ltd.* on 20 June 2019. The date of record of the profit distribution was 25 June 2019 and the ex-dividend date was 26 June 2019. The profit distribution proposal of the Bank for 2018 was implemented during the reporting period.

Special description of cash dividend policy	
Whether it complies with the provisions of the Articles of Association or the requirements of resolutions of the Shareholders' General Meeting:	Yes
Whether the dividend standards and proportions are definite and clear:	Yes
Whether the relevant decision-making processes and mechanisms are complete:	Yes
Whether the independent directors perform their duties and play their due role:	Yes
Whether the minority shareholders have the opportunity to fully express their opinions and demands and whether their legitimate rights and interests are adequately protected:	Yes
Whether the conditions and procedures for adjusting and changing the cash dividend policy are compliant and transparent:	Yes

4.1.2 Profit distribution pre-plan or proposal and capital reserve converted into share capital pre-plan or proposal of the Company in recent three years (including the reporting period)

I. 2019 annual profit distribution pre-plan

In 2019, the Bank's audited net profit attributable to shareholders of the parent company amounted to RMB28,195 million and the profit available for distribution amounted to RMB119,868 million.

Based on the above profit situations and the relevant provisions of the State, the Bank made the following profit distribution in 2019:

1. The Bank did not appropriate any statutory surplus reserve as the balance of its statutory surplus reserve had exceed 50% of its share capital.

2. The general risk provision shall be withdrawn at 1.5% difference in the balance of risk assets at the end of the period, amounting to RMB6,498 million.

With the above profit distribution, as at 31 December 2019, the general risk provision amounted to RMB46,348 million; the balance of undistributed profit amounted to RMB113,370 million.

3. With comprehensive consideration of the returns on shareholders' investment, requirements of regulatory authorities for the capital adequacy ratio and sustainable development of the Bank's business, in addition to the above statutory profit distribution, based on the total share capital of 19,405,918,198 of the Bank as at 31 December 2019, cash dividends of RMB2.18 (including tax) were distributed for every 10 shares, with total cash dividends of RMB4,230 million. After the cash dividends were distributed, the remaining undistributed profit of the Bank amounted to RMB109,140 million.

The above pre-plan shall be reviewed and approved by the Bank at the 2019 Annual Shareholders' General Meeting.

II. 2018 Annual Profit Distribution Proposal

In 2018, the Bank's audited net profit attributable to shareholders of the parent company amounted to RMB24,818 million and the profit available for distribution amounted to RMB96,335 million.

Based on the above profit situations and the relevant provisions of the State, the Bank made the following profit distribution in 2018:

1. The Bank did not appropriate any statutory surplus reserve as the balance of its statutory surplus reserve had exceed 50% of its share capital.

2. The general risk provision shall be withdrawn at 1.5% difference in the balance of risk assets at the end of the period, amounting to RMB1,298 million.

With the above profit distribution, as at 31 December 2018, the general risk provision amounted to RMB39,850 million; the balance of undistributed profit amounted to RMB95,037 million.

3. With a comprehensive consideration of the returns on shareholders' investment, requirements of regulatory authorities for the capital adequacy ratio and sustainable development of the Bank's business, in addition to the above statutory profit distribution, based on the total share capital of 17,170,411,366 of the Bank as at 31 December 2018, cash dividends of RMB1.45 (including tax) were distributed for every 10 shares, with total cash dividends of RMB2,490 million. After the cash dividends were distributed, the remaining undistributed profit of the Bank amounted to RMB92,547 million.

III. 2017 Annual Profit Distribution Proposal

In 2017, the Bank's audited net profit attributable to shareholders of the parent company amounted to RMB23,189 million and the profit available for distribution amounted to RMB83,745 million.

Based on the above profit situations and the relevant provisions of the State, the Bank made the following profit distribution in 2017:

1. The Bank did not appropriate any statutory surplus reserve as the balance of its statutory surplus reserve had exceed 50% of its share capital.

2. The general risk provision shall be withdrawn at 1.5% difference in the balance of risk assets at the end of the period, amounting to RMB4,084 million.

With the above profit distribution, as at 31 December 2017, the general risk provision amounted to RMB38,552 million; the balance of undistributed profit amounted to RMB79,661 million.

3. With a comprehensive consideration of the returns on shareholders' investment, requirements of regulatory authorities for the capital adequacy ratio and sustainable development of the Bank's business, in addition to the above statutory profit distribution, based on the total share capital of 17,170,411,366 of the Bank as at 31 December 2017, cash dividends of RMB1.36 (including tax) were distributed for every 10 shares, with total cash dividends of RMB2,335 million. After the cash dividends were distributed, the remaining undistributed profit of the Bank amounted to RMB77,326 million.

4.1.3 Table of cash dividends for ordinary shares in recent three years

(In RMB million)

Dividend-receiving year	Amount of cash dividends (including tax)	Net profit attributable to shareholders of the Bank in the dividend-receiving year	Proportion accounting for net profit attributable to shareholders of the Bank	Amount of cash dividends in other ways	Proportion of cash dividends in other ways
2019	4,230	28,195	15.00%	Not applicable	Not applicable
2018	2,490	24,818	10.03%	Not applicable	Not applicable
2017	2,335	23,189	10.07%	Not applicable	Not applicable

4.1.4 During the reporting period, the Bank has profits and the parent company has positive undistributed profits, however, the pre-plan for cash dividends distribution is not proposed

□Applicable √ Not applicable

4.2 Pre-plan of profit distribution or capital reserve converted into share capital

√ Applicable □ Not applicable

Number of bonus shares per 10 ordinary shares (share)	-
Number of dividends per 10 ordinary shares (RMB) (including tax)	2.18
Number of shares converted by capital reserve per 10 ordinary shares (share)	-
Base of share capital in distribution pre-plan (share)	19,405,918,198
Total cash dividends (RMB) (including tax)	4,230,490,167
Distributable profit (RMB)	119,869,897,209
Proportion of cash dividends to total profit distribution	100%
Conditions of the cash dividends	
If the Company has developed to a mature stage and there are major capital expenditure arrangements, when distributing profits, the proportion of cash dividends to the profit distribution shall be at least 40%.	
Description of details on pre-plan of profit distribution or capital reserve converted into share capital	
2019 annual profit distribution pre-plan of Ping An Bank Co., Ltd.: based on the total share capital of 19,405,918,198 of the Bank as at 31 December 2019, cash dividends of RMB2.18 (including tax) were distributed to all shareholders for every 10 shares. There was no proposal to issue bonus shares or to convert public reserve to share capital. The pre-plan shall be reviewed and approved by the Bank at the 2019 Annual Shareholders' General Meeting.	

4.3 Performance of commitment matters

4.3.1 Commitments that have been fulfilled during the reporting period and have not yet been fulfilled as at the end of the reporting period by the Company, shareholders, actual controllers, purchasers, directors, supervisors, senior managements or other related parties

√ Applicable □ Not applicable

Commitment causes	Commitment type	Commitment party	Contents of commitment	Time of commitment	Duration of commitment	Performance
Commitment made during the asset reorganisation	Commitment on competition in the same business, related party transaction and independence	Ping An Insurance (Group) Company of China, Ltd.	Ping An intends to subscribe 1,638,336,654 shares issued by the Bank in a non-public manner (this major asset reorganisation) with 90.75% of its original shares of Ping An Bank and the cash of RMB2,690,052,300: 1. After the completion of this major asset reorganisation, during the period of Ping An as a controlling shareholder of Shenzhen Development Bank, if Ping An and other enterprises controlled by Ping An intend to engage in or substantially get the same business or commercial opportunities as those of Shenzhen Development Bank in the future, because the assets and business formed by such business or commercial opportunities may constitute a potential competition in the same business with Shenzhen Development Bank, Ping An and other enterprises controlled by Ping An will not engage in the same or similar business as that of Shenzhen Development Bank, to avoid a direct or indirect competition with the business operation of Shenzhen Development Bank.	29 July 2011	Long-term	Performance in progress

Commitment causes	Commitment type	Commitment party	Contents of commitment	Time of commitment	Duration of commitment	Performance
			2. After the completion of this major asset reorganisation, for matters that occur between Ping An and other enterprises controlled by Ping An and Shenzhen Development Bank and constitute a related party transaction of Shenzhen Development Bank, by following the principle of openness, fairness and impartiality of market transactions, Ping An and other enterprises controlled by Ping An will perform transactions with Shenzhen Development Bank at a fair and reasonable market price, and fulfil the decision-making processes in accordance with the provisions of relevant laws, regulations and normative documents and fulfil the obligation of information disclosure according to the law. Ping An guarantees that Ping An and other enterprises controlled by Ping An will not obtain any improper benefits or make Shenzhen Development Bank undertake any unfair obligation through the transactions with Shenzhen Development Bank. 3. After the completion of this major asset reorganisation, during the period of Ping An as a controlling shareholder of Shenzhen Development Bank, Ping An will maintain the independence of Shenzhen Development Bank and ensure that the personnel, assets, finance, organisation and business of Shenzhen Development Bank are independent of those of Ping An and other enterprises controlled by Ping An.			

Commitment causes	Commitment type	Commitment party	Contents of commitment	Time of commitment	Duration of commitment	Performance
Other commitments made for medium and small shareholders of the Company	Other commitments	The Bank	The Company has not made a performance commitment for the preference share issue. The Company will take effective measures to improve the use efficiency of funds raised to further enhance the profitability of the Company, thereby minimising the impact of the preference share issue on the return to ordinary shareholders and fully protecting the legitimate rights and interests of shareholders of the Company, especially the minority shareholders.	14 March 2016	Long-term	Performance in progress
If the commitments are performed timely	Yes					
Specific reasons of failing to complete the performance and next plan (if any)	Not applicable					

4.3.2 If the profit forecast can be carried out for the Company's assets or projects and the reporting period is within the period of profit forecast, the Company shall explain whether the assets and projects can realise the original profit forecast and the reasons.

□Applicable √ Not applicable

4.4 Occupation of funds of the listed company for non-operating purposes by controlling shareholders and their related parties

During the reporting period, the Bank had no situation that the controlling shareholders and other related parties occupy the funds of the Bank.

4.5 Special instructions and independent opinions of independent directors on the funds occupation and external guarantee of the related parties of the Bank

The Bank had no situation that the controlling shareholders and other related parties occupy the funds of the Bank during the reporting period or during the previous period but continued into the reporting period.

The guarantee business is one of the Bank's conventional banking businesses approved by the relevant regulatory authorities. The Bank attaches great importance to the risk management of the business and strictly implements the relevant operation procedures and approval procedures, so that the risks of external guarantee business are effectively controlled. During the reporting period, the Bank had no other significant guarantee businesses that need to be disclosed except for the financial guarantee businesses within the scope of business approved by the relevant regulatory authorities.

4.6 Description of the Board of Directors, Board of Supervisors and independent directors (if any) on the "non-standard audit report" issued by the accounting firm during the reporting period

□Applicable √ Not applicable

4.7 Description of the Board of Directors, Board of Supervisors and independent directors (if any) on the "non-standard audit report" issued by the accounting firm during the reporting period

√ Applicable □ Not applicable

See "II. Summary of Significant Accounting Policies and Accounting Estimates 36. Changes in Significant Accounting Policies" in "Section X Financial Report" for details.

4.8 Reason for retrospective restatement to correct major accounting errors during the reporting period

□Applicable √ Not applicable

4.9 Reason for changes in scope of the consolidated financial statements as compared to the financial report for last year

□Applicable √ Not applicable

4.10 Employment of intermediary agencies

4.10.1 Employment of accounting firm for audit of annual financial reports

Currently appointed accounting firm

Name of domestic accounting firm	PricewaterhouseCoopers Zhong Tian LLP
Remuneration of domestic accounting firm	RMB10,630,000
Duration of audit service provided by domestic accounting firm	7 years
Names of CPAs of domestic accounting firm	Chen Anqiang and Gan Lili
Name of foreign accounting firm (if any)	Not applicable
Remuneration of foreign accounting firm (if any)	Not applicable
Duration of audit service provided by foreign accounting firm (if any)	Not applicable
Name of CPA of foreign accounting firm (if any)	Not applicable

Whether the employment of the accounting firm shall be changed during the current period
□Yes √No

Whether the employment of the accounting firm shall be changed during the audit
□Yes √No

4.10.2 Employment of accounting firm, financial consultant and sponsor for internal control audit

Name of accounting firm for internal control audit	PricewaterhouseCoopers Zhong Tian LLP
Remuneration of accounting firm for internal control audit	RMB1,630,000
Name of financial consultant	Not applicable
Remuneration of financial consultant	Not applicable
Name of sponsor	CITIC Securities Company Limited, Ping An Securities Limited
Remuneration of sponsor	RMB70 million (including sponsor's fee and underwriting fee)

4.11 Suspension in trading or delisting after the disclosure of annual report
□Applicable √ Not applicable

4.12 No relevant matter of bankruptcy reorganisation
□Applicable √ Not applicable

During the reporting period, there was no relevant matter of bankruptcy reorganisation for the Bank.

4.13 Major litigation and arbitration matters

In 2019, there was no litigation and arbitration matter that had significant impact on the operation for the Bank. At the end of 2019, there were 454 pending litigations in which the Bank acted as the prosecuted party, involving an amount of RMB2,367 million.

4.14 Punishment and rectification

The Bank and its directors, supervisors, senior managements, controlling shareholders, and actual controllers were not investigated by the competent authorities, subject to coercive measures by the judiciary authorities or discipline inspection departments, transferred to the judiciary authorities or investigated for criminal responsibility, investigated or punished by the China Securities Regulatory Commission, banned from entering the securities market, identified as inappropriate candidates, and publicly condemned by the stock exchanges during the reporting period. The Bank was not imposed with penalties that exerted significant impact on its operation by other regulators.

4.15 Integrity conditions of the Company and its controlling shareholders

During the reporting period, there was no case where the effective judgement of the court was not fulfilled and a large amount of debt was due and unpaid for the Company and its controlling shareholders.

4.16 During the reporting period, there were no equity incentive plan, employee stock ownership plan or incentive measures for other employees and their implementation for the Bank.

4.17 Matters on major related party transactions

1 See "VIII. Related Party Relationships and Transactions" in "Section X Financial Report" for details of "transactions between the Bank and Ping An and its related parties", "transactions between the Bank and its major shareholders and their related parties", "main transactions between the Bank and key management personnel" and "main transactions between the Bank and the units of key management personnel and associates".

2 Implementation of *Announcement on Continuous Daily Related Party Transactions of Ping An Bank Co., Ltd. with Ping An Group*

On 29 June 2017, the Bank reviewed and approved the *Proposal on Continuous Daily Related Party Transactions of Ping An Bank Co., Ltd. with Ping An Group* at the 2016 Annual General Meeting.
(1) At the end of 2019, the amount of credit related party transactions of Ping An and its subsidiaries approved by the Bank was RMB93,281 million and the credit balance was RMB32,285 million.
(2) At the end of 2019, the trade finance under the credit insurance amounted to RMB0 and the letter of guarantee under comprehensive financial business amounted to RMB15,000 million, and the platform financing under performance guaranty insurance amounted to RMB0.
(3) At the end of 2019, the amount of related party transactions for transfer of assets or assets income rights between the Bank and Ping An amounted to RMB1,292 million, and the corresponding service and management fees amounted to RMB6 million.
(4) At the end of 2019, the borrowing interest expenses from the inter-bank financing and the issue of negotiable interbank certificates of deposits transactions with Ping An Group amounted to RMB983 million, and the lending interest income was RMB0.
(5) At the end of 2019, the amount of connected transactions in relation to the acquisition of corporate credit-based assets or right of return on assets held by Ping An Group in proprietary funds by the Bank in inter-bank borrowing and proprietary funds (including investment principal, interest income, etc.) reached RMB1,112 million, and the amount of connected transactions in relation to the Bank's transfer of its corporate credit-based assets or right of return on assets held in inter-bank borrowing and proprietary funds to be held by Ping An Group in proprietary funds (including investment principal, service fee income, etc.) amounted to RMB0. The amount of connected transactions (including management fees expense, investment consulting fees expense, etc.) in relation to the acquisition of or investment in the active investment management products of Ping An Group (including asset management plan, trust plan, insurance debts plan, etc.) by the Bank in inter-bank borrowing and proprietary funds was RMB74 million, and the amount of connected transactions in relation to the Bank's transfer of its active investment management products of Ping An Group (including asset management plan, trust plan, insurance debts plan, etc.) held in inter-bank borrowing and proprietary funds to be held by Ping An Group in proprietary funds (including investment principal, service fee income, etc.) was RMB0.
(6) At the end of 2019, the amount of connected transactions (including but not limited to interest income / expense, service fee income / expense, management fee income / expense, consultancy fee income / expense) in relation to the investment in the wealth management products of Ping An Group (including products under the capital market, debt, equity, financial derivatives and other categories) by the Bank in wealth funds was RMB1,593 million; the amount of connected transactions (including but not limited to interest income / expense, service fee income / expense, management fee income / expense, consultancy fee income / expense) in relation to the inter-bank asset and liability business between the Bank and Ping An Group (including inter-bank deposits, inter-bank lending, inter-bank borrowing, bond trading, bills business, etc.) was RMB449 million.
(7) At the end of 2019, the amount of connected transactions (including but not limited to interest income / expense, service fee income / expense, management fee income / expense, consultancy fee income / expense) arising from the financial derivatives business (including but not limited to various types of forward, swap, futures, options and precious metals business) with Ping An Group was RMB1,594 million.
(8) At the end of 2019, the amount of connected transactions (including but not limited to interest income / expense, service fee income / expense, management fee income / expense, consultancy fee income / expense) arising from the entrusted investment business with Ping An Group was RMB42 million.
(9) At the end of 2019, the agency services fees for insurance products of Ping An Group, other banks' products (including asset management plan, trust plan, etc.) and agency marketing was RMB3,820 million.
(10) At the end of 2019, the outsourcing services and intermediary service fees for business outsourcing, IT outsourcing and intermediary services with Ping An Group were RMB3,242 million.
The actual amount of each of the aforesaid business did not exceed the maximum estimated limit of the continuing connected transaction set out in the *Resolution of Ping An Bank Co., Ltd. on the Continuing Connected Transactions with Ping An Group* approved by the 2016 Annual General Meeting.

3 Disclosure of major connected transactions in the interim report which is available for inspection in related website
√ Applicable □ Not applicable

During the reporting period, the Board of the Bank approved several proposals such as *Proposal on Related Transaction with China Electric Huirong Commercial Factoring (Shenzhen) Co., Ltd., Proposal on Related Transaction with Ping An International Financial Leasing Co., Ltd., Proposal on Related Transaction with Jiutong Jiye Investment Co., Ltd.* and *Proposal on Related Transaction with Ping An Securities Co., Ltd.*

Please refer to the *Notice about Related Transactions of Ping An Bank Co., Ltd.* dated 23 July, 24 September, 6 November and 29 November of 2019 published on *China Securities Journal*, *Securities Times*, *Shanghai Securities News*, *Securities Daily* and on the website of CNINFO (http://www.cninfo.com.cn) for further information.

4.18 Material contracts and their performance

1. Major entrustment, underwriting, lease: there was no major entrustment, underwriting, lease during the reporting period.
2. Material guarantee: apart from the guarantee business within its operating scope approved by the CBIRC, the Bank had no other material guarantee.
3. Other material contracts and their performance: the Bank had no material contract dispute during the reporting period.

4.19 Material entrusted funding and entrusted investments

During the reporting period, the Bank had no entrusted funding and entrusted investments items out of the scope of normal businesses. See "III. Notes to key items in the financial statements - Note 7. Financial assets held for trading/Note 8. Investment on debts/Note 9. Other investment on debts" and "VII. Risk disclosure - Note 1. Credit risk" in "Section X Financial Report" for specific information about the Bank's entrusted funding and entrusted investments.

4.20 Other significant events

1. The Bank fully redeemed 10-year tier 2 capital bonds of RMB9 billion and RMB6 billion on 7 March 2019 and 10 April 2019 respectively. On 27 May 2019, the Bank fully redeemed 15-year (10+5) hybrid capital bonds of RMB1.5 billion.

2. On 25 April 2019, with approvals from the CBIRC and the PBoC, the Bank issued tier 2 capital bonds (hereinafter referred to as the "Bonds") totalling RMB30 billion on the National Interbank Bond Market. These Bonds have a total size of RMB30 billion, and have 10 years to maturity at fixed coupon rates. The Company has the option to redeem these bonds at the end of the fifth year on certain conditions and the coupon rate is 4.55%. The funds raised by the Bonds will be added to tier 2 capital of the Bank according to applicable laws and the approval of the regulators.

3. On 25 January 2019, the Bank makes a public issuance of RMB26 billion of convertible corporate bonds. On 30 January 2019, the Bank received the *Security Registration Certificate* issued by Shenzhen Branch of China Securities Depository and Clearing Corporation Limited ("CSDC"). With approval from the Shenzhen Stock Exchange, the convertible corporate bonds issued by the Bank to the public were listed and traded at the Exchange on 18 February 2019.

"Ping Yin Convertible Bonds" entered the conversion period on 25 July 2019. From 25 July 2019 to 20 August 2019, since the closing price of the Bank's share was no less than 120% (inclusive) of the current conversion price for at least 15 trading days in 30 consecutive trading days, the conditional redemption clause stipulated in the *Prospectus of Convertible Bonds* was satisfied. In accordance with the *Proposal of Ping An Bank Co., Ltd. on Early Redemption of "Ping Yin Convertible Bonds"* approved on 20 August 2019 at the 27th meeting of the 10th session of the Board of the Bank, the Bank decided to exercise the right to redeem "Ping Yin Convertible Bonds" registered after the closing of one trading day before the redemption date (19 September 2019). As at 18 September 2019 ended closing, the conversion of "Ping Yin Convertible Bonds" accounted for 99.9963% of total issuance, with 9,589 convertible bonds not converted. In accordance with the conditional redemption clause stipulated in the *Prospectus of Convertible Bonds*, all "Ping Yin Convertible Bonds" not converted were redeemed at their par value plus the current accrued interest. The redeemed amount was 9,589, with redemption price of RMB100.13 per share (par value plus the current accrued interest (including tax), the current rate was 0.20%). "Ping Yin Convertible Bonds" (Bond code: 127010) were delisted on the Shenzhen Stock Exchange as from 27 September 2019.

4. In December 2019, with approvals from the CBIRC and the PBoC, the Bank completed the issuance of "The first tranche of capital bonds without fixed terms of Ping An Bank Co., Ltd. of 2019" (hereinafter referred to as the "Bonds") on the National Interbank Bond Market. The Bonds were tracked by way of bookkeeping on 24 December 2019 and relevant issuance was completed on 26 December 2019. The Bonds amounted to RMB20 billion at a coupon rate of 4.10% for the first 5 years, which shall be adjusted every 5 years. The Company has the option to redeem these bonds in the 5th year and every interest payment date thereafter on certain conditions. The funds raised by the Bonds will be added to other tier 1 capital of the Bank according to applicable laws and the approval of the regulators.

Description of major events	Date of disclosure	Index of website disclosing temporary reports
Tier 2 capital bonds, hybrid capital bonds, capital bonds without fixed terms	9 March, 12 April, 19 April, 30 April, 30 May, 20 December, 27 December of 2019	*China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily* and CNINFO (http://www.cninfo.com.cn)
Announcements on conversion, redemption, suspension of trading, and delisting of "Ping Yin Convertible Bonds"	From 22 July 2019 to 27 September 2019	

4.21 Significant events of subsidiaries of the Company

The *Proposal on Establishing Subsidiaries for Asset Management* was approved on 6 June 2018 at the 18th meeting by the 10th Board of Directors of the Bank. On 31 December 2019, the Bank received the *Approval of the CBIRC on Establishment of Ping An Wealth Management Co., Ltd.* (Yin Bao Jian Fu [2019] No. 1197), and was approved to incorporate Ping An Wealth Management Co., Ltd. Once the preparatory work is completed, the Bank will apply to the CBIRC for the opening of business in accordance with relevant regulations and procedures.
Please refer to relevant announcements dated 7 June 2018 and 2 January 2020 published on *China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily* and on the website of CNINFO (http://www.cninfo.com.cn) for further information.

4.22. Social responsibilities

4.22.1 Social responsibility performance

See the *2019 Sustainable Development Report of Ping An Bank Co., Ltd.* published by the Bank on the CNINFO (http://www.cninfo.com.cn) on 14 February 2020 for further information.

4.22.2 Performance of social responsibility in targeted poverty alleviation

√ Applicable □ Not applicable

(1) Planning of targeted poverty alleviation

The Bank's "Village Official Project" focused on targeted poverty alleviation with assistance of industrial power, established a closed loop of poverty alleviation consisting of "educational improvement training, achievement of economic vitality growth through industrial development, development of one product for one village, and coordination of production with the marketing strategy" via models of "loans for industrial poverty alleviation + government bonds for poverty alleviation + corporate bonds for poverty alleviation + poverty alleviation through consumption + poverty alleviation through residential projects + educational improvement training" to fully support the construction of local poverty alleviation infrastructure and development of characteristic industries and achieve stable income growth for the poor.

(2) Summary of annual targeted poverty alleviation

Since 2018, the Bank has invested RMB12,554 million of funds for industrial poverty alleviation in Yunnan, Guangxi, Guizhou, Sichuan, Shaanxi, Hainan, Chongqing, Hunan and Ningxia through the "Village Official Project", helping 18,000 registered impoverished people directly and benefiting 520,000 registered impoverished people. RMB8,096 million of the funds was delivered in 2019, helping 16,083 registered impoverished people directly and benefiting over 190,000 registered impoverished people indirectly.
At present, the Bank's "Village Official Project" has established a long-acting closed loop of poverty alleviation with multiple levels and diversification.

Cultivate "a faithful poverty alleviation working team" with educational improvement training. The Bank organised training courses on leadership for achieving prosperity by starting a business in poverty-stricken villages with joint efforts from China Poverty-alleviation Promotion of Volunteer Services, which cultivated 586 bellwethers for 35 counties in the whole country. The training covered new planting and breeding technologies, brand building of agricultural products, Internet sales model, and visit of planting demonstration bases for trainees to broaden their horizon and inspire ideas of achieving prosperity. In the later stage, the Bank will provide long-term guidance and financial support for excellent bellwethers of achieving prosperity and professional cooperatives with good effects of alleviating poverty. On 14 October 2019, under the guidance of Social Department and Industry Guidance Department of the State Council Leading Group Office of Poverty Alleviation and Development, the Bank undertook the "Forum on Rural Development and Poverty Alleviation", one of the series of the 2019 National Poverty Alleviation Day Forum, and invited leaders and experts in the field of poverty alleviation to conduct in-depth discussions focusing on the training of bellwethers of achieving prosperity.

Enhance the industrial base of the poverty-stricken areas by achieving economic vitality growth through industrial development. The Bank screened industrial projects that are suitable for poverty-stricken areas to provide financial support, innovatively developed various business models for industrial poverty alleviation loans, such as hydro power loans, breeding loans, planting loans and transportation loans, and supported poverty alleviation projects of core enterprises by providing loans with favourable interest rate, jointly carried out industrial poverty alleviation, introduced a modern agricultural chain to closely link planting and breeding of enterprises with the poor to help them increase income and throw off poverty and drive the industrial development of modern agriculture in poverty-stricken areas to truly transform the "resource advantage" into the "industrial advantage".

Develop the "one product for one village" programme and turn agricultural products into commodities. Focusing on agricultural products with large market potential, obvious regional characteristics, and high added value, the Bank created branded and characteristic product chains, and successfully developed several joint brands such as Ping An Orange, Ping An Fruit, Baise Mango, and Leishan Tea. Meanwhile, it also adopted technologies such as smart agriculture and commodity tracing to drive the development of the agricultural products in poverty alleviation areas. At the same time, the Bank also innovated tourism programmes for poverty alleviation, fully tapping the ecotourism resources in poverty-stricken areas. By injecting Ping An Group's financial flows into such areas, the Bank enhanced poverty-stricken areas' ability to attain self-development with unique resources, and built the brand popularity of tourism programmes for poverty alleviation.

Coordinate production with the marketing strategy and turn commodities into quick-selling products. The Bank gave full play to the advantage of "Internet +" in social poverty alleviation to build an online mall for poverty alleviation agricultural products, setting up a link between the place of origin and the dining table and bringing agricultural products from poverty-stricken areas into each family. Jointly with a well-known domestic e-commerce platform, the Bank supported the sales of poverty alleviation agricultural products through internal group purchase, e-commerce platforms and the poverty alleviation mall on Ping An Bank. At the end of 2019, 126 poverty alleviation agricultural products from 28 impoverished counties of 17 provinces have been on sale on the poverty alleviation mall of Ping An, deriving sales income of RMB49.054 million for the poor in 2019.

Relying on the overall resource of Ping An Group, the Bank carried out the project of improving medical level and introducing teaching resources to ensure that every sick could get treated and every kid could get educated and make efforts to solve the prominent problems of rural poor people to meet the basic needs of food and clothing and have access to compulsory education, basic medical care and safe housing. In addition, the Bank delegated 8 of its managerial staff to carry out poverty alleviation activities in Yangtou Village in Zijin County of Guangdong, Heilu Village of Yunnan, Lanxun Village of Hainan, Xiageer Village of Hebei, and Guanshangjie Village of Shaanxi. They not only ate and lived together with the villagers, but also supported the poverty-stricken work in these villages with the concrete deeds, helping the villagers to get rid of poverty based on the Bank's technology, knowledge, and operation philosophy.

(3) Results of targeted poverty alleviation

Indicator	Unit	Quantity/implementation
I. General Situation		
Including: 1. Funds	RMB10,000	450,110
2. Goods and materials converted into cash	RMB10,000	-
3. Number of listed poverty-stricken persons who have got the help and got rid of poverty	Person	6,308
II. Investment of Items		
1. Poverty alleviation through the development of industries		
Including: 1.1 Types of poverty alleviation projects through the development of industries		The Bank implemented programmes in the areas of e-commerce, tourism, labour service, and village collective economy for poverty alleviation through "hydro power loans", "planting loans", "breeding loans", "transportation loans", "bonds for poverty alleviation"
1.2 Number of poverty alleviation projects through the development of industries	Nos	20
1.3 Amount of investment in poverty alleviation projects through the development of industries	RMB10,000	449,680
1.4 Number of listed poverty-stricken persons who have got the help and got rid of poverty	Person	6,086
2. Poverty alleviation through transfer employment		
Including: 2.1 Amount of investment in vocational skills training	RMB10,000	5
2.2 Number of persons participating in the vocational skills training	Person - time	80
2.3 Number of listed poverty-stricken rural households who have got the help and achieved the employment	Person	47
3. Poverty alleviation by relocating in other places		
Including: 3.1 Number of persons being employed in relocated households	Person	-
4. Poverty alleviation through education		
Including: 4.1 Amount of investment in funding poor students	RMB10,000	13
4.2 Number of poor students being funded	Person	328
4.3 Amount of investment in improving educational resources in poor areas	RMB10,000	24
5. Poverty alleviation through health care		
Including: 5.1 Amount of investment in medical and health resources in poor areas	RMB10,000	-
6. Poverty alleviation through ecological protection		
Including: 6.1 Types of projects		-
6.2 Amount of investment	RMB10,000	-
7. Miscellaneous social security measures		
Including: 7.1 Amount of investment in "left-behind women, children and the elderly"	RMB10,000	2
7.2 Number of "left-behind women, children and the elderly" being helped	Person	-
7.3 Amount of investment in poor disabled persons	RMB10,000	1
7.4 Number of poor disabled persons being helped	Person	20

Indicator	Unit	Quantity/implementation
II. Investment of Items		
8. Poverty alleviation through social work		
Including: 8.1 Amount of investment in poverty alleviation cooperation of the eastern and western regions	RMB10,000	-
8.2 Amount of investment in targeted poverty alleviation work	RMB10,000	99
8.3 Amount of investment in public welfare funds for poverty alleviation	RMB10,000	4
9. Other projects		
Including: 9.1. Number of projects	Nos	3
9.2 Amount of investment	RMB10,000	282
9.3 Number of listed poverty-stricken persons who have got the help and got rid of poverty	Person	222
III. Awards (content, level)		
Awards related to poverty alleviation		• Included in the *2018 Outstanding Cases of Targeted Poverty Alleviation by Chinese Enterprises by Sector* published by the State Council Leading Group Office of Poverty Alleviation and Development; • Won the *Award for Contribution to Targeted Poverty Alleviation* from China Banking Association; • Won the *Excellence Prize of 2018 Shenzhen Financial Innovation Award*; • Won the *2019 Typical Case of Targeted Poverty Alleviation by Chinese Enterprises* in the 21st Century Annual Finance Summit of Asia • Won the *2019 Outstanding Cases of Poverty Alleviation by Enterprises* published by the State Council Leading Group Office of Poverty Alleviation and Development • Won the *2019 Corporate Model with New Rural Finance Brand Value* in the 17th Agricultural Finance Innovation Forum; • Won the *2019 Innovative Case of the High Quality Development of Agricultural Finance of China* and *2019 Outstanding Case of Agricultural Finance Poverty Alleviation of China* in 2019 China Agricultural Finance Innovation Summit of the 11th China Economic Forward-looking Forum

Indicator	Unit	Quantity/implementation
III. Awards (content, level)		
Awards related to poverty alleviation		• *Strengthening Industry Research and Creating an Ecosystem forPoverty Alleviation with Hydropower* won the Third Prize of 2018 Key Topic Research and 2019 Excellent Financial Papers issued by the Financial Society of Shenzhen Special Economic Zone • *The Role of Commercial Banks in Poverty Alleviation* won the Excellence Award of 2018 Key Topic Research and 2019 Excellent Financial Papers issued by the Financial Society of Shenzhen Special Economic Zone

(4) Follow-up plan of targeted poverty alleviation

In the future, the Bank will continue to actively respond to the nation's call of winning the fight against poverty, steadily promote the "Village Official" Project, further expand the intellectual aids training, integrate on-line and off-line activities in a long run, compile and share standardised courseware to the outside world to help more poverty-stricken areas to develop industries in a systematic way, and carry on the rural revitalisation strategy. Through financial poverty alleviation, the Bank will contribute its efforts in industrial poverty alleviation and industrial upgrading, helping the Chinese villagers to build beautiful villages and realise beautiful life in the new era.

4.22.3 Protection of consumer rights and interests

The Bank attached great importance to the protection of consumer rights and interests and followed all the regulatory requirements to further enhance the scope and implementation the protection of consumer rights and interests and carry forward the positive energy in the financial sector.

In terms of the framework of consumer rights and interests protection, in 2019, the Bank formulated *2019 Work Plan on Consumer Rights and Interests Protection of Ping An Bank* and *2019 Work Plan of Consumer Rights and Interests Protection Committee of Ping An Bank*, to further enhance the organisation structure, institution building and internal evaluation mechanism of consumer rights and interests protection. Chairman of the Consumer Rights and Interests Protection Committee was taken by management of the Head office to take the lead in consumer rights and interests protection work across the Bank, and strengthen the whole process management of consumer rights and interests protection.

In terms of institution building, following the relevant laws and regulations and relevant regulatory requirements on consumer rights and interests protection, the Bank improved the system of consumer rights and interests protection and specified the responsibilities and obligations of all departments and institutions at all levels to build an independent and programmatic system for consumer rights and interests protection and reinforce the foundation of the Bank's consumer rights and interests protection.

The Bank actively carried out various propaganda and education activities regarding consumer rights and interests protection, with a focus on special groups' needs. It employed AI for the promotion of consumer rights and interests protection, both online and offline, and highlighted key points in these activities, which achieved good results.

While vigorously promoting "technology-driven consumer rights and interests protection", the Bank launched multiple innovative programmes on this front, such as "Intelligent consulting and complaints handling", "Intelligent voice and image recording" and "Risk prevention for payment services rendered by financial and non-financial institutions", to further protect the rights and interests of financial consumers.

4.22.4 Environment protection related works

Whether the listed company and its subsidiaries belong to the key pollutant discharging units announced by the environmental protection department
□Yes √No

4.22.5 Performance of other social responsibilities

In 2020, during the outbreak of the 2019-nCoV pneumonia epidemic, the Bank actively undertook its social responsibilities in various ways. For example, we urgently carried out a series of public welfare activities as an active support for containing the spreading of the epidemic.

A first donation of RMB30 million was made in support of the anti-epidemic action. On 26 January 2020, in support of the anti-epidemic action, the Bank announced to make our first donation of RMB30 million to Hubei Charity Federation for the procurement of anti-epidemic supplies, insurances for volunteers, protective tools, supplements for community public health utilities, and so on. In addition, policies were specially made to give relief to affected customers such as medical workers engaged in the anti-epidemic action, customers infected with the 2019-nCoV virus and customers in Hubei who were unable to make repayments as a result of the prevention and control measures. Those customers were allowed to make repayments later or pay less interest without leaving any bad credit records.

Pocket Finance helped SMEs with mobile office solutions. To meet the needs of enterprises to carry on operation during the outbreak, our Pocket Finance provided more convenient mobile office services for enterprises to carry out trainings, attendance checking, payroll payment and other jobs at home. 7*24-hour online operation services were provided via the Air Counter by Pocket Finance. Fee deductions were also granted for many banking services to alleviate the burden on enterprises and support their operation and development.

Data-based loans assisted small- and medium-sized pharmacies in online financing. For medium-, small- or even mini-sized pharmacies, we provided industry-wide integrated and comprehensive online financial service plans. The data-based financing services specific for pharmacies are upgraded all around with “industry-specific data + online operations + intelligent risk control” to meet the needs of pharmacy customers, strengthen the online services for enterprises in the pharmaceutical industry, improve the convenient service level and support the real economy.

Section V Changes in Shares and Shareholders

5.1. Changes in shares

5.1.1 Statement of changes in shares

(Unit: Share)

Type of shares	Before change		Change (+, -)					After change	
	Number of bonds	Percentage (%)	Issue of new shares	Bonus issue	Transfer from reserve	Others	Subtotal	Number of bonds	Percentage (%)
I. Selling-restricted shares	164,593	Around 0	-	-	-	925	925	165,518	Around 0
1. Shareholding of the state	-	-	-	-	-	-	-	-	-
2. Shareholding of state-owned legal entity	-	-	-	-	-	-	-	-	-
3. Shareholding of other domestic investors	164,593	Around 0	-	-	-	925	925	165,518	Around 0
Including: Shareholding of domestic legal entity	156,145	Around 0	-	-	-	-	-	156,145	Around 0
Shareholding of domestic natural person	8,448	Around 0	-	-	-	925	925	9,373	Around 0
4. Shareholding of foreign investors	-	-	-	-	-	-	-	-	-
Including: Shareholding of foreign corporation	-	-	-	-	-	-	-	-	-
Shareholding of foreign natural person	-	-	-	-	-	-	-	-	-
II. Selling-unrestricted shares	17,170,246,773	Around 100	-	-	-	2,235,505,907	2,235,505,907	19,405,752,680	Around 100
1. RMB ordinary shares	17,170,246,773	Around 100	-	-	-	2,235,505,907	2,235,505,907	19,405,752,680	Around 100
2. Domestically listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
III. Total	17,170,411,366	100	-	-	-	2,235,506,832	2,235,506,832	19,405,918,198	100

Reason for the change in shares
√ Applicable □ Not applicable

I. During the reporting period, the change in the shares of the selling-restricted shares of the executives led to an increase of 925 shares held by the Bank's domestic natural persons. The Bank's selling-restricted shares increased by 925 shares. II. During the reporting period, the Bank made a public issuance of convertible corporate bonds amounting to RMB26 billion, and exercised the conditional redemption right. After the redemption, the total share capital of the Bank increased by 2,235,506,832 shares.

Approval for the change in shares
□Applicable √ Not applicable

Transfer registration related to shares change
□Applicable √ Not applicable

Progress for share repurchase
□Applicable √ Not applicable

Progress for reducing repurchased shares by means of centralised bidding
□Applicable √ Not applicable

Effect of shares change on the financial indicators such as basic and diluted earnings per share and net assets per share attributable to ordinary shareholders of the Company in the latest fiscal year and period
√ Applicable □ Not applicable

During the reporting period, the total share capital of the Bank increased from 17,170,411,366 shares to 19,405,918,198 shares. Effect of shares change on the financial indicators such as basic and diluted earnings per share and net assets per share attributable to ordinary shareholders of the Company in the latest fiscal year and period are as follows: 1. Basic earnings per share for 2019 were RMB1.54, diluted earnings per share for 2019 were RMB1.45, and net assets per share attributable to ordinary shareholders of the Company at the end of 2019 were RMB14.07. 2. Basic earnings per share for 2018 were RMB1.39, diluted earnings per share for 2018 were RMB1.39, and net assets per share attributable to ordinary shareholders of the Company at the end of 2018 were RMB12.82.

Other disclosure deemed necessary by the Company or required by the securities authorities
□Applicable √ Not applicable

5.1.2 Statement of changes in selling-restricted shares

(Unit: Share)

Name of shareholder	Number of selling-restricted shares at the beginning of the year	Number of shares unlocked in the current year	Number of increased selling-restricted shares in the current year	Number of selling-restricted shares at the end of the year	Reason for sales restriction	Unlocking date
Shenzhen Tefa Communications Development Corporation	113,089	-	-	113,089	Share reform	-
Shenzhen Travel Association	30,504	-	-	30,504	Share reform	-
Shenzhen Futian District Agriculture Development Service Company Yannan Agricultural Machine Agency	12,552	-	-	12,552	Share reform	-
Total	156,145	-	-	156,145	-	-

Note: 1. The lock-up period of the selling-restricted shares held by Shenzhen Tefa Communications Development Corporation, Shenzhen Travel Association and Shenzhen Futian District Agriculture Development Service Company Yannan Agricultural Machine Agency expired on 20 June 2008, but the relevant shareholders has no yet delegated the Company to apply for unlocking.
2. The above figures do not include 9,373 locked shares held by directors and senior management in virtue of their capacity as senior management.

5.2 The issuance and listing of securities

Conditions on securities issuance (excluding preference shares) during the reporting period
√ Applicable □ Not applicable

Convertible corporate bonds	Date of issue	Issue price (or interest rate)	Issuing number	Listing date	Trading number approved for listing	Transaction termination date
Ping Yin Convertible Bonds	21 January 2019	Issue price: a face value of RMB100 per bond Nominal interest rate: 0.2% for the first year, 0.8% for the second year, 1.5% for the third year, 2.3% for the fourth year, 3.2% for the fifth year and 4.0% for the sixth year	260,000,000	18 February 2019	260,000,000	19 September 2019

On 25 January 2019, the Bank makes a public issuance of RMB26 billion of convertible corporate bonds. On 30 January 2019, the Bank received the *Security Registration Certificate* issued by Shenzhen Branch of China Securities Depository and Clearing Corporation Limited ("CSDC"). With approval from the Shenzhen Stock Exchange, the convertible corporate bonds issued by the Bank to the public were listed and traded at the Exchange on 18 February 2019.

"Ping Yin Convertible Bonds" entered the conversion period on 25 July 2019. From 25 July 2019 to 20 August 2019, since the closing price of the Bank's share was no less than 120% (inclusive) of the current conversion price for at least 15 trading days in 30 consecutive trading days, the conditional redemption clause stipulated in the *Prospectus of Convertible Bonds* was satisfied. In accordance with the *Proposal of Ping An Bank Co., Ltd. on Early Redemption of "Ping Yin Convertible Bonds"* approved on 20 August 2019 at the 27th meeting of the 10th session of the Board, the Bank decided to exercise the right to redeem "Ping Yin Convertible Bonds" registered after the closing of one trading day before the redemption date (19 September 2019). As at 18 September 2019 ended closing, the conversion of "Ping Yin Convertible Bonds" accounted for 99.9963% of total issuance, with 9,589 convertible bonds not converted. In accordance with the conditional redemption clause stipulated in the *Prospectus of Convertible Bonds*, all "Ping Yin Convertible Bonds" not converted were redeemed at their par value plus the current accrued interest. The redeemed amount was 9,589, with redemption price of RMB100.13 per share (par value plus the current accrued interest (including tax), the current rate was 0.20%). "Ping Yin Convertible Bonds" (Bond code: 127010) were delisted on the Shenzhen Stock Exchange as from 27 September 2019.

Description of total number of shares of the Company, changes in shareholder structure and changes in the Company's asset and liability structure
√ Applicable □ Not applicable

During the reporting period, the Bank made a public issuance of RMB 26 billion of convertible corporate bonds, and exercised the right to redeem the convertible corporate bonds. After the redemption, the total share capital of the Bank increased by 2,235,506,832 shares from 17,170,411,366 shares to 19,405,918,198 shares. For the shareholder structure of the Bank, please refer to the "Statement of Changes in Shares".
At the end of 2019, the Bank's shareholders' equity was RMB312,983 million, representing an increase of RMB72,941 million or 30.4% over the end of last year; the Bank's shareholders' equity attributable to ordinary shareholders was RMB273,035 million, representing an increase of RMB52,946 million or 24.1% over the end of last year.

Shares of existing internal staff
□Applicable √ Not applicable

5.3 Shareholders and actual controllers

5.3.1 Number of shareholders and shareholding conditions

(Unit: Share)

Total number of ordinary shareholders as at the end of the reporting period	322,864	Total number of ordinary shareholders as at the end of the month before the disclosure date of the annual report	340,920	Total number of preference shareholders with restored voting rights as at the end of the reporting period (if any)	-	Total number of preference shareholders with recovered voting rights as at the end of the reporting period and as at the end of the month before the disclosure date of the annual report (if any)	-

Shareholdings of the top ten shareholders

Name of shareholder	Nature of shareholder	Number of shares held at the end of the reporting period	Shareholding (%)	Changes during the reporting period	Number of selling-restricted shares	Number of selling-unrestricted shares	Pledged or frozen	
							Status of shares	Number of shares
Ping An Insurance (Group) Company of China, Ltd.-the Group -proprietary fund	Domestic legal entity	9,618,540,236	49.56	1,108,047,170	-	9,618,540,236	-	-
Hong Kong Securities Clearing Company Limited	Overseas legal entity	1,504,411,167	7.75	1,073,659,665	-	1,504,411,167	-	-
Ping An Life Insurance Company of China, Ltd. - proprietary fund	Domestic legal entity	1,186,100,488	6.11	136,637,704	-	1,186,100,488	-	-
Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance products	Domestic legal entity	440,478,714	2.27	50,742,751	-	440,478,714	-	-
China Securities Finance Corporation Limited	Domestic legal entity	429,232,688	2.21	0	-	429,232,688	-	-
Central Huijin Investment Company Limited	Domestic legal entity	216,213,000	1.11	0	-	216,213,000	-	-
China Electronics Shenzhen Company	Domestic legal entity	162,523,292	0.84	20,120,523	-	162,523,292	-	-
Henan Hongbao Corporate Management Co., Ltd.	Domestic legal entity	102,735,814	0.53	102,735,814	-	102,735,814	-	-
National Social Security Fund 117 Portfolio	Domestic legal entity	65,029,587	0.34	28,999,696	-	65,029,587	-	-
Bank of Communications - E Fund 50-Index Security Investment Fund	Domestic legal entity	60,643,555	0.31	16,499,752	-	60,643,555	-	-
Details of strategic investors or general legal persons becoming top 10 shareholders for issuing new shares (if any)	None							
Explanation of the connected relationship or acting-in-concert relationship among the above shareholders	1. Ping An Life Insurance Company of China, Ltd. is a controlled subsidiary of and acting in concert with Ping An Insurance (Group) Company of China, Ltd. "Ping An Insurance (Group) Company of China, Ltd. – the Group – proprietary fund", "Ping An Life Insurance Company of China, Ltd. – proprietary fund" and "Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance product" are related parties. 2. The Bank is not aware of any related-party relationship or parties acting in concert among other shareholders.							

Shareholdings of the top 10 selling-unrestricted shareholders			
Name of shareholder	Number of selling-unrestricted shares	Type of shares	
		Type of shares	Number of shares
Ping An Insurance (Group) Company of China, Ltd.-the Group -proprietary fund	9,618,540,236	RMB ordinary shares	9,618,540,236
Hong Kong Securities Clearing Company Limited	1,504,411,167	RMB ordinary shares	1,504,411,167
Ping An Life Insurance Company of China, Ltd. - proprietary fund	1,186,100,488	RMB ordinary shares	1,186,100,488
Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance products	440,478,714	RMB ordinary shares	440,478,714
China Securities Finance Corporation Limited	429,232,688	RMB ordinary shares	429,232,688
Central Huijin Asset Management Ltd.	216,213,000	RMB ordinary shares	216,213,000
China Electronics Shenzhen Company	162,523,292	RMB ordinary shares	162,523,292
Henan Hongbao Corporate Management Co., Ltd.	102,735,814	RMB ordinary shares	102,735,814
National Social Security Fund 117 Portfolio	65,029,587	RMB ordinary shares	65,029,587
Bank of Communications - E Fund 50-Index Security Investment Fund	60,643,555	RMB ordinary shares	60,643,555
Explanation of the connected relationship or acting-in-concert relationship among the top 10 selling-unrestricted shareholders, and between the top 10 selling-unrestricted shareholders and the top 10 shareholders	1. Ping An Life Insurance Company of China, Ltd. is a controlled subsidiary of and acting in concert with Ping An Insurance (Group) Company of China, Ltd. "Ping An Insurance (Group) Company of China, Ltd. – the Group – proprietary fund", "Ping An Life Insurance Company of China, Ltd. – proprietary fund" and "Ping An Life Insurance Company of China, Ltd. - traditional – ordinary insurance product" are related parties. 2. The Bank is not aware of any related-party relationship or parties acting in concert among other shareholders.		
Description of the shareholders who engage in securities margin trading business	Henan Hongbao Corporate Management Co., Ltd. holds 102,735,814 shares of the Bank, all of which are held through the customer credit-backed securities trading account with Huatai Securities Company Limited.		

Any of the top ten shareholders or top ten selling-unrestricted shareholders has conducted agreed repurchase during the reporting period.

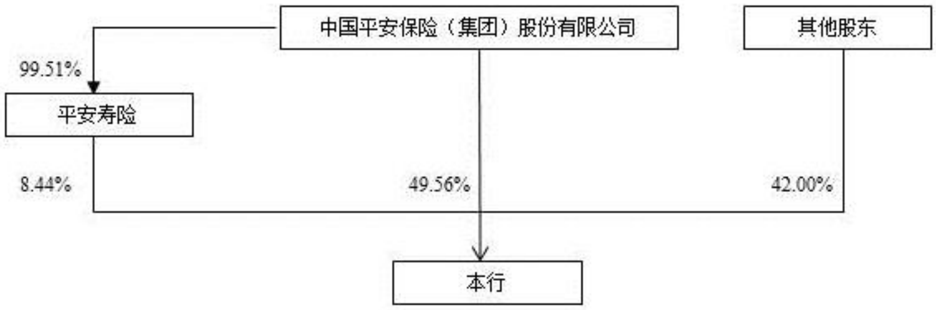
□Yes √No

5.3.2 Particulars of controlling shareholder of the Bank

Name of controlling shareholder	Legal representative	Establishment date	Organisation Code	Main business
Ping An Insurance (Group) Company of China, Ltd.	Ma Mingzhe	21 March 1988	Unified social credit code: 91440300100012316L	Investment in insurance enterprises; supervision and management of various domestic and international businesses of investment holding enterprises; conduct of insurance funds investment business; conduct of domestic and international insurance business with the approval; conduct of other businesses approved by the China Banking and Insurance Regulatory Commission and the relevant state departments.
Equity of other domestic and foreign listed companies controlled and equity participation by the controlling shareholders during the reporting period	The controlling shareholder of the Bank, Ping An Insurance (Group) Company Of China, Ltd., was listed on the Main Board of the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange. As of the reporting date, Ping An was not yet disclosed the 2019 annual report. See the *2019 Annual Report of Ping An Insurance (Group) Company Of China, Ltd.* for details.			

5.3.3 Change in the controlling shareholders of the Bank during the reporting period

The controlling shareholder of the Bank is Ping An Insurance (Group) Company of China, Ltd. During the reporting period, there was no change in the controlling shareholders of the Bank. At the end of the reporting period, Ping An Group and its controlling subsidiary Ping An Life Insurance Company of China, Ltd., as the controlling shareholders of the Bank, held 58% of the equity interests of the Bank in total, of which Ping An Group held 49.56% of the equity interests of the Bank, Ping An Life Insurance Company of China, Ltd. held 8.44% of equity interests of the Bank. Ping An Group dispatched directors to the Bank. Ping An Group was founded on 21 March 1988. Its registered address is 47F, 48F, 109F, 110F, 111F and 112F, Ping An Financial Centre, No. 5033, Yitian Road, Futian District, Shenzhen. The registered capital is RMB18,280,241,410. The legal representative is Ma Mingzhe. The scope of business includes: investment in insurance enterprises; supervision and management of various domestic and international businesses of investment holding enterprises; conduct of insurance funds investment business; conduct of domestic and international insurance business with the approval; conduct of other businesses approved by the China Insurance Regulatory Commission and the relevant state departments. With a relatively loose shareholding structure, Ping An Group has neither controlling shareholder, nor any actual controlling person or ultimate beneficiary. There is no equity interests of the Bank pledged by Ping An Group and its controlling subsidiary Ping An Life Insurance Company of China, Ltd.
A diagram showing the relationship between the Bank and its controlling shareholder is as follows:



As at 31 December 2019, shareholders who directly or indirectly held more than 5% equities of China Ping An were Charoen Pokph Group Co., Ltd. and Shenzhen Investment Holdings Co., Ltd. As of the reporting date, Ping An had not yet disclosed the 2019 annual report. See the *2019 Annual Report of Ping An Insurance (Group) Company Of China, Ltd.* for details.

5.3.4 Actual controllers

There is no actual controller for the Bank.

5.3.5 Other corporate shareholders with more than 10% shares held

None.

5.3.6 Reducing holding-shares of controlling shareholders, actual controllers, restructuring parties and other commitment units

□Applicable √ Not applicable

5.3.7 Other major shareholders prescribed by the Interim Measures for Equity Interests Management of Commercial Banks issued by CBIRC

(1) China Electronics Shenzhen Company. At the end of the reporting period, China Electronics Shenzhen Company held 0.84% of the equity interest of the Bank and dispatched directors to the Bank. China Electronics Shenzhen Company was founded on 19 May 1982. The registered address is No. 2070, 2072, Shennan Middle Road, Futian District, Shenzhen. The registered capital is RMB350 million. The legal representative is Song Jian. The scope of business includes: ordinary operations, including import and export of proprietary and outsourced goods and technology (Operating upon the document Wai Jing Mao Zheng Shen Han Zi [97] No. 1980), economic cooperation business with foreign enterprises (Operating upon the document Wai Jing Mao He Han [2001] No. 500). Sales of textiles, groceries, industry production materials (excluding gold, silver, auto mobile and hazardous chemical), petroleum products (excluding refined oil), hardware, AC electrical materials, chemical products (excluding hazardous chemical), construction materials, art crafts (excluding gold accessories); domestic sales of goods under import and export operation of the Company; labour service, information consulting, packaging service, property management, sales and rental service of self-owned properties; domestic freight forwarders; international freight forwarders; wholesale and retail of auto mobile, auto parts, engineering equipment, investment in and establishment of industries (specific projects are subject to additional approval) and start-up investment. China Electronics Corporation Information Service Co., Ltd. is the controlling shareholder of China Electronics Shenzhen Company. China Electronics Corporation is the actual controlling party and ultimate beneficiary. China Electronics Shenzhen Company does not pledge any equity interest of the Bank.

(2) Shenzhen Yingzhongtai Investment Co., Ltd. At the end of the reporting period, Shenzhen Yingzhongtai Investment Co., Ltd. held 10,200 shares of the equity interest of the Bank and dispatched supervisor to the Bank. Shenzhen Yingzhongtai Investment Co., Ltd. was founded on 29 December 2001. The registered address is Room 102 (Office), B46 Longxiang Villa, Longxiang North Road, Fuyong Street, Bao'an District, Shenzhen. The legal representative is Che Guobao. The registered capital is RMB10 million. The scope of business includes: investment and establishment of industries (specific projects are subject to additional approval); domestic commerce, goods supply and marketing (excluding monopolised goods and voice control products). Mr. Che Guobao is the controlling shareholder and the actual controlling person of Shenzhen Yingzhongtai Investment Co., Ltd. Mr. Che Guobao and Mr. Che Guoquan are the ultimate beneficiaries of Shenzhen Yingzhongtai Investment Co., Ltd. Shenzhen Yingzhongtai Investment Co., Ltd. does not pledge any equity interest of the Bank.

Section VI Preference Shares

6.1 Issuance and listing of preference shares in the recent three years at the end of the reporting period

Mode of issue	Date of issue	Issue price (RMB/share)	Dividend yield	Issuing number (share)	Listing date	Trading number approved for listing (share)	Termination date of listing	Query index of use progress of funds raised	Query index of changes of funds raised
Non-public issuance	7 March 2016	100	4.37%	200,000,000	25 March 2016	200,000,000	-	See the *Special Report on the Deposit and Actual Use of Fund Raised of Ping An Bank Co., Ltd. in 2016* published by the Bank on the CNINFO (http://www.cninfo.com.cn) on 17 March 2017 for details.	-

6.2 Number and shareholdings of preference shareholders of the Company

(Unit: Share)

Total number of preference shareholders at the end of the reporting period	15	Total number of preference shareholders at the end of the month before the release of the annual report	15					
Shareholding of shareholders with more than 5% preference shares or the top 10 preference shareholders								
Name of shareholder	Nature of shareholder	Shareholding (%)	Number of shares held at the end of the reporting period	Changes during the reporting period	Number of selling-restricted shares	Number of selling-unrestricted shares	Pledged or frozen: Status of shares	Pledged or frozen: Number of shares
Ping An Life Insurance Company of China, Ltd. - dividend - dividends for individual insurance	Domestic legal entity	29.00	58,000,000	-	-	58,000,000	-	-
Ping An Life Insurance Company of China, Ltd. - universal - individual universal insurance	Domestic legal entity	19.34	38,670,000	-	-	38,670,000	-	-
Ping An Property & Casualty Insurance Company of China, Ltd. - traditional - ordinary insurance products	Domestic legal entity	9.67	19,330,000	-	-	19,330,000	-	-
China Post & Capital Fund - Hua Xia Bank - Hua Xia Bank Co., Ltd.	Domestic legal entity	8.95	17,905,000	-	-	17,905,000	-	-
Bank of Communications Schroder Asset Management - Bank of Communications - Bank of Communications Co., Ltd.	Domestic legal entity	8.95	17,905,000	-	-	17,905,000	-	-
Bank of China Limited Shanghai Branch	Domestic legal entity	4.47	8,930,000	-	-	8,930,000	-	-
Postal Savings Bank of China Domestic Co., Ltd.	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
China Resources Szitic Trust Co. Ltd – Investment No. 1 List – Capital Trust	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
Hwabao Trust Co., Ltd. – Investment No. 2 – Capital Trust	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
Merchants Wealth – Postal Saving Bank – Postal Savings Bank of China Co., Ltd.	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
Description of different requirements on other terms of preference shares held other than dividend distribution and residual property distribution	Not applicable							
Description of the related relationship or concerted action among top 10 preference shareholders and between top 10 preference shareholders and top 10 ordinary shareholders	1. Ping An Life Insurance Company of China, Ltd. and Ping An Property & Casualty Insurance Company of China, Ltd. are controlled subsidiaries of and acting in concert with the Ping An Insurance (Group) Company of China, Ltd. "Ping An Insurance (Group) Company of China, Ltd. - the Group - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance product", "Ping An Life Insurance Company of China, Ltd. - dividend - individual dividend", "Ping An Life Insurance Company of China, Ltd. - universal - individual universal" and "Ping An Property & Casualty Insurance Company of China, Ltd. - traditional - ordinary insurance products" are related parties. 2. The Bank is not aware of any related-party relationship or parties acting in concert among other shareholders.							

6.3 Profit distribution of preference shares of the Company

√ Applicable □ Not applicable

Repurchase or conversion of preference shares during the reporting period
√ Applicable □ Not applicable

(In RMB million)

Time of distribution	Dividend yield	Amount of distribution (RMB) (tax inclusive)	Conformity with distribution requirements and procedures	Method of dividend payment	Accumulation of dividend	Participation of surplus profit
7 March 2019	4.37%	874	Yes	Paid in cash once a year	No	No

Preference share distribution in recent three years

(In RMB million)

Distribution year	Amount of distribution (including tax)	Net profit attributable to shareholders of the Company in the distribution year	Proportion accounting for net profit attributable to shareholders of the Company	Description of amount included in the next accounting year due to the insufficiency of distributable profits or participating in surplus profit distribution
2019	874	28,195	3.10%	Not applicable
2018	874	24,818	3.52%	Not applicable
2017	874	23,189	3.77%	Not applicable

Whether profit distribution policies of preference shares are adjusted or changed
□Yes √No

During the reporting period, the Company had profits and the parent company had positive undistributed profits, however, there was no profit distribution for preference shares.
□Applicable √ Not applicable

Other descriptions regarding preference shares distribution
□Applicable √ Not applicable

6.4 Repurchase or conversion of preference shares

□Applicable √ Not applicable

There was no repurchase or conversion of preference shares during the reporting period.

6.5 Recovery of voting rights of preference shares during the reporting period

□Applicable √ Not applicable

There was no recovery of voting rights of preference shares during the reporting period.

6.6 Accounting policies and reasons adopted for preference shares

√ Applicable □ Not applicable

See “13. Equity instrument under II. Major accounting policies and accounting estimates” in “Section X Financial Report” for “Accounting policies and reasons adopted for preference shares”.

Section VII Information about Directors, Supervisors, Senior Management, Employees and Organisations

7.1 Changes in shareholding by director, supervisor and senior management

Name	Title	Service status	Sex	Age	Term	Shareholding at the beginning of the year (share)	Shareholding increased in the year (share)	Shareholding decreased in the year (share)	Shareholding at the end of the year (share)
Xie Yonglin	Chairman	In-service	Male	51	From December 2016 to change of term	-	-	-	-
Hu Yuefei	Director and president of the Bank	In-service	Male	57	Director: from December 2007 to change of term President of the Bank: from December 2016 till now	4,104	-	-	4,104
Tan Sin Yin	Director	In-service	Female	42	From January 2014 to change of term	-	-	-	-
Yao Jason Bo	Director	In-service	Male	48	From June 2010 to change of term	-	-	-	-
Ip So Lan	Director	In-service	Female	63	From June 2010 to change of term	-	-	-	-
Cai Fangfang	Director	In-service	Female	45	From January 2014 to change of term	-	-	-	-
Guo Jian	Director	In-service	Male	55	From February 2017 to change of term	-	-	-	-
Yang Zhiqun	Director and vice president of the Bank	In-service	Male	49	Director: from January 2020 to change of term Vice president of the Bank: from April 2019 till now	-	-	-	-
Guo Shibang	Director and vice president of the Bank	In-service	Male	54	Director: from December 2017 to change of term Vice president of the Bank: from April 2019 till now	-	-	-	-
Xiang Youzhi	Director and CFO	In-service	Male	55	Director: from January 2020 to change of term CFO: from January 2018 till now	6,000	-		6,000
Wang Chunhan	Independent director	In-service	Male	68	From January 2014 to change of term	-	-	-	-
Wang Songqi	Independent director	In-service	Male	67	From January 2014 to change of term	-	-	-	-
Han Xiaojing	Independent director	In-service	Male	64	From January 2014 to change of term	-	-	-	-
Guo Tianyong	Independent director	In-service	Male	51	From August 2016 to change of term	-	-	-	-
Yang Rusheng	Independent director	In-service	Male	51	From February 2017 to change of term	-	-	-	-
Qiu Wei	Chairman of the supervisory committee, employee supervisor	In-service	Male	57	From June 2010 to change of term	-	-	-	-
Che Guobao	Supervisor of shareholder	In-service	Male	70	From December 2010 to change of term	-	-	-	-
Zhou Jianguo	External Supervisor	In-service	Male	64	From January 2014 to change of term	-	-	-	-
Luo Xiangdong	External Supervisor	In-service	Male	66	From January 2014 to change of term	-	-	-	-
Chu Yiyun	External Supervisor	In-service	Male	55	From June 2017 to change of term	-	-	-	-
Sun Yongzhen	Employee supervisor	In-service	Female	51	From October 2018 to change of term	-	-	-	-
Wang Qun	Employee supervisor	In-service	Female	51	From June 2017 to change of term		-	-	-
Zhou Qiang	Secretary to the Board	In-service	Male	47	From June 2014 till now	-			
Yao Guiping	Director and vice president of the Bank	Left post	Male	58	Director: from December 2017 to June 2019 Vice president of the Bank: from April 2019 to June 2019	-	-	-	-
Wu Peng	Vice president of the Bank	Left post	Male	54	From August 2011 to March 2019	2,394	-	-	2,394
Total						12,498	-	-	12,498

Note: Members of the 11th Board of Directors of the Bank were elected on the first Extraordinary General Meeting of 2019, among which Mr. Yang Jun, Mr. Li Jiashi, Mr. Ai Chunrong and Mr. Cai Hongbin, as newly elected independent directors, would take up post upon approval of banking regulatory authorities. Before then, Mr. Wang Songqi, Mr. Han Xiaojing and Mr. Wang Chunhan, as independent directors of the 10th Board of Directors, would continue to perform their duties as independent directors and resign in the order mentioned above on the date when the appointment of the new independent directors were approved by the CBIRC.

7.2 Changes in the directors, supervisors and senior management members

Name	Title	Type	Date	Reason
Guo Shibang	Vice president of the Bank	Appointed	12 April 2019	Appointed
Yang Zhiqun	Vice president of the Bank	Appointed	15 April 2019	Appointed
	Director	Elected	3 January 2020	Elected
Xiang Youzhi	Director	Elected	3 January 2020	Elected
Wu Peng	Vice president of the Bank	Left post	8 March 2019	Left post
Yao Guiping	Vice president of the Bank	Appointed	15 April 2019	Appointed
	Director and vice president of the Bank	Left post	3 June 2019	Left post

7.3 Tenure information

7.3.1 Professional background, main work experiences, current major responsibility in the Company of incumbent directors, supervisors and senior management

Mr. Xie Yonglin, Non-executive Director and Chairman. He was born in September 1968 and received a master's degree in science and a PhD in management from Nanjing University. He took office as Chairman and secretary of the CPC Committee of Ping An Bank Co., Ltd. from December 2016, as deputy secretary of the CPC Committee of Ping An Insurance (Group) Company of China, Ltd. from July 2018, as Co-CEO of Ping An Insurance (Group) Company of China, Ltd. from December 2018, and as general manager of Ping An Insurance (Group) Company of China, Ltd. from December 2019.

Mr. Xie Yonglin joined Ping An in October 1994 as a grass-roots salesperson and successively worked as the deputy general manager of a Ping An Property & Casualty Insurance, the deputy general manager and general manager of a Ping An Life Insurance branch, and the general manager of the Marketing Department of Ping An Life Insurance. From June 2005 to March 2006, he was the deputy director of China Ping An Reform and Development Centre. From March 2006 to November 2013, he was the operation director, the HR director, and vice president of Ping An Bank successively. From November 2013 to November 2016, he worked successively as the special assistant to Chairman, general manager & CEO, and the Chairman of Ping An Securities. From September 2016 to December 2019, he was the deputy general manager of Ping An Insurance (Group) Company of China, Ltd.

Mr. Hu Yuefei, Executive Director and President. He was born in 1962 and received a master's degree in economics from Zhongnan University of Economics and Law (formerly known as "Zhongnan University of Economics").

From January 1990 to February 1999, he was the director of Shenzhen Development Bank Party Affairs and Publicity Office, vice president and president of a sub-branch successively. From February 1999 to May 2006, he successively worked as the president of Shenzhen Development Bank Guangzhou Branch, the assistant to the president of head office. From May 2006 to December 2016, he worked as the vice president of Ping An Bank (then Shenzhen Development Bank). Since December 2007, he has worked as a director of Ping An Bank (then Shenzhen Development Bank). Since December 2016, he has served as president of Ping An Bank.
Before joining Shenzhen Development Bank, he was a staff member of the People's Bank of China Dong'an Sub-branch in Hunan, a staff member and deputy director of HR department in Hunan Branch of the Industrial and Commercial Bank of China.

Tan Sin Yin, Non-executive Director. She was born in 1977 with a Singapore citizenship. Graduated from MIT, she received a master's degree in EECS, a bachelor's degree in electrical engineering and a bachelor's degree in economics. Since January 2013, she worked as chief information officer of China Ping An and the Chairman of Ping An Technology (Shenzhen) Co., Ltd. since December 2013, she served as the chief operating officer of China Ping An. Since June 2015, she was the deputy general manager of China Ping An. Since January 2016, she has served as the executive deputy general manager of China Ping An. From October 2017 to December 2018, she served as the vice CEO of China Ping An. Since December 2018, she has been the Co-CEO of China Ping An. Since January 2014, she has worked as a director of the Bank.

Before she joined China Ping An, Tan Sin Yin was a partner (global director) of McKinsey & Company, specialised in financial services. During her 12 years in McKinsey & Company, she used to cooperate with leading financial service institutions of 10 countries in the USA and Asia. She mainly focuses on such fields as strategies, organisations, operations and information and technology.

Mr. Yao Jason Bo, Non-executive Director. Born in 1971, he is a member of the Society of Actuaries (FSA), and received a MBA degree in York University of the USA. He worked as an executive director of China Ping An since June 2009. And now he serves as the executive deputy general manager, CFO and the chief actuary of China Ping An. Since June 2010, he has served as a director of Ping An Bank (then Shenzhen Development Bank).

He joined China Ping An in May 2001. Then he worked as the deputy general manager of China Ping An from June 2009 to January 2016, and successively served as the deputy general manager of the Product Centre of China Ping An, deputy chief actuary, general manager of the Planning Department, deputy financial director and the financial head.

Mr. Yao Jason Bo once worked at Deloitte & Touche as a consultation actuary and senior manager.

Ms. Ip So Lan, Non-executive Director. She was born in 1956 and received a bachelor's degree in computer science from London Central Institute of Technology in the UK. She has worked as the deputy general manager of China Ping An since January 2011 and the chief audit officer, audit head and compliance head respectively since March 2006, March 2008 and July 2010. Since June 2010, he has served as a director of Ping An Bank (then Shenzhen Development Bank).

Ms. Ip So Lan joined China Ping An in February 2004. She worked as an assistant to the general manager of Ping An Life Insurance from February 2004 to March 2006 and an assistant to the general manager of China Ping An. She once worked at AIA Group, Prudential (Hong Kong) Insurance Company, etc.

Ms. Cai Fangfang, Non-executive Director. She was born in 1974 and received her master's degree in accounting from the University of New South Wales, Australia. She has served as an executive director of China Ping An since July 2014. Also, she has worked as the deputy general manager of China Ping An since December 2019, the chief HR officer of China Ping An since March 2015. Since December 2018, she has been the Co-CEO of China Ping An. Since January 2014, she has worked as a director of the Bank.

She joined China Ping An in July 2007. She successively worked as the deputy general manager and general manager of the Compensation Planning and Management Department of Human Resource Centre of China Ping An from October 2009 to February 2012. She worked as the deputy chief financial officer of China Ping An and the general manager (concurrent post) of the Planning Department of China Ping An from February 2012 to September 2013. She worked as the deputy chief HR officer of China Ping An from September 2013 to March 2015.

Before she joined China Ping An, she once worked as a consulting director in Watson Wyatt Consultancy (Shanghai) Co., Ltd and an audit director specialised in financial industry at Britain Standards Institutions Management Systems Certification Co. Ltd.

Mr. Guo Jian, Non-executive Director. Born in 1964, he received his master's degree in electronic physics and devices from Chengdu Institute of Telecommunications (now the University of Electronic Science and Technology of China). He is now a member of the CPC Committee, director, and general manager of China Electronics Shenzhen Company. He has worked as an independent director of Ping An Bank since February 2017.

He joined China Electronics Shenzhen Company in May 1988 and was assistant to the general manager and deputy general manager. Since July 2011, he has worked as director and general manager. From April 2012 to October 2017, he has worked as deputy secretary of the CPC Committee. He was the deputy general manager and deputy secretary of the CPC Committee of China Power International Information Service Co., Ltd. from August 2013 to March 2016. He was the general manager of E-commerce Business Department 1 from October 2014 to April 2016. He also acts as director of China Merchants Warehouse Service Co., Ltd. of Shenzhen, Chairman of CEIEC Qianhai Information Industry Co., Ltd. and Chairman of Shenzhen Jinghua Electronics Company Limited since October 2017.

He is a CPPCC member of Shenzhen, president of Shenzhen Chamber of Import and Export Trade, vice-Chairman of Shenzhen Enterprise Confederation, etc.

Mr. Yang Zhiqun, Executive Director and Vice President of the Bank. Born in 1970, he holds a master's degree in world economics from Nankai University and is now a senior economist.

From 1991 to October 1996, Mr. Yang Zhiqun served in Guangzhou Jiufo Electric Co., Ltd. and China Nanhai Petroleum United Service General Company; from October 1996 to September 2008, he served in China Minsheng Bank as a teller, deputy chief, chief and deputy general manager of Marketing Department 1 of Guangzhou Branch (directing operations), vice president of Tianhe Branch (directing operations), president of Tianhe Branch, senior assistant of the branch and vice president of branch successively; from October 2008 to February 2011, he was leader of the preparatory group and president of branch; from March 2011 to March 2015, he was president of Ping An Bank Guangzhou Branch (formerly known as Shenzhen Development Bank); from March 2015 to November 2016, he served as general manager of Ping An Securities Co., Ltd.; he has served as secretary of the CPC Committee of Ping An Bank Shenzhen Branch since November 2016; from May 2017 to April 2019, he was assistant to president of Ping An Bank and president of Shenzhen Branch; he has served as vice president of Ping An Bank and president of Shenzhen Branch since April 2019, and Director of Ping An Bank since January 2020.

Mr. Guo Shibang, Executive Director and Vice President of the Bank. Born in 1961, he received a bachelor degree in economic management from Hubei College of Education and is now a senior economist.

From July 1991 to July 1998, he successively worked as the principal staff member and deputy-director-general-level researcher (directing operations) at the head office of ICBC capital planning department; from July 1998 to March 2011, he successively worked as the president of CMBC, Beijing Shangdi Branch, member of CPC committee & deputy general manager of Beijing management department, secretary of the CPC Committee & president of Dalian Branch, and vice chairman at the head office of retail management committee & general manager of retail banking department; from March 2011 to March 2014, he successively worked as the special assistant to CEO and vice general manager of Ping An Securities, CRO and chief compliance officer, etc.; from October 2016 to May 2017, he worked as the special assistant to chairman of Ping An Bank. He was assistant to the president of Ping An Bank from May 2017 to April 2019. He has been a director of Ping An Bank since December 2017, and vice president of the Bank since April 2019.

Mr. Xiang Youzhi, Executive Director and CFO. Born in 1964, he holds a PhD in management from Xiamen University, and is a senior account.

From July 1987 to September 1991, Mr. Xiang worked as a teaching assistant in business management department of East China Metallurgic Institute (now Anhui University of Technology); from September 1991 to July 1994, he received master's degree in accounting from Xiamen University; from August 1994 to August 1995, he worked as a lecturer in business management department of East China Metallurgic Institute (now Anhui University of Technology); from September 1995 to August 1998, he pursued a doctorate in management from Xiamen University; from September 1998 to April 2007, he successively served as the office manager of accounting department, assistant to the general manager, deputy general manager, general manager of planning and finance department and staff supervisor at the head office of CMBC; from April 2007 to July 2013, he successively worked as the director of finance and accounting department, general manager of finance and accounting management department and general manager of asset liability management department in Ping An Bank (formerly Shenzhen Development Bank); from July 2013 to May 2014, he worked as the general manager of the Planning Department of Ping An Insurance (Group) Company Of China, Ltd. From May 2014 to August 2017, he worked as the chief financial officer and general manager of the Finance Department of Ping An Insurance (Group) Company Of China, Ltd; he has served in Ping An Bank since August 2017 and served as CFO of Ping An Bank since January 2018, and Director of Ping An Bank since January 2020.

Mr. Wang Chunhan, Independent Director. Born in 1951, he received a junior college degree and is now a senior economist. He has worked as an independent director of Ping An Bank since January 2014.

He successively worked as accountant, officer and deputy secretary of the CPC branch at Siwei Road Office of Wuhan Branch, the PBoC; deputy secretary (directing operations) and secretary of the CPC branch at Chezhan Road Office; officer at the CPC Consolidation Office of the Branch, deputy director (directing operations) and director (in the period from September 1983 to July 1985, he was studying in Jianghan University) of Political Affairs Office of the Branch. He was vice president of PBoC Wuhan Branch from April 1988 to December 1997 (in the period from October 1994 to December 1997, he was concurrently a member of the leadership team of Wuhan Municipal Government City Cooperative Bank and director of the Construction Preparation Office). He was appointed as executive vice Chairman, secretary of the CPC Committee and president of Wuhan Commercial Bank in the period from December 1997 to December 2000. He was Chairman, secretary of the CPC Committee and president of Wuhan Commercial Bank in the period from December 2000 and December 2006. He was Chairman, and secretary of the CPC Committee of Hankou Bank in the period from December 2006 and July 2009 (Wuhan Commercial Bank renamed as Hankou Bank in June 2008). He was counsellor of the People's Municipal Government of Wuhan from July 2009 to May 2014. He was an independent director of Qishang Bank from May 2012 to December 2013. He has served as an independent director of Bank of Tibet since December 2011.

Mr. Wang Songqi, Independent Director. Born in 1952, he received a PhD in economics. He is a professor and doctoral supervisor at the Graduate School of Science Academy of Social Sciences, a part-time doctoral supervisor of Central University of Finance and Economics, and a visiting professor of Southwestern University of Finance and Economics. He has worked as an independent director of Ping An Bank since January 2014.
Wang Songqi received his bachelor's degree in economics from the Financial Department of Jilin University of Finance and Economics in 1982, a master's degree in economics from Financial Department of Tianjin University of Finance and Economics in 1985 and his PhD from the Finance and Economics Department of Renmin University of China in 1988. He was a teacher at the Finance and Economics Department of Renmin University of China from August 1988 to December 1995. He has served as a research fellow of National Academy of Economic Strategy and Institute of Finance and Banking, both at Chinese Academy of Social Sciences since January 1996. He was appointed as a director of the Forth China Society for Finance and Banking and Chairman of the National Youth Financial Institute since 1990. He is now the executive director of the Sixth China Society for Finance and Banking, chief editor of the *Banker*, independent director of Chong Sing Holdings FinTech Group Limited. He receives special government allowances of the State Council.

Mr. Han Xiaojing, Independence Director. Born in 1955, he received a master's degree in laws. He is a practicing lawyer in China and a founding partner of Commerce & Finance Law Offices. He has worked as an independent director of Ping An Bank since January 2014.

Han Xiaojing received his bachelor's degree in laws from Zhongnan University of Economics and Law (old name: Hubei Finance and Economics College) in 1982 and his master's degree in laws from China University of Political Science and Law in 1985. He worked as a lecturer from 1985 to 1986 at China University of Political Science and Law. He worked as a layer at China Legal Affairs Centre from 1986 to 1992. Since 1992, He has worked as a partner of Commerce & Finance Law Offices mainly engaged in securities, corporate restructuring / merger, banking, project financing, etc. He has been served as an independent non-executive director of China COSCO Holdings Company Limited, an independent non-executive director of Far East Horizon Ltd., an independent director of Beijing Sanju Environmental Protection & New Materials Co., Ltd., an external director of China National Aviation Fuel Group Corporation Limited, an independent non-executive director of Vital Mobile Holdings Limited.

Mr. Guo Tianyong, Independent Director. Born in August 1968, a PhD in economics, he is now a professor and doctoral supervisor of Finance School of Central University of Finance and Economics. He has served as an independent director of Ping An Bank since August 2016.
Mr. Guo Tianyong received a bachelor's degree in science from Math Department of Shandong University in 1990, and worked at the PBoC Yantai Branch from 1990 to 1993. He received a master's degree in economics from the Department of Finance of Renmin University of China in 1996 and received a PhD in economics from the Graduate School of the PBoC in 1999. He has worked at the Central University of Finance and Economics since 1999. He has served as an independent director of Hundsun Technologies Inc., Digiwin Soft Co., Ltd. and AA Industrial Belting (Shanghai) Co., Ltd.

Mr. Yang Rusheng, Independent Director. Born in February 1968, he received a master's degree in economics from Jinan University. He is a certified public accountant and certified tax agent in China. Since February 2017, he has served as an independent director of Ping An Bank.

Now, he serves as a partner of Ruihua Certified Public Accountants and a director of Chinese Institute of Certified Public Accountants, a director of Guangdong Institute of Certified Public Accountants, president of the Shenzhen Institute of Certified Public Accountants, a member of Shenzhen Social Insurance Regulatory Commission, an independent director of Webank, a non-executive director of IPE GROUP LIMITED, an independent director of Guofu Life Insurance Co., Ltd. and a guest professor of Guangdong University of Finance & Economics.

He once worked for Shenzhen Construction Industry (Group) Co., Yong Ming (Shenzhen) Certified Public Accountants, Shenzhen Guangshen Certified Public Accountants, Shenzhen Youxin CPA firm, Wanlong Asia CPA Co., Ltd. and Crowe Horwath CPA Firm. He was an independent director of Shenzhen Tagen Group Co., Ltd., Shenzhen Coship Electronics Co., Ltd., Shenzhen Seg Co., Ltd. and former Ping An Bank, etc.

Mr. Qiu Wei, Chairman of the Supervisory Committee, Employee Supervisor. Born in 1962, he received a PhD in finance from Southwestern University of Finance and Economics and is now a senior economist. He serves as the chairman of the supervisory committee, deputy secretary of the CPC Committee and secretary of committee for discipline inspection of Ping An Bank.

Mr. Qiu Wei successively worked as loan officer, staff member of information research unit, deputy director of capital department and director of foreign exchange department under PBoC, Sichuan Luzhou branch from July 1983 to February 1990, capital scheduler, comprehensive department director of head office and branch vice president, assistant to the general manager of HR department at the head office of Shenzhen Development Bank from March 1990 to February 1994, office director, assistant to the president, vice president, president and secretary of the CPC Committee of China Guangfa Bank, Shenzhen branch from March 1994 to May 2004, president and deputy secretary of the CPC Committee of SZITIC from June 2004 to October 2005, chairman of the supervisory committee, deputy secretary of the CPC Committee, secretary of committee for discipline inspection, and chairman of the labour union of former Ping An Bank (Shenzhen Commercial Bank) from November 2005 to May 2010.

Mr. Che Guobao, Supervisor of Shareholder. Born in 1949, he received his bachelor's degree in construction and machinery from Beijing University of Civil Engineering and Architecture. Now, he serves as the shareholder, legal representative and chairman of Shenzhen Yingzhongtai Investment Co., Ltd. He serves as supervisor of shareholder of Ping An Bank (formerly Shenzhen Development Bank) since December 2010.

Mr. Che Guobao served as the vice factory director of Beijing construction light steel structure factory from 1981 to 1982, deputy director general and secretary of the CPC Committee of Shenzhen Shekou District Authority from 1983 to 1984, deputy general manager of China Merchants Shekou Industrial Zone Holdings Co., Ltd. of Guangdong being responsible for investment promotion, finance, import & export, trading, harbour service etc. from 1985 to 1991. He has served as chairman, legal representative and shareholder of Shenzhen Yingzhongtai Investment Co., Ltd. since 1992.

Mr. Zhou Jianguo, External Supervisor. Born in 1955, he received a master's degree in economics from Zhongnan University of Economics and Law and is now a senior accountant. Now, he serves as chairman and secretary of the CPC Committee of Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd. He works as an external supervisor of Ping An Bank since January 2014.

Mr. Zhou Jianguo successively worked as a teacher and deputy professor of accounting faculty, the principal at the financial teaching and research office, and deputy director of Jiangxi University of Finance and Economics from July 1983 to February 1993, director at the further education office of Jiangxi University of Finance and Economics from February 1993 to March 1996, deputy general manager of Shenzhen Zhonglvxin Industrial Co., Ltd. from March 1996 to February 1997, director of audit department and finance department and president assistant of Shenzhen Shangkong Industrial Co., Ltd. from February 1997 to September 2004, deputy general manager of Shenzhen Investment Holdings Co., Ltd. from October 2004 to June 2011. He has served as chairman and secretary of the CPC Committee of Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd. since January 2009.

Mr. Luo Xiangdong, External Supervisor. Born in 1953, he received a master's degree in economics from South China Normal University and is now a senior economist. He serves as an external supervisor of Ping An Bank since January 2014.

Mr. Luo Xiangdong once worked as a middle school teacher at the 69th middle school of Guangzhou City, economics teacher at the Marxism-Leninism office of Guangzhou University of Traditional Chinese Medicine, officer of leading roles of section or equivalent levels at the government office of special economic zones of Guangdong. He entered the banking industry in 1998, and successively worked as director at the head office and general manager of development department of China Guangfa Bank from July 1988 to September 1993, standing vice president and secretary of committee for discipline inspection of China Guangfa Bank, Shenzhen branch from September 1993 to October 2012, supervisor at the head office of China Guangfa Bank from October 2012 to August 2013. While working in China Guangfa Bank, he once was in charge of businesses including credit, finance, risk and operation, and worked as director of Shenzhen Airlines and Wei Bao Financial Escort Co., Ltd.

Mr. Chu Yiyun, External Supervisor. Born in 1964, he received a PhD in accounting from Shanghai University of Finance and Economics. Now, he serves as a professor and doctoral supervisor of school of accounting of Shanghai University of Finance and Economics. He works as an external supervisor of Ping An Bank since June 2017. He works as an external supervisor of Ping An Bank since June 2017.

Mr. Chu Yiyun has been a teaching assistant, lecturer, deputy professor, professor and doctoral supervisor successively in school of accounting (then accounting faculty) of Shanghai University of Finance and Economics since 1986, full-time researcher of Academy of Accounting and Finance under Shanghai University of Finance and Economics of Key Research Base of Humanities and Social Sciences under Ministry of Education since September 2000, deputy secretary general and executive secretary general of China Accounting Association, accounting education branch (then China Accounting Teaching Association) since December 2000, director of the 8th board of governors under China Accounting Association since January 2014, member of the first Enterprise Accounting Standards Advisory Committee under Ministry of Finance since July 2016. He also served as an independent director of Ping An Insurance (Group) Company Of China, Ltd., Tellhow Sci-tech Co., Ltd., Universal Scientific Industrial (Shanghai) Co., Ltd. and Bank of Jiaxing Co., Ltd.

Ms. Sun Yongzhen, Employee Supervisor. Born in 1968, she received a master's degree in economics from Zhongnan University of Economics and Law and is now a senior economist. Now, she serves as the chief audit executive and deputy secretary of committee for discipline inspection of Ping An Bank. She works as an employee supervisor of Ping An Bank since October 2018.

From July 1993 to October 1996, Ms. Sun Yongzhen successively served as the senior staff member, principal staff member and deputy-director-general-level researcher of capital planning department under PBoC, Shenzhen Special Economic Zone branch; from October 1996 to February 2005, she successively served as the deputy general manager of capital planning department, deputy general manager of financial institution department and deputy general manager of financial interbank department under Shenzhen Development Bank; from March 2005 to August 2017, she successively served as a researcher of division I in the joint stock bank supervision department, researcher of policy and regulation department, head of the office of supervision, director of foreign bank supervision department, director of HR department (director of organisation department of the CPC Committee) in CBIRC Shenzhen branch; since August 2017, she has served as the chief audit executive and deputy secretary of committee for discipline inspection of Ping An Bank.

Ms. Wang Qun, Employee Supervisor. Born in 1968, she graduated from Southern Institute of Metallurgy and majored in computer. Now, she serves as the general manager of key customer department III of Ping An Bank, Shenzhen branch. She works as an employee supervisor of Ping An Bank since June 2017.

Ms. Wang Qun joined Shenzhen Commercial Bank, Nanshan branch in March 1993. She successively served as the director of business department and corporate department and assistant to the president, and has been the general manager of key customer department III of Ping An Bank, Shenzhen branch since February 2010.

Zhou Qiang, Secretary of the Board. He was born in 1972. He majored in international finance in Department of Finance of Nankai University and received a PhD in economics.

From July 2001 to April 2007, he successively served as business manager of Investment Banking Division of Ping An Securities Co., Ltd., deputy general manager and general manager of investment banking management department. From April 2007 to October 2011, he served as deputy director of board office and securities affairs representative of China Ping An. From October 2011 to May 2014, he successively served as general manager assistant and deputy general manager of Ping An Securities. Since June 2014, he has served as secretary of the board of Ping An Bank. Since December 2016, he has served as a co-president of Investment Banking Division of Ping An Bank.

7.3.2 Directors and supervisors' service status in shareholder units

Name	Serving shareholder unit	Title	Term
Xie Yonglin	Ping An Insurance (Group) Company of China, Ltd.	General Manager	From December 2019 till now
		Co-CEO	From December 2018 till now
		Deputy secretary of the CPC Committee	From July 2018 till now
Tan Sin Yin	Ping An Insurance (Group) Company of China, Ltd.	Co-CEO	From December 2018 till now
		Standing deputy general manager	From January 2016 till now
		COO	From December 2013 till now
		CIO	From January 2013 till now
	Ping An Life Insurance Company of China, Ltd.	Non-executive director	From June 2013 till now
Yao Jason Bo	Ping An Insurance (Group) Company of China, Ltd.	Standing deputy general manager	From January 2016 till now
		Chief actuary	From October 2012 till now
		CFO	From April 2010 till now
		Executive director	From June 2009 till now
	Ping An Life Insurance Company of China, Ltd.	Non-executive director	From September 2008 till now
Ip So Lan	Ping An Insurance (Group) Company of China, Ltd.	Deputy general manager	From January 2011 till now
		Compliance director	From July 2010 till now
		Audit director	From March 2008 till now
		CIA	From March 2006 till now
Cai Fangfang	Ping An Insurance (Group) Company of China, Ltd.	Deputy general manager	From December 2019 till now
		CHRO	From March 2015 till now
		Executive director	From July 2014 till now
	Ping An Life Insurance Company of China, Ltd.	Non-executive director	From December 2013 till now
Guo Jian	China Electronics Shenzhen Company	Director, general manager	From July 2011 till now
Che Guobao	Shenzhen Yingzhongtai Investment Co., Ltd.	Chairman, legal representative, shareholder	From December 2010 till now
Chu Yiyun	Ping An Insurance (Group) Company of China, Ltd.	Independent director	From July 2019 till now

7.3.3 Directors, supervisors and senior management staff's service status in other units besides shareholder units

Name	Investee entities	Title
Xie Yonglin	Ping An International Financial Leasing Co., Ltd.	Non-executive director
Tan Sin Yin	Ping An Property & Casualty Insurance Company of China, Ltd.	Non-executive director
	Ping An Assets Management Co., Ltd.	Non-executive director
	Ping An Health Insurance Company of China, Ltd.	Non-executive director
	Shenzhen Ping An Financial Technology Consulting Co., Ltd.	Non-executive director
	Ping An Technology (Shenzhen) Co., Ltd.	Chairman
	Shenzhen Ping An Financial Services Co., Ltd.	Non-executive director
	Shanghai Lujiazui International Financial Asset Exchange Co., Ltd.	Non-executive director
	OneConnect Financial Technology Co., Ltd.	Non-executive director
	Lufax Holding Ltd.	Non-executive director
Yao Jason Bo	Ping An Property & Casualty Insurance Company of China, Ltd.	Non-executive director
	Ping An Health Insurance Company of China, Ltd.	Non-executive director
	Ping An Annuity Insurance Company of China, Ltd.	Non-executive director
	Ping An Assets Management Co., Ltd.	Non-executive director
	Ping An Trust Co., Ltd.	Non-executive director
	Ping An Securities Co, Ltd.	Non-executive director
	Ping An Technology (Shenzhen) Co., Ltd.	Non-executive director
	Ping An Uob Fund Management Co., Ltd.	Non-executive director
	Shanghai Lujiazui International Financial Asset Exchange Co., Ltd.	Non-executive director
	Ping An International Financial Leasing Co., Ltd.	Non-executive director
	Lufax Holding Ltd.	Non-executive director
	Ping An Healthcare and Technology Company Limited	Non-executive director
Ip So Lan	Shanghai Lujiazui International Financial Asset Exchange Co., Ltd.	Non-executive director
	Lufax Holding Ltd.	Non-executive director
Cai Fangfang	Ping An Property & Casualty Insurance Company of China, Ltd.	Non-executive director
	Ping An Assets Management Co., Ltd.	Non-executive director
	Ping An Annuity Insurance Company of China, Ltd.	Non-executive director
	Ping An Health Insurance Company of China, Ltd.	Non-executive director
	Shanghai Lujiazui International Financial Asset Exchange Co., Ltd.	Non-executive director
	Ping An Healthcare and Technology Company Limited	Non-executive director
Guo Jian	Shenzhen Frontsurf Information Technology Co., Ltd.	Chairman
	China Merchants Warehouse Service Co., Ltd. of Shenzhen	Director
	Shenzhen Jinghua Electronics Company Limited	Chairman
	Shenzhen Municipal Committee of CPPCC	CPPCC member
	Shenzhen Chamber of Commerce for Import & Export	President
	Shenzhen Enterprise Confederation	Vice president
Xiang Youzhi	Ping An Healthcare Management Co., Ltd.	Director
	Shenzhen Wanglitong Network Information Technology Co., Ltd.	Director
	Shenzhen Qianhai Puhui Zhongchou Trading Co., Ltd.	Director
	Shanghai Lujiazui International Financial Asset Exchange Co., Ltd.	Director
	Shanghai Ping An Automotive Electronic Commerce Co., Ltd.	Director
Wang Chunhan	Bank of Tibet	Independent director
Wang Songqi	Graduate School of Chinese Academy of Social Sciences	Professor and doctoral supervisor
	National Academy of Economic Strategy, and IFB, CASS	Researcher
	Central University of Finance and Economics	Part-time doctoral supervisor
	Southwestern University of Finance and Economics	Guest professor
	Sixth China Society for Finance and Banking	Executive director

Name	Investee entities	Title
	The Chinese Banker magazine	Chief editor
	AFCA AMC	Independent director
	Chong Sing Holdings FinTech Group Limited	Independent director
Han Xiaojing	Commerce & Finance Law Offices	Partner
	Sino-Ocean Group Limited	Independent non-executive director
	Far East Horizon Ltd.	Independent non-executive director
	China National Aviation Fuel Group Corporation Limited	External director
	Beijing Sanju Environmental Protection & New Materials Co., Ltd.	Independent director
	Vital Mobile Holdings Limited	Independent non-executive director
	Beijing Yitian Generation Commerce Co., Ltd.	Director
Guo Tianyong	School of Finance of Central University of Finance and Economics	Professor and doctoral supervisor
	Hundsun Electronics Co., Ltd.	Independent director
	Digiwin Software Co., Ltd.	Independent director
	AA Industrial Belting (Shanghai) Co., Ltd.	Independent director
Yang Rusheng	Ruihua Certified Public Accountants	Partner
	Webank	Independent director
	IPE GROUP LIMITED	Independent non-executive director
	Guofu Life Insurance Co., Ltd.	Independent director
	Guangdong University of Finance & Economics	Guest professor
	Guangdong Institute of Certified Public Accountants	Director
	Chinese Institute of Certified Public Accountants	Director
	Shenzhen Institute of Certified Public Accountants	President
	Shenzhen Social Insurance Regulatory Commission	Committee member
Zhou Jianguo	Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd.	Chairman, secretary of the CPC Committee
Chu Yiyun	School of Accounting of Shanghai University of Finance and Economics	Professor and doctoral supervisor
	Tellhow Sci-tech Co., Ltd.	Independent director
	Universal Scientific Industrial (Shanghai) Co., Ltd.	Independent director
	BANK OF JIAXING CO., LTD.	Independent director

7.3.4 Penalties imposed by securities regulatory authorities in past three years on directors, supervisors and senior management staff who are in-service and left their posts during the reporting period

□Yes √No

7.4 Compensation for directors, supervisors and senior management staff

Decision-making process, determining bases and actual payment of compensation for directors, supervisors and senior management staff of the Bank: the compensation plan for the Bank's senior management staff was deliberated and approved by board meeting of the Bank. The compensation plan for the Bank's directors and supervisors was deliberated and approved by the general meeting of shareholders of the Bank after being deliberated and approved by the Board of Directors and supervisory committee respectively.
Compensation for directors, supervisors and senior management staff during the reporting period:

(In RMB'0000)

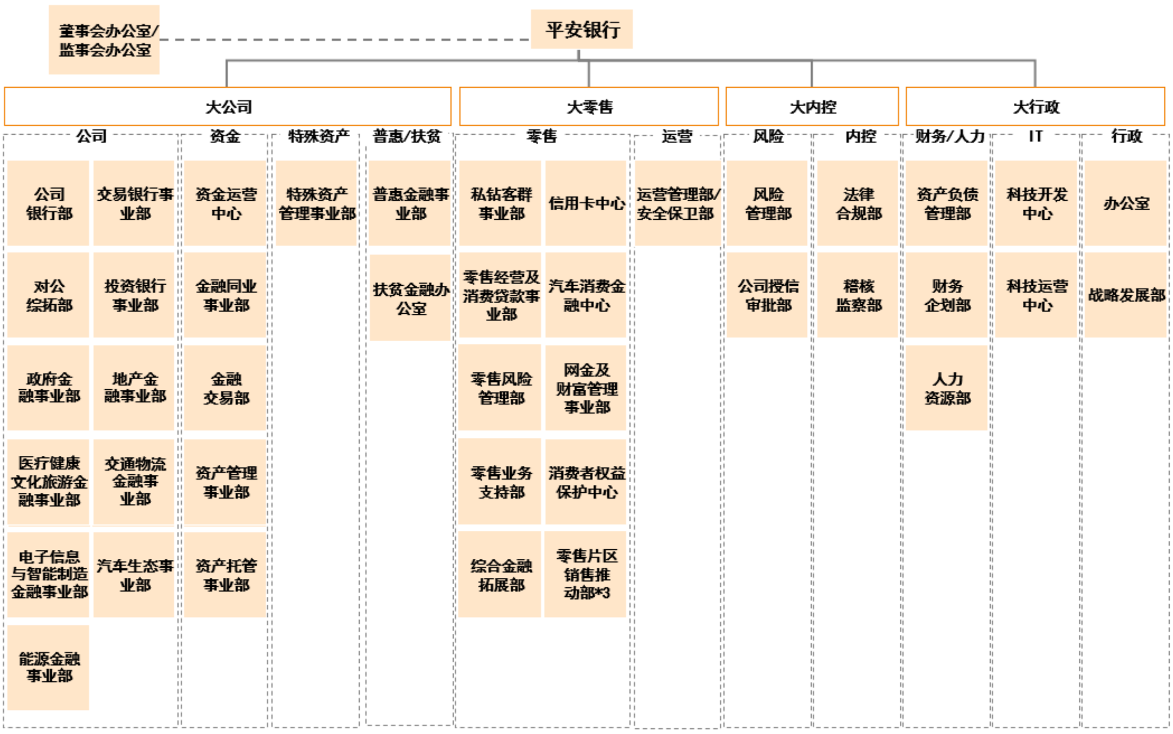
Name	Title	Service status	Sex	Age	Total pre-tax compensation received from the Bank	Whether receiving compensation from related parties of the Bank
Xie Yonglin	Chairman	In-service	Male	51	-	Yes
Hu Yuefei	Director and president of the Bank	In-service	Male	57	466.04	No
Tan Sin Yin	Director	In-service	Female	42	-	Yes
Yao Jason Bo	Director	In-service	Male	48	-	Yes
Ip So Lan	Director	In-service	Female	63	-	Yes
Cai Fangfang	Director	In-service	Female	45	-	Yes
Guo Jian	Director	In-service	Male	55	33.26	No
Yang Zhiqun	Director and vice president of the Bank	In-service	Male	49	296.55	No
Guo Shibang	Director and vice president of the Bank	In-service	Male	54	402.48	No
Xiang Youzhi	Director and CFO	In-service	Male	55	386.40	No
Wang Chunhan	Independent director	In-service	Male	68	45.94	No
Wang Songqi	Independent director	In-service	Male	67	41.43	No
Han Xiaojing	Independent director	In-service	Male	64	40.71	No
Guo Tianyong	Independent director	In-service	Male	51	44.11	No
Yang Rusheng	Independent director	In-service	Male	51	45.55	No
Qiu Wei	Chief supervisor and employee supervisor	In-service	Male	57	344.27	No
Che Guobao	Shareholder supervisor	In-service	Male	70	29.32	No
Zhou Jianguo	External Supervisor	In-service	Male	64	30.04	No
Luo Xiangdong	External supervisor	In-service	Male	66	34.36	No
Chu Yiyun	External supervisor	In-service	Male	55	33.28	Yes
Sun Yongzhen	Employee supervisor	In-service	Female	51	339.54	No
Wang Qun	Employee supervisor	In-service	Female	51	233.20	No
Zhou Qiang	Secretary to the Board	In-service	Male	47	353.61	No
Yao Guiping	Director and vice president of the Bank	Left post	Male	58	150.50	No
Wu Peng	Vice president of the Bank	Left post	Male	54	41.16	No

Note: 1. Directors Xie Yonglin, Tan Sin Yin, Yao Jason Bo, Ip So Lan and Cai Fangfang serve in and receive compensation from Ping An Insurance (Group) Company Of China, Ltd., majority shareholder of the Bank. See the *2019 Annual Report of Ping An Insurance (Group) Company Of China, Ltd.* for information about their compensation.

2. According to the *Supervisory Guidelines on Sound Compensation in Commercial Banks* and relevant regulations of the Bank, part payment of performance compensation for the Bank's senior management staff will be delayed. The delay period is 3 years. The total pre-tax compensation the Bank's senior management staff received from the Bank included the performance compensation which is delayed and unpaid. And this part of performance compensation will be paid in a delayed manner by year in next 3 years.
3. Compensations received from the Bank during the reporting period by newly appointed staff or those who left post in current year are calculated by their work time during the reporting period.
4. The total pre-tax compensation of executive directors, employee supervisors and senior management staff who work for the Bank is to be confirmed and others will be disclosed separately after confirmation.

Equity incentive awarded to the Company's directors and senior management staff during the reporting period
□Applicable √ Not applicable

7.5 Department setting at the end of the reporting period



Note: The Bank has set a representative office in Beijing.

7.6 Information about organisations and employees

7.6.1 Establishment of organisations

At the end of the reporting period, the Bank had 91 branches (including Hong Kong Branch) and 1,058 outlets in total. Information about the Bank's organisations (including branches and outlets) is as follows:

Organisation name	Address	Number of outlets	Asset scale (In RMB million)	Number of employees
Shenzhen Branch	No. 1099, Shennan Middle Road, Futian District, Shenzhen	147	618,300	3,596
Shanghai Branch	No. 1333 Lujiazui Ring Road, Pudong New Area, Shanghai	70	313,086	1,889
Beijing Branch	No. 158, Fuxingmennei Street, Xicheng District, Beijing	52	283,449	2,012
Guangzhou Branch	Zhukong Commercial Building, No. 1 Huaqiang Road, Zhujiang New Town, Tianhe District, Guangzhou	53	189,162	1,569
Hangzhou Branch	Building 1, Ping An Financial Centre, No. 280 Minxin Road, Jianggan District, Hangzhou	29	99,893	1,181
Shanghai Pilot Free Trade Zone Branch	No. 799, Yanggao South Road, Pudong New Area, Shanghai	1	72,852	146
Nanjing Branch	No. 128, Shanxi Road, Gulou District, Nanjing	34	63,921	743
Wuhan Branch	No. 54, Zhongbei Road, Wuchang District, Wuhan	29	61,813	691
Chongqing Branch	No. 778, Jingwei Avenue, Yuzhong District, Chongqing	26	59,470	565
Xi'an Branch	No. 240, Dongxin Street, Xincheng District, Xi'an	16	51,857	442
Xiamen Branch	No. 82, Lianqian Subdistrict, Zhanhong Road, Siming District, Xiamen	17	47,917	415
Shenzhen Qianhai Branch	Building 28A, Qianhai Enterprise Dream Park, No. 63, Qianwan First Road, Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Shenzhen	1	43,296	36
Chengdu Branch	No.99, Second Tianfu Street, Hi-tech Zone, Chengdu	30	42,794	696
Dalian Branch	No. 21, Ganglong Road, Zhongshan District, Dalian	24	42,506	658
Tianjin Branch	No. 349, Nanjing Road, Nankai District, Tianjin	33	40,608	746
Ningbo Branch	No. 139, Haiyan North Road, Yinzhou District, Ningbo	13	38,666	492
Fuzhou Branch	No. 109, Wusi Road, Gulou District, Fuzhou	38	35,323	528
Zhengzhou Branch	No. 25, Business Outer Ring Road, Zhengdong New District, Zhengzhou	22	34,761	477
Shijiazhuang Branch	No. 78, Xinhua Road, Xinhua District, Shijiazhuang	14	32,692	328
Qingdao Branch	No. 28, Miaoling Road, Laoshan District, Qingdao	24	31,838	548
Foshan Branch	District Five, Foshan News Centre, Yuhe Road, Foshan New City, Foshan	30	29,866	648
Changsha Branch	No. 456, Wuyi Avenue, Furong District, Changsha	16	29,094	397
Dongguan Branch	Block A, Fortune Plaza, Hongfu Road, Nancheng District, Dongguan	14	26,785	364
Huizhou Branch	No. 8, Maidi East Road, Huicheng District, Huizhou	10	25,110	218
Kunming Branch	No. 1101, Dianchi Road, Kunming Dianchi National Tourist Resort, Kunming, Yunnan	34	25,005	536

Organisation name	Address	Number of outlets	Asset scale (In RMB million)	Number of employees
Taiyuan Branch	No. 6, Bingzhou North Road, Yingze District, Taiyuan	6	24,569	271
Hefei Branch	No. 999, Dongliu Road West, Shushan District, Hefei	7	23,213	247
Zhuhai Branch	No. 288, Hongshan Road, Xiangzhou District, Zhuhai	10	19,859	280
Jinan Branch	No. 13777, Jingshi Road, Lixia District, Jinan	16	19,147	474
Suzhou Branch	No. 89, Suxiu Road, Suzhou Industrial Park, Suzhou	12	16,575	243
Wenzhou Branch	No. 1707, Wenzhou Avenue, Ouhai District, Wenzhou	20	16,570	357
Yantai Branch	No. 96, Huanshan Road, Zhifu District, Yantai	5	15,848	79
Wuxi Branch	No. 670, Zhongshan Road, Wuxi	12	15,390	211
Haikou Branch	No. 22, Jinlong Road, Longhua District, Haikou	11	14,853	332
Nanchang Branch	Ruituoronghe Building, No. 88, Shangdu Road, Honggutan New District, Nanchang	4	13,410	208
Shenyang Branch	A1, 163, Nanjing North Street, Heping District, Shenyang	11	12,452	307
Nanning Branch	B101-109, Jiuzhou International Building, No. 9, Zhongxin Road, Qingxiu District, Nanning	1	12,215	129
Quanzhou Branch	Lianjie International Centre Building, No. 109, Binghai Street, Fengze District, Quanzhou	21	11,540	292
Changzhou Branch	No. 288, Feilong East Road, Changzhou	10	8,952	167
Yiwu Branch	No. 877, Chengbei Road, Yiwu	9	8,633	144
Guiyang Branch	Jincheng Street, Guanshanhu District, Guiyang, Guizhou	3	8,396	174
Zhongshan Branch	No. 1, Xingzheng Road, East District, Zhongshan	12	8,375	235
Nantong Branch	No. 38, Yuelong Road, Chongchuan District, Nantong	3	7,126	98
Tianjin Pilot Free Trade Zone Branch	Building 1, Ronghe Plaza, No. 168, Xisi Road, Tianjin Pilot Free Trade Zone (Tianjin Airport Economic Area)	1	6,508	94
Tangshan Branch	No. 31, Xinhua West Street, Lubei District, Tangshan, Hebei	1	5,670	67
Weifang Branch	No. 343, Dongfeng East Street, Kuiwen District, Weifang	3	5,312	56
Xuzhou Branch	No. 2, Xi’an North Road, Xuzhou, Jiangsu	2	4,672	55
Dongying Branch	No. 55, Fuqian Street, Dongying District, Dongying	2	4,077	45
Hong Kong branch	42/F, One Exchange Square, 8 Connaught Place, Hongkong	1	3,695	47
Taizhou Branch	No. 181, Baiyunshan South Road, Taizhou Economic Development Zone, Taizhou	9	3,313	104
Taizhou Branch	No. 39, Qingnian South Road, Hailing District, Taizhou	2	3,305	52
Luoyang Branch	No. 55, Binhe South Road, Luolong District, Luoyang	2	3,261	46
Zhangzhou Branch	Liyuan Plaza, Eastern Section of Nanchang Road, Xiangcheng District, Zhangzhou	5	3,113	57
Langfang Branch	F4 Floor, Aimingdongdao New Word Centre Office, Guangyang District, Langfang	1	2,995	46
Guangdong Pilot Free Trade Zone Nansha Branch	No. 106, Fengze East Road, Nansha District, Guangzhou	1	2,899	24
Linyi Branch	No. 10, Jinqueshan Road, Lanshan District, Linyi	3	2,796	61
Zibo Branch	Zhongrun Comprehensive Building , No. 1, Zhongrun Avenue, High-tech District, Zibo	1	2,574	40

Organisation name	Address	Number of outlets	Asset scale (In RMB million)	Number of employees
Yichang Branch	Zhongxing Plaza, No. 179, Yiling Avenue, Wujiagang District, Yichang	1	2,496	41
Mianyang Branch	No. 116, Northern Section of Huoju West Street, Hi-tech Zone, Mianyang	1	2,417	29
Jingzhou Branch	Fengtai Mansion, Beijing Road, Shashi District, Jingzhou	2	2,080	44
Shaoxing Branch	No. 711-713, Jiefang Avenue, Shaoxing	4	1,996	65
Yancheng Branch	Fenghuang Culture Plaza, No. 611, Century Avenue, Yancheng	1	1,973	46
Hohhot Branch	1-3/F, Block A, Ulan Fortune Plaza, No. 56, Ruyihe Street, Ruyi Development Zone, Hohhot	1	1,905	86
Leshan Branch	No. 358, Southern Section of Chunhua Road, Shizhong District, Leshan	2	1,690	28
Xiangyang Branch	No. 10, Chunyuan West Road, Xiangyang	2	1,690	47
Rizhao Branch	No. 89, Taian Road, Rizhao	2	1,657	26
Wuhu Branch	1-2/F, Podium Building, Weixing Times Financial Centre at the intersection of Beijing Middle Road and Jiuhua Middle Road, Jinghu District, Wuhu, Anhui	1	1,571	39
Huzhou Branch	No. 72, Lianjiaxiang Road, Building 1, Shangzuo, Tianyuanyicheng, Huzhou	2	1,488	41
Hengqin Branch in Guangdong Pilot Free Trade Zone	Building 7, Hengqin Financial Industry Service Base, Shizimen Central Business District, Hengqin New Area, Zhuhai	1	1,481	12
Jining Branch	Huiji Central Building, Junction of Guanghe Road and Communist Youth League Road, Jining	1	1,339	32
Hengyang Branch	Room 1104, 1/F, Hengyang Shenguotou Commercial Centre, No. 21, Jiefang Avenue, Zhengxiang District, Hengyang, Hunan	1	1,301	24
Yangzhou Branch	No. 447, Jiangyang Middle Road, Yangzhou, Jiangsu	1	1,077	39
Nanyang Branch	Wanda International, Junction of Zhongzhou Road and Yongan Road, Wolong District, Nanyang	1	886	28
Weihai Branch	No. 75, Northern Qingdao Road, Weihai, Shandong	1	746	30
Kaifeng Branch	No. 169, Jinming Avenue, Kaifeng	1	729	30
Yueyang Branch	Room 109A, 1/F, Building 2, Garden Mansion, No. 9, Jin'e Middle Road, Yueyanglou District, Yueyang, Hunan	2	636	24
Jinzhong Branch	East Region No. 1, Yujing City Garden Phase II, No. 233, Xinjian North Road, Yuci District, Jinzhong	1	614	24
Baoding Branch	Office Commercial Building, Jinguan Mansion, No. 588, Chaoyang North Avenue, Jingxiu, Baoding	1	611	30
Xianyang Branch	No. 2, Dingcheng Garden, No. 11, Renmin East Road, Weicheng District, Xianyang	1	549	27
Tai’an Branch	No. 286-1, Dongyue Street, Taishan District, Tai’an, Shandong	1	538	24
Honghe Branch	No. 101 and 205, Building 3, Jin'an Pincheng, Junction of Chaoyang Road and Xuehai Road, Mengzi, Honghe Hani and Yi Autonomous Prefecture, Yunnan	1	448	24
Deyang Branch	New Era Plaza, No. 308, First Section of Western Changjiang Road, Deyang	1	407	25

Organisation name	Address	Number of outlets	Asset scale (In RMB million)	Number of employees
Putian Branch	Room 101, No. 521, Meiyuan Road East, Zhenhai Street, Licheng District, Putian	1	306	23
Branch in Fuzhou Area of Fujian Free Trade Zone	No. 68-1, Jiangbin East Avenue, Mawei Town, Mawei District, Fuzhou	1	218	3
Branch in Xiamen Area of Fujian Pilot Free Trade Zone	No. 99, Xiangyu Road. Huli District, Xiamen	1	138	2
Chongqing Pilot Free Trade Zone Branch	No. 1, Caifu Avenue, Yubei District, Chongqing	1	-	12
Sanya Branch	Humanities Shui'an, No. 62, Hedong Road, Sanya	2	-	22
Zunyi Branch	1/F, Tian'an Mansion, Xiamen Road, Huichuan District, Zunyi, Guizhou	1	-	27
Zhenjiang Branch	Building 9, Ruixiang Garden, No. 8, Hejiawan Road, Ruizhou District, Zhenjiang	1	-	32
Changde Branch	Room 103, 1/F, Dingfeng Fortune Plaza, No. 448, Longgang Road, Wuling District, Changde, Hunan	1	-	21
Urumqi Branch	1/F, Tower B, Urumqi Evening News Media Building, No. 1119, Huizhan Avenue, Shuimogou District, Urumqi, Xinjiang	1	-	60
Treasury Operation Centre	No. 1333 Lujiazui Ring Road, Pudong New Area, Shanghai	1	128,178	53
Automobile Consumption Financial Centre	20/F, Rongchao Mansion, No. 4036, Jintian Road, Futian Central District, Fuzhong Community, Lianhua Street, Futian District, Shenzhen	1	180,085	672
Credit Card Centre (sub-centre inclusive)	No. 1, Liyumen Street, Qianwan First Road, Qianhai Shenzhen-Hongkong Modern Service Industry Cooperation Zone, Shenzhen	27	528,171	2,329
SME Finance BU	No. 5047, Shennan East Road, Luohu District, Shenzhen	1	Reflected in each branch	
Total		**1,058**	**3,520,798**	**29, 084**

Note: The number of organisations was counted according to the licenses.

7.6.2 Information about employees

As of the end of the reporting period, the total number of in-service employees of the Bank was 34,253 (including 813 employees on secondment). The number of retired ex-employees who shall be paid pensions was 88. Among regular employees are 22,540 business personnel, 7,410 financial and operating personnel, 2,277 management and operation personnel and 1,213 administrative support and other personnel. 85.6% of them have bachelor degrees or higher degree. 99.0% of them have college degrees or higher degree.

To support the Bank's medium and long-term strategic development goals, to give full play to compensation resources' guiding effects on strategic transformation requirements and stimulation of business vitality, by improving compensation incentive mechanism, reasonably design compensation structure and level, the Bank has developed a compensation policy, which is "market-oriented, follows the principle of paying compensations based on posts and bonuses on performance and determining long-term incentives based on long-term business performance and banking market value".

On the basis of good corporate governance requirements, the Bank has brought risk factors into incentive mechanism for assessment and appraisal. The Bank has set multidimensional indexes to comprehensively evaluate the performance of each business unit. A linkage mechanism of compensation resources with assessment results was also established. At the same time, the Bank has set up a linkage mechanism of employee bonuses with individual performance, department performance and organisation performance to fully arouse the enthusiasm of organisations and employees.

To better prevent risks, improper incentives or over incentives, the Bank continued to perform the plan of delay in bonus payment in the year. Personnel who are related to this plan are all senior management staff, other management staff associated with risk management and market frontline staff. The delay period matches with the period of risk exposure. And according to risk index implementation, the nature and effect of risk exposure events and so on, it will be decided whether the payment will be made or how much the payment proportion will be when the delay period expires.

Section VIII Corporate Governance

8.1 Basic situation of corporate governance

During the reporting period, the Bank was committed to further completing the corporate governance system and perfecting the corporate governance structure in accordance with the provisions of the *Company Law*, *Securities Law*, *Commercial Bank Law* and other relevant laws and regulations, as well as the regulatory requirements of China Securities Regulatory Commission and China Banking and Insurance Regulatory Commission. The Bank has established a number of corporate governance systems, including the Articles of Association, rules of procedures for the Shareholders' General Meeting, rules of procedures for the Board of Directors and their special committees, rules of procedures for the Supervisory Committee and their special committees, information disclosure management system, investor relations system, shares held by directors, supervisors and senior management, and change management method, management system of insider information and insiders, accountability system of major errors in annual report information disclosure, system of preventing major shareholders and related parties occupying the funds, performance evaluation methods of directors and supervisors, etc.

During the reporting period, the Shareholders' General Meeting of the Bank has effectively played its functions in accordance with the relevant provisions of the Company Law and the Articles of Association. The Board of Directors shall be responsible to the Shareholders' General Meeting, and bear the ultimate responsibility for the operation and management of the bank, and shall hold the meeting in accordance with the legal procedures and exercise its functions and powers. The Supervisory Committee, with its responsible attitude towards all shareholders, shall maintain the close contact and communication with the Board of Directors and the management, and carry out performance evaluation of directors and supervisors, to effectively perform the supervisory functions and duties. The management of the Bank abides by the principle of good faith, prudently and diligently performs its duties, and carries out management according to the decision of the Board of Directors.

On 7 November 2019, the 2019 First Extraordinary General Meeting of the Bank elected the 11th Board of Directors, and therefore, the term changing work for the Board of Directors was completed.

Whether there is a significant difference between the actual situation of corporate governance and the normative documents issued by the China Securities Regulatory Commission on the governance of listed companies
□Yes √No

8.2 Independence conditions of the Company on business, personnel, assets, organisations, finance etc. of controlling shareholders

The Bank is completely separated from business, organisations, personnel, finance, assets, etc. of controlling shareholders, and is provided with independent and completed businesses and self-operation capabilities. In terms of business, the Bank has an independent operation and sales system; in terms of organisations, the Bank has an organisation structure which is completely independent from the controlling shareholders; in terms of personnel, the Bank is independent of controlling shareholder in labour, personnel and wages management and other aspects; members of operating management do not hold posts in the shareholders' units; in terms of finance, the Bank has established an independent financial management system and accounting system, with independent accounting, independent tax; in terms of assets, the Bank's assets are complete, and the property relations are clear. The Bank has independent premises for business activities and property rights, trademark registration right and non-patented technology and other intangible assets.

During the reporting period, the controlling shareholder of the Bank did not interfere with operation and management of listed companies, and there were no other non-standard situations of corporate governance.

8.3 Competition in the same business

□Applicable √ Not applicable

8.4 Relevant conditions of Annual General Meeting and Extraordinary General Meeting during the reporting period

8.4.1 Conditions of Annual General Meeting during the reporting period

Session and type of meeting	Investor participation rate	Holding date	Disclosure date	Disclosure indexes
2018 Annual General Meeting	62.3200%	30 May 2019	31 May 2019	Relevant announcements such as *The Resolution Announcement of 2018 Annual General Meeting of Ping An Bank Co., Ltd.*, the *Resolution Announcement of 2019 First Extraordinary General Meeting of Ping An Bank Co., Ltd.* were published on the *China Securities Journal*, *Securities Times*, *Shanghai Securities News*, *Securities Daily* and CNINF (http://www.cninfo.com.cn)
2019 First Extraordinary General Meeting	64.5626%	7 November 2019	8 November 2019	

8.4.2 Preferred shareholders with resumed voting rights request to convene an extraordinary general meeting

□Applicable √ Not applicable

8.5 Particulars about reception of researches, visits and interviews

During the reporting period, the Bank conducted a number of communications about the Bank’s operations and financial position and other matters with the institutional investors through the results announcements, the analyst meeting and the acceptance of investor research, and individual investors could make enquiry by phone. The communications involved topics on the Bank's operations and development strategy, periodic reports and interim announcements and their explanations. In accordance with the requirements of the *Guidelines on Fair Information Disclosure of Shenzhen Stock Exchange Listed Companies*, the Bank and the parties subject to the information disclosure obligation has strictly followed the principle of fair information disclosure with no violation. The Bank's primary receptions of investors during the reporting period are as follows:

Date	Mode	Type of visiting party	Reference
10/1/2019	Investment bank meeting	Institution(s)	CNINFO （http://www.cninfo.com.cn） *Record Chart of Investor Relationship Activities of Ping An Bank Co., Ltd.*
24/1/2019	Onsite visit	Institution(s)	
25/3/2019	Onsite visit	Institution(s)	
9/4/2019	Onsite visit	Institution(s)	
13/5/2019	Onsite visit	Institution(s)	
31/5/2019	Investment bank meeting	Institution(s)	
5/6/2019	Onsite visit	Institution(s)	
21/6/2019	Investment bank meeting	Institution(s)	
5/7/2019	Onsite visit	Institution(s)	
12/08/2019-16/08/2019	Domestic roadshow	Institution(s)	
4/9/2019	Investment bank meeting	Institution(s)	
09/09/2019-18/09/2019	Overseas roadshow	Institution(s)	
24/10/2019	Onsite visit	Institution(s)	
5/11/2019	Investment bank meeting	Institution(s)	
22/11/2019	Investment bank meeting	Institution(s)	
16/12/2019	Onsite visit	Institution(s)	
Whole year	Communication by call, written inquiry	Individual	
Number of reception		739	
Number of institution reception		612	
Number of individual reception		701	
Number of other reception		0	
Any significant information disclosed, revealed or leaked		None	

8.6 Implementation of responsibilities of independent directors during the reporting period

In 2019, the independent directors of the Bank actively, effectively and independently performed duties in accordance with the relevant laws, regulations, rules and requirements of the Bank's Articles of Association, made independent judgements and decisions on major issues, gave objective and impartial independent opinions, thereby safeguarding the overall interests of the Bank, especially protecting the legal rights and interests of minority stockholders from being violated. It has made due contribution to the corporate governance optimisation of the Bank, construction, operation and management of the Board of Directors.

8.6.1 Participation of independent directors in the Board Meetings and Shareholders' General Meeting

Participations of independent directors on the Board of Directors						
Name of independent director	Number of participations in the Board Meetings during the reporting period	On-site attendance	Off-site attendance	Entrusted attendance	Absence	Failure to participate in the meetings for successive two times?
Wang Chunhan	14	6	8	0	0	No
Wang Songqi	14	6	8	0	0	No
Han Xiaojing	14	6	8	0	0	No
Guo Tianyong	14	6	8	0	0	No
Yang Rusheng	14	6	8	0	0	No
The frequency of independent directors participating in the General Meeting	2 times					

The independent director did not fail to take part in the Board of Directors for continuous two times by himself/herself.

8.6.2 The independent director has not raised any objection on related issues raised by the Bank during the reporting period

8.6.3 Other instructions on implementation of responsibilities of the independent directors

Are the suggestions related to the Bank proposed by the independent director accepted?
√Yes □No

In 2019, the independent director gave independent opinions on 16 related matters considered by the Board of Directors, made a number of comments and suggestions during the meeting and adjournment, which were accepted or responded by the Bank.

8.7 Responsibility performances of the special committees set under the Board of Directors during the reporting period

The 10th and 11th Board of Directors of the Bank both set up 6 special committees: Strategic Development and Consumer Right Protection Committee, Audit Committee, Risk Management Committee, Related Transaction Control Committee, Nomination Committee and Remuneration and Appraisal Committee. In 2019, the 10th Board of Directors held 10 meetings, the 11th Board of Directors held 4 meetings, the special committees held 30 meetings, including 2 meetings of Strategic Development and Consumer Right Protection Committee, 9 meetings of Audit Committee, 6 meetings of Risk Management Committee, 6 meetings of Related Transaction Control Committee, 3 meetings of Nomination Committee and 4 meetings of Remuneration and Appraisal Committee. All special committees of the Board of Directors, in strict accordance with the *Articles of Association*, *the Rules of Procedures for the Board of Directors*, and the working rules of the committees, held meeting to perform their duties, and made comments and suggestions on the relevant work.

8.8 Composition and working condition of the Supervisory Committee

During the reporting period, the Supervisory Committee, with its responsible attitude towards all shareholders and employees, fulfilled their duties, pursued diligence & responsibility, conducted Compliance operation according to the law in accordance with the Company Law, Securities Law, various guidelines of regulatory authorities, the Bank's Articles of Association, and various rules and regulations of the Supervisory Committee. A relatively comprehensive supervision system encompassing meeting supervision, strategic supervision, tour inspection and investigation supervision, performance evaluation supervision, external audit check supervision and communication and meeting supervision was set up, which positively promoted the robust development of the Bank's business, enhancement of risk control, and improvement of corporate governance structure.

The ninth Board of Supervisors sets up 2 special committees: Audit and Oversight Committee and Nomination and Appraisal Committee. In 2019, the Board of Supervisors held 6 meetings of the Board of Supervisors, and 6 meetings of special committees of the Board of Supervisors (including 5 meetings of Audit and Oversight Committee, and 1 meeting of Nomination and Appraisal Committee), and expressed opinions on the Bank's financial accounting, responsibility performances of directors, supervisors and executives, as well as related reports and conclusions. Chairman of the Board of Supervisors and members of the Board of Supervisors also attended 5 meetings of the Board of Directors throughout the year, 11 meetings of the special committees of the Board of Directors, 2 shareholders' general meetings, directly participated in most of business line meetings, compliance control, case preventing meeting and risk control meeting of the Bank, effectively exercised the performance supervision of senior management of the Board of Directors, as well as the supervisory functions of the Bank's financial management, risk management and internal control.

8.9 Working situation of external supervisors

During the reporting period, external supervisors of the Bank actively, effectively and independently performed supervisory duties in accordance with the relevant laws, regulations, rules and requirements of the Bank's Articles of Association, gave independent opinions, safeguarded the overall interests of the Bank, and made due contribution to the corporate governance optimisation of the Bank, and improvement of the supervision mechanism.

Participation of external supervisors in the Supervisory Committee's Meeting

Name	Number of participations in the Supervisory Committee's Meeting during the reporting period	Attendance in person	Entrusted attendance	Absence	Failure to participate in the meetings for successive two times
Zhou Jianguo	6	6	0	0	No
Luo Xiangdong	6	6	0	0	No
Chu Yiyun	6	6	0	0	No

The Supervisory Committee of the Bank has no objection on the supervision issues during the reporting period.

8.10 Salary Management structure and decision-making procedures

The Board of Directors has Remuneration and Appraisal Committee; the independent directors are accounted for more than half of the members; members of the Committee have professional knowledge. As per authorisation of the Board of Directors, the Remuneration and Appraisal Committee performs its duties in accordance with the *Articles of Association* and *Working Rules of the Remuneration and Appraisal Committee in the Board of Directors of Ping An Bank*; it manly reviews the remuneration management system and policy of the Bank, drafts the remuneration plan for directors and senior management, proposes suggestions on remuneration plan to the Board of Directors, and supervises the implementation of plan.

8.11 Evaluation and incentive mechanism of senior management

During the reporting period, the Bank shall assess senior management staff according to the completion of the annual work objectives and plans of the Bank, and the bonuses of senior management staff closely link up with the assessment results. The Bank will continue to improve the performance evaluation and incentive and restraint mechanisms of senior management.

8.12 Internal control

8.12.1 Details about internal control critical defects found during the reporting period

□Yes √No

8.12.2 Internal control self-evaluation report

<table>
<tr><td colspan="2">Disclosure date of internal control evaluation report</td><td colspan="2">14 February 2020</td></tr>
<tr><td colspan="2">Disclosure index of internal control self-evaluation report</td><td colspan="2">CNINFO http://www.cninfo.com.cn</td></tr>
<tr><td colspan="2">The proportion of total assets included in the evaluation scope in that of the Company's consolidated financial statement</td><td colspan="2">100%</td></tr>
<tr><td colspan="2">The proportion of operating revenue included in the evaluation scope in that of the Company's consolidated financial statement</td><td colspan="2">100%</td></tr>
<tr><td colspan="4">Identification standard of internal control defect</td></tr>
<tr><td rowspan="2">Defect grade</td><td rowspan="2">Definition</td><td colspan="2">Identification standard</td></tr>
<tr><td>Quantitative standard</td><td>Qualitative standard</td></tr>
<tr><td>Major</td><td>A combination of one or more control defects that may cause a serious deviation from the control objectives.</td><td>1. The financial loss, in accordance with the loss amount, accounted for ≥1% of the annual operation revenue;
2. The misstatement of financial report, in accordance with the misstatement amount, accounted for ≥0.25% of total assets at the end of the year;
3. The proportion of financial misstatement amount in the total annual profit is ≥5%.</td><td>1. It has a serious impact on the realisation of the Bank's overall control objectives;
2. It may have or has caused a significant amount of financial loss or misstatement of financial report;
3. It is in violation of the relevant laws and regulations or regulatory requirements, the circumstances are very serious, thus causing severe punishment from the regulatory authorities or other very serious legal consequences;
4. It may lead to serious business or service problems, causing that the services of a number of key products/key customers cannot be carried out;
5. The negative impact has a wide range, thus causing widespread public concern at home and abroad, and having a serious negative impact on the Bank's reputation and stock price.</td></tr>
</table>

Identification standard of internal control defect			
Defect grade	Definition	Identification standard	
		Quantitative standard	Qualitative standard
Significant	A combination of one or more control defects, whose severity and economic consequences are lower than significant defects, but may still cause a serious deviation from the control objectives.	1. The financial loss, in accordance with the loss amount, accounted for [0.05%-1%) of the annual operation revenue; 2. The misstatement of financial report, in accordance with the misstatement amount, accounted for [0.0125%, 0.25%) of total assets at the end of the year; 3. The proportion of financial misstatement amount in the total annual profit is [0.25%, 5%).	1. It has a certain impact on the realisation of the Bank's overall control objectives; 2. It may have or has caused a larger amount of financial loss or misstatement of financial report; 3. It is in violation of the relevant laws and regulations as well as regulatory requirements, the circumstances are serious, thus causing more serious punishment from the regulatory authorities or other more serious legal consequences; 4. It may lead to business or service problems, causing that the service quality of one or several key products/key customers is declined significantly; 5. The negative impact spreads inside and outside of the industry, thus causing public concern, and bringing a greater negative impact on the Bank's reputation in some areas.
General	Other control defects other than major defects and significant defects.	1. The financial loss in accordance with the proportion of loss amount accounted for the annual operation revenue is <0.05%; 2. The misstatement of financial report, in accordance with the misstatement amount, accounted for <0.0125% of total assets at the end of the year; 3. The proportion of financial misstatement amount in the total annual profit is <0.25%.	1. It has a slight impact or basically no impact on the realisation of the Bank's overall control objectives; 2. It may have or has caused a smaller amount of financial loss or misstatement of financial report; 3. It is in violation of the relevant laws and regulations or regulatory requirements, the circumstances are very minor, thus causing lighter punishment from the regulatory authorities or other minor legal consequences; 4. It may lead to business or service problems, affecting one or several key products/key customers; the impact situation can be immediately controlled; 5. The negative impact is limited to a certain range, the degree of public concern is lower, and it brings a smaller negative impact on the Bank's reputation.

Number of major defects in financial report (Nr.)	0
Number of major defects in non-financial report (Nr.)	0
Number of significant defects in financial report (Nr.)	0
Number of significant defects in non-financial report (Nr.)	0

8.12.3 Internal control audit report

√ Applicable □ Not applicable

Review comments in the internal control audit report	
We believe that Ping An Bank maintained effective internal control over all significant aspects in accordance with the *Basic Norms of Enterprise Internal Control* and the relevant regulations on 31 December 2019.	
Disclosure of internal audit report	Disclosure
Disclosure date of internal control audit report	14 February 2020
Disclosure index of internal control audit report	CNINFO http://www.cninfo.com.cn
Opinion type of internal audit report	Unqualified
Whether there are major defects in the non-financial report	No

Whether the accounting firm issues internal audit report with modified opinion?

□Yes √No

Whether the internal control audit report issued by the accounting firm shares the same opinion with the self-evaluation report of Board of Directors

√Yes □No

Section IX Corporate Bonds

Whether the Company has corporate bonds which are publicly issued and listed on the stock exchange, undue on the date of approval of the Financial Report or failing to be fully paid on due date.

□Applicable √ Not applicable

Section X Financial Report

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2020) No. 10010
(Page 1 of 8)

To the Shareholders of Ping An Bank Co., Ltd.,

Opinion

What we have audited

We have audited the accompanying financial statements of Ping An Bank Co., Ltd. (hereinafter "Ping An Bank"), which comprise:

- the balance sheet as at 31 December 2019;
- the income statement for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ping An Bank as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

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

We are independent of Ping An Bank in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Key Audit Matters

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

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

- Expected credit losses (ECL) measurement of loans and advances to customers, investment on debts and credit commitments
- Consolidation assessment of structured entities

Key Audit Matters (Continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
I. ECL measurement of loans and advances to customers, investment on debts and credit commitments Refer to Note II 9(iv), Note II 35(ii), Note III 6, Note III 8, and Note III 27 to the financial statements As at 31 December 2019, the total loans and advances (including accrued interest) to customers in Ping An Bank's balance sheet amounted to RMB2,328,909 million, with loss provisions of RMB70,013 million recognised by management; the total investment on debts (including accrued interest) amounted to RMB665,203 million, with loss provisions of RMB8,913 million recognised by management; and credit commitment exposures amounted to RMB928,652 million, with provisions of RMB1,704 million recognised by management. The impairment losses on loans and advances to customers, investment on debts and credit commitments recognised in the income statement totalled RMB56,341 million. The balance of loss provisions for loans and advances to customers and investment on debts as well as provisions for credit commitments reflected that management had made best ECL estimates based on the ECL model prescribed by *Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments* on the reporting date.	We evaluated and tested the effectiveness of internal control design and operation related to the ECL measurement of loans and advances to customers, investment on debts and credit commitments, mainly including: (1) ECL measurement model governance, including the selection, approval and application of model methodology, and internal control regarding continuous model monitoring and optimisation; (2) Internal control regarding management's significant judgements and assumptions, including group division, model selection, parameter estimation, judgements on significant increase in credit risk, default and credit impairment incurred, and review and approval of overlay adjustments for forwarding-looking and managerial reasons; (3) Internal control regarding the accuracy and completeness of key data used in model measurement; (4) Internal control regarding future cash flow forecast and present value calculation of loans and advances to corporates and investment on debts in stage 3; (5) Internal control regarding model measurement-related information system. We mainly implemented the following substantive procedures: We reviewed the methodology of ECL model measurement and evaluated the reasonableness of group division, model selection, key parameters and significant judgements and assumptions. We conducted sampling verification on the operation of model to test if the measurement model had properly reflect the model methodology prepared by management.

Key Audit Matters (Continued)

Key Audit Matters	**How our audit addressed the Key Audit Matters**
I. ECL measurement of loans and advances to customers, investment on debts and credit commitment (Continued) On basis of the evaluation on whether the credit risk of loans and advances to customers, investment on debts and credit commitments had increased significantly since their initial recognition, Ping An Bank used a three-stage impairment model for ECL measurement. For loans and advances to corporates, investment on debts, loans and advances to individuals, and credit commitments in stage 1 and stage 2, management evaluated the loss provisions by using the risk parameter model methodology that included key parameters such as probability of default, default loss rate, exposure at default and discount rate. For loans and advances to corporates and investment on debts in stage 3, management evaluated loss provision by predicting the future cash flow of the loans or investments. Management's significant judgements and assumptions included in the ECL measurement model: (1) Classifying businesses with similar credit risk characteristics into the same group, selecting proper measurement model and determining the key parameters related to the measurement; (2) Criteria involved in the determination of the significant increase or not in credit risk, default and credit impairment incurred; (3) Forecasted economic indicators adopted in the forward-looking measurement, economic scenarios and parameters and assumptions affected by their weightings adopted;	Based on the borrowers' financial and non-financial information and other external evidences and considerations, we took samples to evaluate if management had appropriately identified the loans experiencing a significant increase in credit risk, default and credit-impairment. In terms of forward-looking measurement, we reviewed management's model analysis results of economic indicators selected, economic scenarios and weightings adopted, evaluated the reasonableness of the financial indicator estimates, and conducted sensitivity tests on financial indicators, financial scenarios and weightings. In addition, we assessed the reasonableness of the selection, use and measurement of significant uncertainties in management's overlay adjustments and checked the accuracy of the mathematical calculation. We took sampling check on the key data used in the model measurement, including historical data and measurement data, to assess the accuracy and completeness. We took sampling check on the accuracy and completeness of the key data transferred between model measurement engine and information systems, to assess the accuracy and completeness.

Key Audit Matters (Continued)

Key Audit Matters	**How our audit addressed the Key Audit Matters**
I. ECL measurement of loans and advances to customers, investment on debts and credit commitment (Continued) (4) Management's overlay adjustments for significant uncertainties not covered by the model; (5) Future cash flow forecast for loans and advances to corporates and investment on debts in stage 3. Ping An Bank has established relevant governance process and control mechanism for ECL measurement. In ECL measurement, Ping An Bank applied complex models, used a large number of parameters and data, and incorporated management's significant judgements and assumptions. Meanwhile, due to the contract exposures of loans and advances to customers, investment on debts and credit commitments and because the provisions for loss impairment were significant, we recognized the ECL measurement as a key audit matter.	For loans and advances to corporates and investment on debts in stage 3, we selected samples and checked the loss provisions calculated based on the expected future cash flows and discount rates derived from the financial information of borrowers and guarantors, the latest appraisal value of collateral and other information obtained. Based on the procedures we implemented and the inherent uncertainty of ECL measurement of loans and advances to customers, investment on debts and credit commitments, we considered that the models applied, key parameters used, significant judgements and assumptions involved and measurement results in the loss assessment were acceptable.

Key Audit Matters (Continued)

Key Audit Matters	**How our audit addressed the Key Audit Matters**
II. Consolidation assessment of structured entities Refer to Note II 6, Note II 35(iv), and Note III 50 to the financial statements Ping An Bank managed and invested in several structured entities. As at 31 December 2019, the total volume of unconsolidated wealth management products managed by Ping An Bank among all structured entities was RMB590,499 million and the total volume of asset securitisation products was RMB48,426 million; and the carrying amount (including accrued interest) of unconsolidated structured entities by Ping An Bank was RMB275,746 million. Management mainly assessed three aspects, namely Ping An Bank's power in the structured entities, variable returns from the structured entities and the ability of Ping An Bank in using the power in the structured entities to affect its returns, to decide whether to consolidate its managed or invested structured entities.	We understood, assessed and tested the effectiveness of design and implementation of internal controls related to evaluating the consolidation of the structured entities. These internal controls mainly included approval of transaction structures and contract terms, and review and approval of consolidation assessment and results. In addition, we checked supporting documents of the structured entities managed or invested by Ping An Bank on a sampling basis, including related contracts, internal documents and information obtained as an investor or disclosed to investors, and assessed whether Ping An Bank had control over the structured entities by conducting the following audit procedures: (1) We acquired an understanding of the purpose of setting up the structured entities and the participation of Ping An Bank in the structured entities, and assessed management's judgement regarding whether Ping An Bank had power over the structured entities; (2) We checked the structure design of risks and rewards by the structured entities, including any assets owned in the structured entities by Ping An Bank or guarantee for its income, arrangement for providing liquidity support, payment of expenses and allocation of income etc., to assess the magnitude and variability of the variable returns from the structured entities owned by Ping An Bank as judged by management;

Key Audit Matters (Continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
II. Consolidation assessment of structured entities (Continued) Considering the scale of Ping An Bank's the structured entities and the significant management judgements required for consolidation evaluation of the structured entities, we recognized consolidation assessment of structured entities as a key audit matter.	(3) We determined Ping An Bank's role in the aforesaid activities as an agent or a principal in charge based on whether the Bank was able to influence the amount of return by exercising its rights over the structured entities, including analysing Ping An Bank's decision scope, rewards gained, other interests, and other participators' rights. Based on the adopted procedures, the consolidation judgments made by management with regard to the structured entities are acceptable.

Other information

Management of Ping An Bank is responsible for the other information. The other information comprises all of the information included in 2019 annual report of Ping An Bank other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management of Ping An Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing Ping An Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Ping An Bank or to cease operations, or has no realistic alternative but to do so.

Responsibilities of management and those charged with governance for the financial statements(Continued)

Those charged with governance are responsible for overseeing Ping An Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Ping An Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these 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 Ping An Bank to cease to continue as a going concern.

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

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

PricewaterhouseCoopers Zhong Tian LLP	Signing CPA	—————————— Chen Anqiang (Engagement Partner)
Shanghai, the People's Republic of China 13 February 2020	Signing CPA	—————————— Gan Lili

PING AN BANK CO., LTD.

BALANCE SHEET
AS AT 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

	Note III	31 December 2019	31 December 2018
ASSETS			
Cash and balances with the Central bank	1	252,230	278,528
Deposits with banks and other financial institutions	2	85,684	85,098
Precious metals		51,191	56,835
Placements with and loans to banks and other financial institutions	3	79,369	72,934
Derivative financial assets	4	18,500	21,460
Financial assets held under resale agreements	5	62,216	36,985
Loans and advances to customers	6	2,259,349	1,949,757
Financial investments:			
Financial assets held for trading	7	206,682	148,768
Investment on debts	8	656,290	629,366
Other investment on debts	9	182,264	70,664
Other equity investment	10	1,844	1,519
Investment properties	11	247	194
Property and equipment	12	11,092	10,899
Right-of-use assets	13	7,517	-
Intangible assets	14	4,361	4,771
Goodwill	15	7,568	7,568
Deferred income tax assets	16	34,725	29,468
Other assets	17	17,941	13,778
TOTAL ASSETS		3,939,070	3,418,592

PING AN BANK CO., LTD.

BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

	Note III	31 December 2019	31 December 2018
Liabilities			
Borrowings from the Central bank	19	113,331	149,756
Deposits from banks and other financial institutions	20	368,691	392,738
Placements from banks and other financial institutions	21	26,071	24,606
Financial liabilities held for trading		29,691	8,575
Derivative financial liabilities	4	21,404	21,605
Financial assets sold under repurchase agreements	22	40,099	7,988
Due to customers	23	2,459,768	2,149,142
Employee benefits payable	24	14,218	12,238
Taxes payable	25	12,031	9,366
Debt securities issued	26	513,762	381,884
Lease liabilities	13	7,600	-
Provisions	27	1,734	860
Other liabilities	28	17,687	19,792
Total liabilities		3,626,087	3,178,550
Shareholders' equity			
Share capital	29	19,406	17,170
Other equity instrument	30	39,948	19,953
Including: Preference shares		19,953	19,953
Perpetual bonds		19,995	-
Capital reserve	31	80,816	56,465
Other comprehensive income	45	2,314	786
Surplus reserve	32	10,781	10,781
General reserve	33	46,348	39,850
Retained earnings	34	113,370	95,037
Total shareholders' equity		312,983	240,042
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,939,070	3,418,592

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

The financial statements are signed by:

Legal representative	President	CFO	Head of accounting department
Xie Yonglin	Hu Yuefei	Xiang Youzhi	Zhu Peiqing

PING AN BANK CO., LTD.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

	Note III	2019	2018
I. Operating income			
Interest income	35	177,549	162,888
Interest expenses	35	(87,588)	(88,143)
Net interest income	35	89,961	74,745
Fee and commission income	36	45,903	39,362
Fee and commission expenses	36	(9,160)	(8,065)
Net fee and commission income	36	36,743	31,297
Investment income	37	9,710	9,186
Including: Gains/(Losses) from derecognition of financial assets measured at amortised cost		78	(65)
Gains and losses on changes in fair value	38	49	892
Net gains from foreign exchange and foreign exchange products	39	1,196	209
Other operating income	40	110	170
Gains or losses on disposal of assets		(30)	88
Other income		219	129
Total operating income		137,958	116,716
II. Operating expenses			
Taxes and surcharges	41	(1,290)	(1,149)
Business and administrative expenses	42	(40,852)	(35,391)
Total operating expenses		(42,142)	(36,540)
III. Operating profit before impairment losses on assets		95,816	80,176
Impairment losses on credit	43	(58,471)	(47,814)
Impairment losses on other assets		(1,056)	(57)
IV. Operating profit		36,289	32,305
Add: Non-operating income		99	28
Less: Non-operating costs		(148)	(102)
V. Profit before tax		36,240	32,231
Less: Income tax expenses	44	(8,045)	(7,413)
VI. Net profit		28,195	24,818
(I) Net profit from continued operations		28,195	24,818
(II)Net profit from discontinued operations		-	-

PING AN BANK CO., LTD.

INCOME STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

	Note III	2019	2018
VII. Other comprehensive income, net of tax	45		
(I) Not to be reclassified into profit or loss in subsequent periods			
Changes in fair value of other equity investments		(5)	1
(II) To be reclassified into profit or loss in subsequent periods			
1. Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income		558	644
2. Provision for credit losses on financial assets designated at fair value and changes included into other comprehensive income		974	267
3. Exchange differences on translation of foreign currency financial statements		1	-
Sub-total		1,533	911
Total other comprehensive income		1,528	912
VIII. Total comprehensive income		29,723	25,730
IX. Earnings per share			
Basic earnings per share (RMB Yuan)	46	1.54	1.39
Diluted earnings per share (RMB Yuan)	46	1.45	1.39

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

PING AN BANK CO., LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

	Note	Share capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total shareholders' equity
I. As at 31 December 2018		17,170	19,953	56,465	786	10,781	39,850	95,037	240,042
II. Movements in the year									
(i) Net profit		-	-	-	-	-	-	28,195	28,195
(ii) Other comprehensive income	III 45	-	-	-	1,528	-	-	-	1,528
Total comprehensive income		-	-	-	1,528	-	-	28,195	29,723
(iii) Capital contribution by shareholders									
1. Transfer of convertible corporate bonds to share capital and capital reserve		2,236	-	24,351	-	-	-	-	26,587
2. Capital contribution by shareholders of other equity instrument		-	19,995	-	-	-	-	-	19,995
(iv) Profit appropriation									
1. Appropriation to surplus reserve	III 34	-	-	-	-	-	-	-	-
2. Appropriation to general reserve	III 34	-	-	-	-	-	6,498	(6,498)	-
3. Dividends on ordinary shares	III 34	-	-	-	-	-	-	(2,490)	(2,490)
4. Dividends on preference shares	III 34	-	-	-	-	-	-	(874)	(874)
III. As at 31 December 2019		19,406	39,948	80,816	2,314	10,781	46,348	113,370	312,983

PING AN BANK CO., LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

	Note	Share capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total shareholders' equity
I. As at 31 December 2017		17,170	19,953	56,465	(528)	10,781	38,552	79,661	222,054
Changes from first-time adoption of new accounting standards for financial instruments		-	-	-	402	-	-	(4,935)	(4,533)
As at 1 January 2018		17,170	19,953	56,465	(126)	10,781	38,552	74,726	217,521
II. Movements in the year									
(i) Net profit		-	-	-	-	-	-	24,818	24,818
(ii) Other comprehensive income	III 45	-	-	-	912	-	-	-	912
Total comprehensive income		-	-	-	912	-	-	24,818	25,730
(iii) Profit appropriation									
1. Appropriation to surplus reserve		-	-	-	-	-	-	-	-
2. Appropriation to general reserve		-	-	-	-	-	1,298	(1,298)	-
3. Dividends on ordinary shares		-	-	-	-	-	-	(2,335)	(2,335)
4. Dividends on preference shares		-	-	-	-	-	-	(874)	(874)
III. As at 31 December 2018		17,170	19,953	56,465	786	10,781	39,850	95,037	240,042

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

PING AN BANK CO., LTD.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

	Note III	2019	2018
I. Cash flows from operating activities			
Net decrease in amounts due from the Central bank and deposits with banks and other financial institutions		19,864	90,075
Net increase in borrowings from the Central bank		-	16,791
Net increase in customer deposits and deposits from banks and other financial institutions		285,850	84,569
Net decrease in placements with and loans to banks and other financial institutions		-	9,727
Net increase in placements from banks and other financial institutions		1,311	-
Net increase in financial assets sold under repurchase agreements		32,189	1,624
Net decrease in financial assets held under resale agreements		87	107
Cash received from interest and fee and commission income		201,527	180,118
Cash received relating to other operating activities	48	46,386	53,267
Sub-total of cash inflows		587,214	436,278
Net decrease in borrowings from the Central bank		(36,303)	-
Net increase in loans and advances to customers		(374,197)	(287,146)
Net increase in placements with banks and other financial institutions		(12,209)	-
Net decrease in placements from banks and other financial institutions		-	(3,465)
Net increase in financial assets held for trading		(56,489)	(70,579)
Cash payments for interest and fee and commission expenses		(80,989)	(76,438)
Cash paid to and on behalf of employees		(18,090)	(16,194)
Cash payments for taxes and surcharges		(22,879)	(22,155)
Cash paid relating to other operating activities	49	(26,083)	(17,624)
Sub-total of cash outflows		(627,239)	(493,601)
Net cash flows used in operating activities		(40,025)	(57,323)

PING AN BANK CO., LTD.

CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

	Note III	2019	2018
II. Cash flows from investing activities			
Cash received from investments upon disposal/maturity		435,711	440,302
Cash received from returns on investments		30,934	26,372
Cash received from disposal of property and equipment and other long-term assets		164	92
Sub-total of cash inflows		466,809	466,766
Cash payments for investments		(565,312)	(400,765)
Cash paid to acquire property and equipment, intangible assets and other long-term assets		(3,553)	(4,619)
Sub-total of cash outflows		(568,865)	(405,384)
Net cash flows (used in)/ from investing activities		(102,056)	61,382
III. Cash flows from financing activities			
Cash received from debt securities issued		609,328	765,579
Sub-total of cash inflows		609,328	765,579
Cash payments for principal of debt securities		(441,513)	(740,810)
Cash payments for interest of debt securities		(3,831)	(2,539)
Cash payments for dividend and profit appropriation		(3,364)	(3,209)
Cash payments for lease liabilities		(1,953)	-
Sub-total of cash outflows		(450,661)	(746,558)
Net cash flows from financing activities		158,667	19,021
IV. Effect of foreign exchange rate changes on cash and cash equivalents		671	1,697
V. Net increase in cash and cash equivalents		17,257	24,777
Add: Cash and cash equivalents at the beginning of the year		161,801	137,024
VI. Cash and cash equivalents at end of the year	47	179,058	161,801

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

CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

	Note III	2019	2018
SUPPLEMENTARY INFORMATION			
1. Adjustments for net profit to cash flows generated from operating activities			
Net profit		28,195	24,818
Adjusted for:			
Impairment losses on credit		58,471	47,814
Impairment losses on other assets		1,056	57
Interest income of impaired financial assets		(481)	(675)
Depreciation of investment properties		11	9
Depreciation of property and equipment		1,426	1,134
Depreciation of right-of-use assets		2,259	-
Amortisation of intangible assets		1,307	888
Amortisation of long-term prepaid expenses		597	434
Net losses from disposal of fixed assets and other long-term assets		21	12
Gains or losses from changes in fair value of financial instruments		1,368	(3,439)
Gains or losses from changes in fair value of foreign exchange derivatives		(708)	(1,491)
Interest on investment and investment income		(32,569)	(28,923)
Increase in deferred income tax assets		(5,766)	(3,259)
Interest expenses of lease liabilities		204	-
Interest expenses of debt securities issued		14,477	15,522
Increase in operating receivables		(416,497)	(219,692)
Increase in operating payables		306,600	109,469
Provision for/(Write-back) of expected litigation losses		4	(1)
Net cash flows used in operating activities		(40,025)	(57,323)
2. Net increase in cash and cash equivalents			
Cash at end of the year	47	5,459	5,015
Less: Cash at beginning of the year		(5,015)	(4,226)
Add: Cash equivalents at end of the year	47	173,599	156,786
Less: Cash equivalents at the beginning of the year		(156,786)	(132,798)
Net increase in cash and cash equivalents		17,257	24,777

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

I. GENERAL INFORMATION

Ping An Bank Co., Ltd. (formerly known as Shenzhen Development Bank Co., Ltd.) (hereinafter referred to as the "Company") was established in Shenzhen Special Economic Zone in the People's Republic of China (the "PRC") as a result of the restructuring of six rural credit cooperatives into a joint stock commercial bank with limited liability. The Company was established on 22 December 1987 after the initial public offering of its RMB ordinary shares on 10 May 1987. The Company was listed on the Shenzhen Stock Exchange on 3 April 1991 and the stock code is 000001. As at 31 December 2019, the share capital of the Company amounted to RMB19,406 million, with a face value of RMB1 per share.

Board resolutions on *Proposal of SDB on the Scheme of Merger of the Controlling Subsidiary Ping An Bank Co., Ltd. through Absorption* and *Proposal of SDB on Signing the Absorption Merger Agreement with Ping An Bank Co., Ltd.* signed between the Company and the former Ping An Bank Company Limited (hereinafter referred to as "Former Ping An Bank") were approved during the first extraordinary general meeting held on 9 February 2012. The absorption and merger plan had been approved by the China Banking and Insurance Regulatory Commission ("CBIRC", formerly named as "China Banking Regulatory Commission") in accordance with "China Banking Regulatory Commission's Approval of Absorption of Ping An Bank Co., Ltd. by Shenzhen Development Bank Co., Ltd." (Yin Jian Fu [2012] No. 192).

On 12 June 2012, the Shenzhen Market Supervision and Management Bureau approved Former Ping An Bank's deregistration application. In July 2012, as approved by the CBIRC in accordance with *China Banking Regulatory Commission on the Approval for the Renaming of Shenzhen Development Bank* (Yin Jian Fu [2012] No. 397), the Chinese name of the Company, "深圳发展银行股份有限公司", was changed to "平安银行股份有限公司". The English name of "Shenzhen Development Bank Co., Ltd." was changed to "Ping An Bank Co., Ltd.".

On 16 December 2019, the Company opened a branch in Hong Kong Special Administrative Region, China ("Hong Kong"). As at 31 December 2019, the Company had branches in Mainland China and Hong Kong. The Company's Head Office and domestic branches are collectively referred to as "domestic institutions" and its overseas branches are collectively referred to as "overseas institutions".

The registered office of the Company is located at No. 5047, Shennan Road East, Luohu District, Shenzhen, Guangdong Province, the PRC. Headquartered in Shenzhen, the Company operates its business in Mainland China. The institution number of the Company on No. 00386413 financial license issued by the CBIRC is B0014H144030001. The business license number of the Company issued by Shenzhen Market Supervision and Management Bureau is 91440300192185379H.

The Company is principally engaged in authorised commercial activities. The Company's ultimate holding company is Ping An Insurance (Group) Company of China, Ltd.

The financial statements were approved and authorised for issue by the Board of Directors on 13 February 2020.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises - Basic Standard*, the specific accounting standards, the application guidance for *Accounting Standards for Business Enterprises* issued subsequently, interpretations of *Accounting Standards for Business Enterprises* and other relevant regulations (hereinafter collectively referred to as “CAS”) issued by the Ministry of Finance of the People's republic of China (hereinafter referred to as "the Ministry of Finance”) on 15 February 2006 and in subsequent periods and the disclosure requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 - General Rules on Financial Reporting* issued by the China Securities Regulatory Commission (hereinafter referred to as "the CSRC”).

The financial statements are prepared on a going concern basis.

2. Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements are prepared in compliance with the *Accounting Standards for Business Enterprises*, and truly and completely present the financial position of the Company as at 31 December 2019 and its financial performance, cash flows and other information for the year then ended.

3. Accounting year

The Company’s accounting year starts on 1 January and ends on 31 December.

4. Recording currency

The recording currency of the Company’s domestic branches is RMB and the recording currency of the Company’s overseas branches is determined based on the currency of the primary economic environment in which they operate. The currency adopted for preparation of the financial statements is RMB. All amounts are presented in RMB million unless otherwise stated.

5. Accounting basis and evaluation principle

The Company’s financial statements have been prepared on an accrual basis using the historical cost as the basis of measurement, except for financial assets/liabilities held for trading, derivatives, placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income, loans and advances to customers designated at fair value and changes included into other comprehensive income, other investment on debts and other equity investment that have been measured at fair value. If an asset is impaired, a provision for impairment loss of the asset is recognised in accordance with the relevant requirements.

6. Business combination and consolidated financial statements

Business combination refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. Business combinations are classified into the business combination under common control and the business combination not under common control.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Business combination and consolidated financial statements (Continued)

Business combinations involving enterprises under common control

Business combination under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary. In a business combination under common control, the party which obtains control of other combining enterprise(s) on the combining date is the combining party, and the other combining enterprise(s) is (are) the combined party. The “combining date” refers to the date on which the combining party actually obtains control on the combined party.

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital reserve. If the capital reserve is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issuance of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

Business combinations involving enterprises not under common control

Business combination not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination. In a business combination not under common control, the party which obtains the control on other combining enterprise(s) on the acquisition date is the acquirer, and the other combining enterprise(s) is (are) the acquiree. The “acquisition date” refers to the date on which the acquirer actually obtains the control on the acquiree.

For the business combination not under common control, the acquirer shall, on the acquisition date, measure the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree in light of their fair values.

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. The acquirer shall recognise the positive difference between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as goodwill and recognise the negative difference in profit or loss of the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issuance of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

The consolidated financial statements are prepared on the basis of where control is achieved, including the Company and all its subsidiaries (including the structured entities).

Subsidiaries are the entities controlled by the Company. Control means having power over an investee, enjoying variable returns through involvement in relevant activities of the investee, and being able to impact the amount of such variable returns by using the power over the investee. The Company consolidates the subsidiaries at the date when control is achieved, and stops consolidating at the date when control is lost.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Business combination and consolidated financial statements (Continued)

Business combinations involving enterprises not under common control (Continued)

A structured entity refers to an entity of which, when controller of an entity is determined, the voting rights or similar rights do not compose a decisive factor affecting the design of entity structure (e.g. the voting rights are only related to administrative affairs), and relevant activities of the entity are carried out in accordance with contracts or corresponding arrangements.

There is no significant difference between the consolidated financial statements of the Company and its subsidiaries and the financial statements of the Company.

7. Foreign currency translation

The Company translates the amount of foreign currency transactions into its recording currency.

Foreign currency transactions are translated into recording currency on initial recognition using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated using the spot exchange rate at the balance sheet date. All exchange differences are recognised in “Net gains from foreign exchange and foreign exchange products” or “Other comprehensive income” in the income statement. Non-monetary items denominated in foreign currencies measured at historical cost continue to be translated at the spot exchange rates at the dates of the transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rates at the date when the fair value was determined. All exchange differences are recognised in “Net gains from foreign exchange and foreign exchange products” or “Other comprehensive income” in the income statement.

Assets and liabilities from overseas institutions in the balance sheet are translated using the spot exchange rate at the balance sheet date, and items, except for retained earnings, in shareholders' equity are translated using the spot exchange rate at the time of the transaction. Revenues and expenses from overseas institutions in income statement are translated using the spot exchange rate at the dates of the transactions. Exchange differences on translation of foreign currency financial statements resulting from the above translation are included in other comprehensive income. Cash flows from overseas institutions are translated using the spot exchange rate on the date when the cash flows occur. Effect of foreign exchange rate changes on cash shall be separately presented in cash flow statement.

8. Precious metals

Precious metals mainly include gold. Precious metals that are not related to the Company’s precious metal 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 Company for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in profit or loss for the period.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial assets and liabilities

(i) Initial recognition and measurement of financial instruments

Financial assets or liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

At initial recognition, financial assets and liabilities are measured at fair value by the Company. For financial assets or financial liabilities not designated at fair value and changes included into the profits and losses for the period, transaction costs (such as commission and fee) that are directly attributable to the acquisition or issuance of financial assets or liabilities are added or deducted. Transaction costs for financial assets and liabilities designated at fair value and changes included into the profits and losses for the period are recognised as expenses through profit or loss. After initial recognition, for financial assets measured at amortised cost and investments in debt instruments designated at fair value and changes included into other comprehensive income, their expected credit losses are immediately recognised in profit or loss.

When the fair value of the financial assets and liabilities at initial recognition is different from their transaction costs, the Company confirms the difference in the following ways:

(i) If the fair value is determined based on the quoted price in active markets (i.e., Level 1 inputs) for identical assets or liabilities or based on valuation techniques using only observable market data, the difference is recognised in profit or loss.
(ii) In other cases, the Company defers the difference and determines each time point for recognising the profit or loss after the first deferral date. The difference may be amortised over the lifetime of the financial instruments, or deferred until the fair value of the instruments can be determined using observable market data, or recognised in profit or loss when the financial instruments are settled.

(ii) Classification and subsequent measurement of financial assets

Classification

The Company classifies its financial assets into the following categories:

- Financial assets designated at fair value and changes included into the profits and losses for the period
- Financial assets designated at fair value and changes included into other comprehensive income
- Financial assets measured at amortised cost

Financial assets are classified based on the business model governing those financial assets and the characteristics of the corresponding contractual cash flows.

The business model reflects how the Company manages its financial assets to generate cash flows. In other words, it reflects whether the Company's goal is only collecting contractual cash flows of the assets, or both collecting contractual cash flows and trading the financial assets. If neither of the above is applicable (e.g., holding the financial assets for trading), the financial asset group falls into the category of "others" for business model and is classified as financial assets designated at fair value and changes included into the profits and losses for the period.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial assets **(**Continued)

Classification(Continued)

If the business model is collecting contractual cash flows, or includes both collecting contractual cash flows and trading the financial assets, the Company will assess whether the cash flows of financial instruments are solely payments of principal and interest. In the assessment, the Company considers whether the contractual cash flows are consistent with basic lending arrangements, that is, the interest only includes the time value of currency, credit risk, other basic lending risks and considerations for profit rates in compliance with the basic lending arrangements. If contract terms lead to risks or volatility exposures inconsistent with basic lending arrangements, the relevant financial assets should be classified as financial assets designated at fair value and changes included into the profits and losses for the period.

For financial assets containing embedded derivatives, the Company should analyse them as a whole when confirming if the contractual cash flows are solely payments of principal and interest.

Subsequent measurement

Debt instruments

Debt instruments refer to the instruments that are consistent with the definition of financial liabilities from the perspective of the issuer, loans, government bonds and corporate bonds, for instance.

Subsequent measurement of a debt instrument depends on the Company’s business model governing the asset and the characteristics of the asset’s contractual cash flows. The Company classifies debt instruments using the following three measurement methods:

- **Measured at amortised cost:** Assets that are held for receiving contractual cash flows and for sale and whose cash flows are solely payments of principal and interest are classified into financial assets measured at amortised cost. The interest income of such financial assets is recognised using the effective interest method. The Company’s debt instruments measured at amortised cost mainly comprise balances with the Central bank, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions that are measured at amortised cost, financial assets held under resale agreements, loans and advances to customers that are measured at amortised cost, investment on debts and other receivables.

- The amortised cost of a financial asset shall be measured at the initial recognition amount after making the following adjustments: (i) minus the principal repayments; (ii) plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; (iii) minus the cumulative loss provisions (only applicable to financial assets). The Company calculates the interest income of the asset using the effective interest method and presents it as “interest income”.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial assets **(**Continued)

Subsequent measurement(Continued)

Debt instruments (Continued)

The effective interest rate is the interest rate at which the estimated future cash flows of a financial asset or financial liability in the expected lifetime is discounted to the carrying amount of the financial asset (i.e., the amortised cost before deduction of loss provisions) or the amortised cost of the financial liability. When calculating the effective interest rate, the expected credit losses are not taken into account, while the transaction costs, premiums or discounts, and fees paid or received that are an integral part of the effective interest rate are included.

- **Designated at fair value and changes included into other comprehensive income:** Assets that are held for receiving contractual cash flows and for sale and whose cash flows are solely payments of principal and interest are classified into financial assets designated at fair value and changes included into other comprehensive income. Such assets are subsequently designated at fair value with impairment losses or gains relating to the amortised cost of the financial asset, interest calculated using the effective interest method, net gains from foreign exchange and foreign exchange products recognised in profit or loss for the current period. Besides, other changes in the carrying amount are included in other comprehensive income. Where a financial asset is derecognised, the accumulated gains or losses that are previously recognised in other comprehensive income are transferred from equity to profit or loss. Interest income from these financial assets is calculated at effective interest rate and recognised in profit or loss. The Company's debt instruments designated at fair value and changes included into other comprehensive income mainly comprise placements with and loans to banks and other financial institutions that are measured at fair value through other comprehensive income, loans and advances to customers that are measured at fair value through other comprehensive income and other investment on debts.

  The fair value of a financial asset is the price obtained from selling an asset or paid for transferring a liability in an orderly transaction among market participants on measurement date. An orderly transaction refers to a transaction in which related assets or liabilities are traded in customary market activities in a period before the measurement date. Compulsory transactions such as liquidation are not orderly transactions.

- **Designated at fair value and changes included into the profits and losses for the period**: Financial assets not measured at amortised cost or not designated at fair value and changes included into other comprehensive income are classified as financial assets designated at fair value and changes included into the profits and losses for the period. Such assets are subsequently designated at fair value and changes included into the profits and losses for the period.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement of financial assets (Continued)

Subsequent measurement(Continued)

Debt instruments (Continued)

Financial assets designated at fair value and changes included into the profits and losses for the period held by the Company include financial assets held for trading and financial assets recognised as financial assets designated at fair value and changes included into the profits and losses for the period for they are not qualified as financial assets measured at amortised cost or financial assets designated at fair value and changes included into other comprehensive income. These financial assets are included in "Financial assets held for trading" in the balance sheet. Interest on financial investments included in financial assets held for trading calculated based on coupon rate is recognised in "Investment income".

Equity instruments

Equity instruments refer to the instruments that meet the definition of equity from the perspective of the issuer, that is, an instrument that does not contain contractual obligation to make a payment but is entitled to the net assets and residual income of the issuer, such as a common stock.

All equity instrument investments held by the Company are subsequently measured at fair value. Equity instrument investments not held for trading are classified as equity instrument investments designated at fair value and changes included into other comprehensive income, and included in "Other equity investment" in the balance sheet. After the designation, changes in fair value are recognised in other comprehensive income and should not be subsequently reclassified to profit or loss (even when they are disposed). Dividends as return on investment are recognised in profit or loss when the Company's right to receive dividends has been established.

(iii) Classification and subsequent measurement of financial liabilities

Financial liabilities held for trading

Financial liabilities held for trading refer to financial liabilities designated at fair value and changes included into the profits and losses for the period, including those designated by the Company itself.

Such financial liabilities are measured at fair value and their gains or losses are recognised in profit or loss for the current period. For financial liabilities designated at fair value and changes included into the profits and losses for the period, gains or losses should be recognised as follows:

(1) For changes in fair value of the financial liabilities that arise from changes in the Company's own credit risk, the relevant amount should be recognised in other comprehensive income.
(2) Other changes in the fair value of the financial liabilities are recognised in profit or loss.

Where a financial liability designated at fair value and changes included into the profits and losses is derecognised, the accumulated gains or losses that are previously recognised in other comprehensive income are transferred from other comprehensive income to retained earnings.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial assets and liabilities (Continued)

(iii) Classification and subsequent measurement of financial liabilities (Continued)

Financial liabilities held for trading(Continued)

A financial liability may be designated, on initial recognition, as at fair value included into profit or loss only when one of the following conditions is satisfied:

(i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising the gains or losses on them on a different basis.
(ii) as stated in formal written document with respect to risk management or investment strategy, the portfolio of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, and the information is reported on that basis to the Company's key management personnel;
(iii) a hybrid instrument embedded with one or more derivatives, unless the embedded derivative does not significantly modify the cash flows of the hybrid instrument, or it is clear that a separation of the hybrid instrument from the embedded derivative is obviously inappropriate.

If a financial liability was designated as financial liability held for trading at initial recognition, it cannot be reclassified as other types of financial liabilities in subsequent periods; and other types of financial liabilities cannot be reclassified as financial liabilities held for trading, either.

Convertible corporate bonds

Convertible corporate bonds include the liability component and the equity component. Liability component represents the obligation to pay the fixed principal and interest and is classified as a liability with fair value calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. Equity component represents the embedded option to convert liability into ordinary share, which is recognised in the owners' equity based on the difference between the total income arising from issuance of the convertible corporate bond and its liability component. Direct transaction costs are allocated in proportion of the liability component and equity component to the proceeds of issuance.

On conversion of the corporate bonds into shares, the amount transferred to 'Share capital' is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying amount of the related components of the converted corporate bonds and the amount transferred to 'Share capital' is recognised in 'Capital reserve - Share premium'.

Other financial liabilities

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

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial assets and liabilities (Continued)

(iv) Impairment of financial assets

For debt instruments measured at amortised cost and those designated at fair value and changes included into other comprehensive income, as well as credit commitments (including bank acceptance notes, letter of guarantee issued, letters of credit issued and loan commitments), the Company assesses the expected credit losses by taking into account the forward-looking information. The Company recognises relevant impairment provision at each reporting date. The measurement of expected credit losses reflects the following factors:

- unbiased probability weighted amount determined based on the assessment of a series of possible results;
- time value of money; and
- reasonable and supportable information that is related to past events, current situation and forecasting on future economic conditions and is available without undue cost or effort at the reporting date.

Provisions for credit losses on credit commitments are presented in provisions. However, for an instrument that includes both loans and unused commitments, and the expected credit losses of loans cannot be distinguished from that of unused commitments by the Company, the loss provisions for both loans and unused commitments should be presented in the loss provisions for loans. However, if the total loss provisions surpass the carrying amount of the loans, the loss provisions should be presented in the provisions. For other financial assets that are subject to impairment requirements, their credit losses are recognised by adjusting their book values.

Measurement methods for assessment of expected credit losses are further described in Note VII 1.2.

(v) Modification of loan contracts

The Company will renegotiate or modify customer loan contracts due to certain special circumstances at times, which will in turn lead to changes in contract cash flows. In such cases, the Company will assess if there is a substantial change in the revised contractual terms. In making the assessment, factors need to be considered include:

(1) Where a modification of contract occurs when the borrower is suffering from financial difficulties, whether the modification only reduces the contract cash flows to the amount that is expected to be repaid by the borrower;
(2) If there's any newly added substantial term, for example, a term in regard to right to profits/equity returns is newly added, resulting in a substantial change in the risk characteristics of the contract;
(3) The loan term is significantly extended in the absence of financial difficulties for the borrower;
(4) Material change happens to the loan interest rate;
(5) Change happens to the loan currency; and
(6) New collaterals and other credit enhancements dramatically change the level of loan credit risk.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial assets and liabilities (Continued)

(v) Modification of loan contracts(Continued)

If there is a substantial change in the revised contractual terms, the Company will derecognise the original financial asset and recognise a new financial asset at fair value. Meanwhile, a new effective interest rate is recalculated for the new asset. In this case, when applying impairment requirements to the modified financial asset, including when determining whether there is a significant increase in credit risk, the aforesaid modification date of contract will be regarded as the initial recognition date. For the above newly recognised financial asset, the Company is required to assess whether the asset is credit impaired at initial recognition, especially when the modification of contract occurs when the borrower fails to fulfil the initially agreed payment arrangement. Any change in book value is recognised as gains or losses arising from derecognition, and is included into profit or loss for the period.

If there is no substantial change in the revised contractual terms, the modification of contract will not lead to de-recognition of the financial asset. The Company will recalculate the carrying amount of the financial asset in accordance with the revised contractual cash flows, and include gains or losses arising from the modification into profit or loss for the period. When recalculating the carrying amount, the original effective interest rate (or the credit-adjusted effective interest rate for purchased or originated credit-impaired financial asset) is adopted to discount the revised cash flows.

(vi) Derecognition other than modification of loan contracts

A financial asset or a part of a financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset have expired or been transferred, and (i) all the substantial risks and rewards of ownership of the financial asset have been transferred, or (ii) the Company has neither transferred nor retained substantially all risks and rewards of the ownership of the financial asset and retained no control over the financial asset.

In certain transactions, the Company retains the contractual rights to receive the cash flows, but bears the contractual obligation to transfer the received cash flows to the final payee, and has transferred all the substantial risks and rewards of ownership of the financial asset. In such case, the Company can derecognise the financial asset if the following conditions for transfer arrangement are met:

(1) The obligation to pay the received cash flows to the final payee only exists when equivalent cash flows are received from the financial asset.

(2) Sale or mortgage of the financial asset is prohibited; and

(3) The Company has obligation to transfer all cash flows received from the financial asset to the final payee as early as possible.

Based on the standard repurchase agreement and collaterals (shares or bonds) provided under securities margin trading, the Company will exercise the repurchase right at a predetermined price, and retain all the substantial risks and rewards of ownership of the collaterals, the requirements for derecognition therefore are not met.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial assets and liabilities (Continued)

(vi) Derecognition other than modification of loan contracts (Continued)

When the contractual rights to receive the cash flows from the financial asset have been transferred, and the Company has neither transferred nor retained substantially all risks and rewards of the ownership of the financial asset and retained control over the financial asset, the transferred asset shall be accounted for using the continuing involvement method, and is recognised based on the extent to which the asset is involved. Relevant liabilities are recognised accordingly to reflect the rights or obligations the Company has retained. If the transferred asset is measured at amortised cost, the net book value of the transferred asset and relevant liabilities is equal to the amortised cost of retained rights or liabilities; if the transferred asset is measured at fair value, the net book value of the transferred asset and relevant liabilities is equal to the fair value of retained rights or liabilities.

10. Financial guarantee contracts and loan commitments

Financial guarantee contract prescribes that when a particular debtor fails to pay back the debt according to the agreed terms, the contract signer must compensate the contract holders for the relevant loss.

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

• impairment provision calculated using the method in Note II 9(iv).
• initially recognised amount net of revenue recognised under *CAS 14 - Revenue*.

Credit commitments provided by the Company are measured at impairment provision calculated using the method in Note II 9(iv).

The Company does not commit to granting loans at a price lower than the market interest rate nor settling loan commitments on a net basis by making cash payment or issuing other financial instruments.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Derivative financial instruments

A derivative is a financial instrument, the value of which is derived from an index associated with another “underlying” financial instrument or the value of some other variables. Typically, an “underlying” financial instrument is a share, commodity or bond price, an index value or an exchange or interest rate. The Company uses derivative financial instruments such as foreign exchange category, interest rate category, precious metal and other derivatives.

Derivative financial instruments are initially recognised at fair value on the date on which the Company becomes a contractual party of a derivative contract 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.

Certain derivatives, such as debt for equity swap in convertible corporate bonds and interest rate based interest payments embedded in structured deposits, are embedded into hybrid contracts. In the case of a hybrid contract whose host contract is a financial asset, it is classified and measured as a whole. In the case of a hybrid contract whose host contract is not a financial asset, the embedded derivatives are separated as independent derivatives if the following criterion are met:

(i) the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract;
(ii) the instruments that have the same terms but exist independently meet the definition of derivatives; and
(iii) the hybrid instruments are not designated at fair value and changes included into the profits and losses for the period.

The Company can either measure the separated embedded derivatives designated at fair value and changes included into the profits and losses for the period or designate the hybrid contract whose host contract is not related to financial assets designated at fair value and changes included into the profits and losses for the period.

12. Offsetting of financial instruments

Financial assets and liabilities are presented separately in the balance sheet and cannot be offset. However, the net amount after offset shall be presented in balance sheet if the following conditions are met:

(i) The enterprise has the statutory right to offset the recognised amount, and the statutory right is executable; and
(ii) The enterprise plans a netting settlement, or meanwhile to sell the financial asset and pay off the financial liability.

When transferring the financial assets that not satisfying derecognition conditions, the transferor shall not offset the transferred financial assets and related liabilities.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

A financial instrument shall be classified as equity instrument if the following conditions are met: (i) the financial instrument does not include delivery of cash or other financial assets to other parties or contractual obligations of exchanging financial assets or financial liabilities with other parties in potential adverse conditions; and (ii) If the financial instrument will or may be settled in the Company's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Company to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Company exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Other equity instrument issued by the Company is recognised according to the actual consideration received less transaction expenses directly attributable to equity transactions.

Dividend distribution for other equity instrument in the duration is accounted for as profit distribution.

14. Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both. The investment properties of the Company are buildings that are leased out and the corresponding land use rights. Investment properties are recognised only when the related economic benefits are likely to flow into the Company and the costs can be reliably measured.

The investment properties are initially measured at cost and subsequently measured using the cost model. Depreciation of investment properties is calculated using the straight-line method.

	Useful life	Estimated net residual value	Annual depreciation rate
Buildings	15 to 35 years	1%-5%	2.7%-6.6%

15. Property and equipment and accumulated depreciation

(i) Recognition of property and equipment

Property and equipment is recognised only when related economic benefits are likely to flow into the Company and the cost of the asset can be measured reliably.

Subsequent expenditures incurred for property and equipment that meet the above conditions are included in the cost of the property and equipment and the carrying amount of the parts that are replaced is derecognised. Otherwise, subsequent expenditures are recognised in the income statement in the period in which they are incurred.

(All amounts in RMB million unless otherwise stated)

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Property and equipment and accumulated depreciation (Continued)

(ii) Measurement and depreciation of property and equipment

Property and equipment are initially measured at cost. All property and equipment are stated at cost less any accumulated depreciation and any Impairment provision. The cost of an asset comprises the purchase price, related taxes, and any directly attributable expenditure of bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and professional fees.

Depreciation is calculated using the straight-line method. The Company reasonably determines the useful lives and estimated net residual values of the property and equipment according to the natures and use patterns of the property and equipment as follows.

	Useful life	Estimated net residual value	Annual depreciation rate
Buildings			
Including: Properties	15 to 35 years	1%-5%	2.7%-6.6%
Including: Owner-occupied property improvements	5 or 10 years	-	20.0% or 10.0%
Transportation vehicles	5 to 8 years	3%-5%	11.9%-19.4%
Office and electronic equipments	3 to 10 years	1%-5%	9.5%-33.0%

The useful life and estimated net residual value of property and equipment and the depreciation method applied are reviewed at each balance sheet date, and adjusted prospectively, if appropriate.

16. Construction in progress

The costs of construction in progress are determined based on the actual costs incurred, including various necessary construction costs and other related expenses during the construction period. Construction in progress is not depreciated.

Construction in progress is reclassified to the appropriate category of property and equipment, or long term prepaid expenses when completed and ready for use. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned or controlled by the Company.

An intangible asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. As for any intangible asset acquired in a combination, if its fair value can be measured reliably, it shall be separately recognised as an intangible asset and shall be measured in light of its fair value. The Company analyses and assesses the useful life of an intangible asset on its acquisition. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company.

An intangible asset with definite useful life is amortised over its useful life with the straight-line method

	Useful life	Annual depreciation rate
Software and others	3 to 5 years	20%-33%
Core deposits	20 years	5%

The useful life and amortisation method of intangible assets with finite useful lives are reviewed at each balance sheet date. If the expected useful life of the asset or the amortisation method differs significantly from previous assessments, the amortisation period or amortisation method is changed accordingly as a change in accounting estimate.

The useful life of intangible assets with indefinite useful lives is reassessed at each balance sheet date. If there is evidence that the useful life of the asset becomes definite, the accounting policies for intangible assets with definite useful life described above are then applied.

Expenditure incurred for an internal research and development project is recorded as expenditure on the research phase and development phase by the Company, respectively. Expenditure on the research phase is recognised in profit or loss for the period in which it occurs. Expenditure on the development phase is recognised as an intangible asset only when the following conditions are satisfied:

(i) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
(ii) The Company intends to complete the intangible asset and use or sell it;
(iii) How the intangible asset will generate economic benefits. The enterprise shall demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
(iv) There are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
(v) The expenditure attributable to the intangible asset during its development phase can be reliably measured.

Expenditure on the development phase which does not meet all of the above conditions is recognised in profit or loss in the period in which it is incurred.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Long-term prepaid expenses

Long term prepaid expenses are those prepaid expenses with an amortisation period of more than one year (excluding one year), mainly including leasehold improvements.

Long term prepaid expenses are amortised evenly according to the shorter one of their beneficial periods and legal periods of validity.

When long term prepaid expenses no longer provide future economic benefits, the unamortised amount is recognised in profit or loss for the period.

19. Foreclosed assets

Foreclosed assets are initially recognised at fair value. The difference between the initial fair value and the sum of the related loan principal, interest receivable and impairment provision is recorded in profit or loss for the period. At the balance sheet date, the foreclosed assets are measured at the lower of their book value and the recoverable amount. When the recoverable amount is lower than the carrying amount, a provision for impairment of foreclosed assets is made and recognised in “Impairment losses on other assets” in the income statement.

20. Impairment of assets

For assets excluding financial assets and debt-expiated assets, the Company assesses impairment of assets as follows:

At each balance sheet date, the Company assesses whether there is any indication that assets may be impaired. If there is any indication that an asset may be impaired, the Company will estimate the recoverable amount and conduct impairment test for the asset. Intangible assets arising from business combination with indeterminate goodwill and service life are tested for impairment at least annually, irrespective of whether there is any indication that it may be impaired. Intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication of impairment.

The recoverable amount is the higher of an asset’s fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset.

Where the measurement result of the recoverable amount indicates that an asset’s recoverable amount is lower than its book value, the carrying amount of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognised in profit or loss for the current period. Simultaneously, a provision for asset impairment shall be made accordingly.

For impairment test of goodwill, the carrying amount of goodwill acquired in a business combination shall be reasonably allocated since the acquisition date to related asset unit or to related combination if it cannot be allocated to the asset unit. Related asset portfolio or combination of asset portfolios is expected to benefit from the synergies of the combination, and shall not be larger than an operating segment as defined by the Company.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Impairment of assets (Continued)

When making an impairment test on the goodwill related asset portfolio or combination of asset portfolios, if there is an indication that the portfolio or combination may be impaired, the impairment test is firstly conducted for the asset portfolio or combination of asset portfolios unrelated to goodwill, with its recoverable amount calculated and the impairment loss recognised. Then the Company shall make an impairment test for the goodwill related asset portfolio or combination of asset portfolios by comparing the carrying amount with the recoverable amount. If the recoverable amount is lower than its book value, the impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset portfolio or combination of asset portfolios, and then deducted from the carrying amount of other assets within the asset portfolio or combinations of asset portfolios in proportion to the carrying amount of assets other than goodwill.

Once an impairment loss is recognised, it shall not be reversed in a subsequent period.

21. Recognition of income and expense

Income and expense are recognised to the extent that it is probable that the economic benefits will flow to or flow out of the Company and the income or expense can be reliably measured with the following specific recognition criteria met:

Interest income and interest expense

Interest income is calculated at the carrying amount of a financial asset multiplied by the effective interest rate, except for the following cases:

(i) For an originated or purchased credit-impaired financial asset, the interest income is calculated at the amortised cost of the asset multiplied by the credit-adjusted original effective interest rate.

(ii) For a financial asset that is not an originated or purchased credit-impaired financial asset, but subsequently suffers from credit impairment (or “stage 3”), the interest income is calculated at the amortised cost (i.e., net of the provision for impairment losses) multiplied by the effective interest rate.

The effective interest rate is the interest rate at which the estimated future cash inflow or outflow of a financial asset or financial liability in the expected lifetime is discounted to the carrying amount of the financial asset (i.e., the amortised cost before deducting the provision for impairment losses) or the amortised cost of the financial liability. The calculation of effective interest rate takes into account all contractual terms of the financial instrument and includes all fees and transaction costs that are an integral part of the effective interest rate.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Recognition of income and expense (Continued)

Fee and commission income

The Company earns fee and commission income from a diverse range of services provided to its customers. Fee income can be divided into the following two categories:

(i) Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

(ii) Fee income from providing specific transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

The award credits granted by the Company to the bank card holders under customer loyalty programmes are recognised at fair value through contract liabilities. When the award credits are redeemed or expired, the amount originally recognised as contract liabilities that is related to redeemed or expired credits is recognised in profit or loss for the period.

Dividend income

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

22. Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Company from the government, including tax return, financial subsidy and etc.

Government grants are recognised when the grants can be received and the Company can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Company for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Government grants (Continued)

Government grants related to assets are either deducted against the carrying amount of the assets, or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss for the period, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss for the period, or deducted against related costs, expenses or losses directly in current period. The Company applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

23. Income tax

Income tax includes current income tax and deferred income tax. Except for goodwill arising from a business combination and to the extent that the tax arises from a transaction or event which is recognised directly in other comprehensive income, all the income tax should be expensed or credited to profit or loss for the period as appropriate.

Current income tax
Current income tax is the amount of income taxes payable in respect of the taxable profit for a period. Taxable profit is the profit for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

The current income tax liabilities or assets for the current period or previous periods are measured at the amount expected to be paid or recoverable according to the requirements of tax law.

Deferred income tax
Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying amount of an asset or liability on balance sheet date and the tax base, and the difference between the tax base and the carrying amount of those items that are not recognised as assets or liabilities but have a tax base that can be determined according to tax laws.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(i) Where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or deductible loss; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Income tax(Continued)

Deferred income tax **(Continued)**

For deductible temporary differences and unused deductible losses and tax credits that can be carried forward to subsequent years, the Company recognises the corresponding deferred income tax asset to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the deductible losses and tax credits can be utilised, unless the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible loss.

For deductible temporary differences arising from investments in associates, the corresponding deferred income tax asset is recognised, to the extent that, it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available in the future, against which the temporary differences can be utilised.

At the balance sheet date, deferred income tax assets and liabilities of the Company are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirement of tax laws, and the corresponding income tax effect of such events shall be presented.

At the balance sheet date, the Company reviews the carrying amount of a deferred income tax asset. The carrying amount of a deferred income tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available in future periods to allow the benefit of the deferred income tax asset to be utilised. At the balance sheet date, unrecognised deferred income tax assets are reassessed and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow part or full of the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are offset and presented as net amount if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

24. Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Employee benefits (Continued)

Post-employment benefits

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. In the reporting period, defined contribution plans include basic pensions and unemployment insurance.

Basic pensions

The Company's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retired, the local labour and social security institutions are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period.

Early retirement benefits

For certain local employees, the Company accounts for the early retirement benefits in accordance with the treatment of termination benefits, in which the salaries and social security contributions to be paid to and for the early retired employees from the off-duty date to the normal retirement date are recognised as liabilities with a corresponding charge to the profit or loss for the current period. The differences arising from the changes in the respective actuarial assumptions of the early retirement benefits and the adjustments of benefit standards are recognised in profit or loss for the period in which they occur. There are no capital injections into the early retirement benefits. The cost of benefits is determined by using the projected unit credit actuarial valuation method.

25. Cash equivalents

Cash equivalents are short term, highly liquid monetary assets held by the Company that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the cash flow statement, cash equivalents comprise investments that have a short maturity of generally within three months since acquired, the unrestricted balance with the Central bank, and deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements that have a short original maturity of generally within three months.

26. Related parties

If a party has the power to control, jointly control or exercise significant influence over another party in making financial and operating decisions, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control or joint control from the same party.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Fiduciary activities

Where the Company acts in a fiduciary capacity such as nominee, trustee or agent, assets arising there on together with the related undertakings to return such assets to customers are excluded from the financial statements.

Entrusted loans granted by the Company on behalf of third-party lenders are recorded as off-balance sheet items. The Company acts as an agent and grants such entrusted loans to borrowers under the direction of the third-party lenders who fund these loans. The Company has been contracted by the third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Company charges a commission related to the management of the entrusted loans. The commission income is recognised averagely over the period in which the service is provided. The risk of loan loss is borne by the third-party lenders.

28. Leases

Lease refers to the contract that the lessor obtains consideration through transferring asset use right to the lessee for a certain period of time.

The Company as the lessee:

Right-of-use assets are recognised at the commencement date of the lease term and lease liabilities are recognised based on the present value of the lease payments payable. Lease payments include fixed payments and amounts payable under reasonable determination of the exercise of the option to purchase or termination of the option to lease. The variable rental determined based on a certain percentage of sales is not included in lease payments but recognised into the profits and losses for the period when incurred.

Right-of-use assets of the Company comprise buildings under leases. Right-of-use assets are initially measured at cost. The cost includes the initially measured amount of lease liabilities, lease payments made at or before the commencement date and initial direct costs, net of the received lease incentives. When a leased asset can be reasonably determined that its ownership will be transferred at the end of the lease term, it is depreciated over its remaining useful life; otherwise, the leased asset is depreciated over the shorter of the lease term and its remaining useful life. The carrying amount of right-of-use assets are reduced to the recoverable amounts when the recoverable amounts are below their book values.

For short-term lease with a lease term within 12 months and low-value asset lease with a lower value when a single leased asset is new, the right-of-use assets and lease liabilities are not recognised by the Company, and the relevant rental expenses are included into the profits and losses for the current period or the cost of relevant assets on a straight-line basis over each period during the lease term.

The Company as the lessor:

Rental income from an operating lease is recognised in profit or loss for the current period on a straight-line basis over the lease term.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Segment information

The Company identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Company that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Company's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Company. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

30. Contingent liabilities

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

31. Provisions

An obligation related to a contingency is recognised as a provision when all of the following conditions are satisfied except for contingent consideration and contingent liabilities assumed in the business combination:

(i) the obligation is a present obligation of the Company;
(ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and
(iii) the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The Company reviews the carrying amount of a provision at the balance sheet date. When there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount is adjusted to the current best estimate.

With regard to loss provisions for the Company's loan commitments and financial guarantee contracts, the expected credit losses are assessed taking into account the forward-looking information. For the measurement of loss provisions for this regarding, please refer to Note II 9(iv) and Note VII 1.2.

32. Trade date accounting

All regular way purchases and sale of financial assets are recognised on the trade date, that is, the date on which the Company commits to purchasing or selling the asset. A regular way purchase or sale of financial assets is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Dividends

Dividends that are declared or approved for distribution after the balance sheet date are not recognised as liability of the balance sheet date, but disclosed as an event after the balance sheet date. Dividend payable is recognised as liability for the period when the dividend is approved.

34. Debt restructuring

Debt restructuring represents the consensus made by the creditor in accordance with the agreement with the debtor or based on the court order, when the debtor is in financial difficulty.

As a creditor, the difference between the carrying amount of the debts and the cash receipts is recognised in profit or loss for the period if cash is received from discharging the debts. The difference between the carrying amount of the debts and the fair value of the non-monetary assets is recognised in profit or loss for the period if non-monetary assets are received from discharging the debts. The difference between the carrying amount of the debts and the fair value of the interests in share capital is recognised in profit or loss for the period if capital is exchanged in discharging the debts. The difference between the carrying amount of the debts and the fair value of the debts after restructuring based on agreed terms and conditions is recognised in profit or loss for the period if terms and conditions are amended. If all of the above are applied, financial assets acquired and debts after restructuring are first recognised and measured according to the *Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments* and the fair value of the debts disclaimed net of financial assets acquired and debts after restructuring is then distributed based on the proportion to the fair values of assets except financial assets acquired after recognition.

If provision has been made to the debts under restructuring, the difference resulting from the above is offset against the provision with the net change recognised in profit or loss for the period.

35. Significant accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the balance sheet date. However, uncertainty of these estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets and liabilities affected in the future.

(i) Classification of financial assets

Significant judgements involved in the Company's classification of financial assets include business model and analysis on contractual cash flow characteristics.

The Company determines the business model for financial asset management on the grouping basis, and factors to be considered include the methods of evaluation on financial asset performance and reporting of financial asset performance to key management personnel, risks affecting financial asset performance and management methods for such risks, the ways in which related business management personnel are remunerated, etc.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Significant accounting judgements and estimates (Continued)

(i) Classification of financial assets (Continued)

When assessing whether contractual cash flow characteristics of financial assets are consistent with basic lending arrangement, key judgements made by the Company include: the possibility of changes in timing or amount of the principal during the duration due to reasons such as repayment in advance; whether interest only include time value of money, credit risks, other basic lending risks and considerations for costs and profits; whether the repayment in advance reflects the principal outstanding and corresponding interest and reasonable compensation paid for early termination of the contract.

(ii) Measurement of expected credit losses

For financial assets measured at amortised cost and designated at fair value and changes included into other comprehensive income, as well as credit commitments, the Company measures the impairment provision using the expected credit loss model that involves the establishment and regular review of key definitions, parameters and assumptions, such as estimates on future macroeconomic conditions and borrowers' credit behaviour (e.g., possibility and corresponding losses of customer default). The measurement of expected credit losses requires a lot of management's significant judgements and assumptions, such as:

- Dividing businesses with similar credit risk characteristic to the same portfolio, selecting the proper measurement model and determining the key parameters related to the measurement;
- Judgement criteria of significant increase in credit risk, default and credit impairment incurred;
- Forecasted economic indicators adopted in the forward-looking measurement, economic scenarios and parameters and assumptions affected by their weightings;
- Management's overlay adjustments for significant uncertainties not covered by the model;
- Future cash flows forecast for loans and advances to corporates and investment on debts in stage 3.

Specific information for the above judgements and estimates is set out in Note VII 1.2.

(iii) Income tax

Determining income tax provisions requires the Company to estimate the future tax treatment of certain transactions. The Company carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimates on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Significant accounting judgements and estimates (Continued)

(iv) Judgement of control over structured entities

Where the Company acts as asset manager of structure entities, the Company makes judgement on whether it is the principal or an agent for the structure entities. In the case that the asset manager serves as the agent, it exercises decision-making power mainly on behalf of other parties (other investors in the structured entity) and thus has no control over the structured entity. In the case that the asset manager is considered to exercise decision-making power mainly on behalf of itself, it serves as the trustee and has control over the structured entity. During the evaluation, the Company considers many factors and re-evaluate regularly to assess whether it takes the role as the principal or agent, such as: the scope of asset manager's decision-making power, rights held by other parties, salary levels as management service provider, and any other arrangements (such as direct investment) which could affect the exposure to variable returns from its involvement.

For the unconsolidated structured entities that the Company has rights in or provides liquidity support to, disclosures are shown in Note III 50.

(v) Fair value of financial instruments

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where practicable, the valuation techniques should make maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both the Company's and the counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

(vi) Impairment of goodwill

The goodwill is subject to an impairment test every year, and whenever there is an indication that the unit may be impaired. When an enterprise makes an impairment test of assets, it shall, as of the purchasing day, allocate the carrying amount of the goodwill formed by merger of enterprises to the relevant asset portfolio or combination of asset portfolios by a reasonable method, and apply the appropriate discount rate for the calculation of the present value of future cash flows.

(vii) Core deposits

The Company reviews the reasonableness of core deposits' remaining useful life on each balance sheet date. The review involves making necessary adjustments on relevant parameters and assumptions based on the actual development of relevant fact patterns, so as to amortise the core deposits over an appropriate remaining useful life.

(All amounts in RMB million unless otherwise stated)

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

36. Effect of significant changes in accounting policies

The Ministry of Finance released the revised *Accounting Standard for Business Enterprises No. 21 - Lease* (hereinafter "new leasing standard") in 2018 and the revised *Accounting Standard for Business Enterprises No. 7 - Exchange of Non-monetary Assets* (hereinafter "exchange standard of non-monetary assets") and the *Accounting Standard for Business Enterprises No. 12 - Debt Restructuring* (hereinafter "debt restructuring standard") in 2019. The financial statements in 2019 are prepared in accordance with the above standards, among which the revised exchange standard of non-monetary assets and debt restructuring standard exert no major impacts on the Company's financial statements. The impacts of other amendments on the Company's financial statements are as follows:

According to the new leasing standard, the Company recognises the cumulative effect of initial adoption of the standard as adjustment to related items in the financial statements in 2019. The comparatives for 2018 are not restated.

According to the revised standard for lease, the impacts on line items as at 1 January 2019 are as follows:

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected 1 January 2019
For operating lease contracts before initial adoption of the new leasing standard, the Company identified different transitional methods based on the remaining lease term:	Right-of-use assets Lease liabilities Other assets	7,396 7,022 (374)
For operating lease contracts with the remaining lease term over 1 year, the Company recognised lease liabilities based on remaining lease payments and the incremental interest rate on 1 January 2019, and initially recognised right-of-use assets at the amount equal to lease liabilities plus rental advancements transferred from other assets.		
For operating lease contracts with the remaining lease term within 1 year, the Company adopted practical expedient and did not recognise right-of-use assets or lease liabilities. There was no significant impact on the financial statements.		
For operating lease contracts of low-value assets before initial adoption of the new leasing standard, the Company adopted a practical expedient and did not recognise right-of-use assets or lease liabilities. There was no significant impact on the financial statements.		

(All amounts in RMB million unless otherwise stated)

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

36. Effect of significant changes in accounting policies(Continued)

As at 1 January 2019, the Company reconciled the outstanding minimum operating lease payments disclosed under the old leasing standard to lease liabilities under the new leasing standard as follows:

	The Company
Future minimum operating lease payments disclosed as at 31 December 2018	8,668
Present value of the above minimum operating lease payments discounted using the incremental interest rate	7,518
Less: Present value of the lease contract payments using a practical expedient	(496)
Lease liabilities recognised as at 1 January 2019	7,022

37. Taxation

The main categories and rates of taxes applicable to the Company are set out as follows:

Category	Taxation basis	Tax rate
Corporate income tax (Note)	Taxable income	25%
Value-added tax (“VAT”)	Taxable value-added amount	3%, 5%, 6%, 9%, 10%, 13%, 16%
City maintenance and construction tax	The payment amount of VAT	5%, 7%

Note: Pursuant to the *Circular on Corporate Income Tax Policy Concerning Deductions for Equipment and Appliances* (Cai Shui [2018] No. 54), during the period from 1 January 2018 to 31 December 2020, newly purchased property and equipment except buildings with a unit price of no more than RMB5 million can be fully deducted against taxable income in a one-off manner as costs and expenses in the current period, instead of being depreciated over the years.

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS

1. Cash and balances with the Central bank

	31 December 2019	31 December 2018
Cash on hand	5,459	5,015
Statutory reserve with the Central bank - RMB	206,579	222,974
Statutory reserve with the Central bank - foreign currencies	5,883	6,455
Unrestricted balance with Central bank	31,211	41,899
Other deposits with the Central bank - fiscal deposits	3,003	2,070
Sub-total	252,135	278,413
Add: Accrued interest	95	115
Total	252,230	278,528

Based on the related RMB and foreign currency deposits, the Company placed respective statutory reserves with the People’s Bank of China in accordance with the requirements from the People’s Bank of China. These reserve deposits were not available for use in the Company’s daily operations. As at 31 December 2019, the RMB deposit reserve ratio was 9.5% (31 December 2018: 12%), and the foreign currency deposit reserve ratio was 5% (31 December 2018: 5%).

Fiscal deposits represent the amounts received from government-related bodies that are required to be deposited with the People’s Bank of China according to the relevant regulations.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

2. Deposits with banks and other financial institutions

Summarised by locations and types of banks and other financial institutions

	31 December 2019	31 December 2018
Domestic banks	71,603	72,688
Other domestic financial institutions	5,033	2,703
Overseas banks	9,172	8,975
Other overseas financial institutions	-	1
Sub-total	85,808	84,367
Add: Accrued interest	745	1,094
Less: Impairment provision (Note III 18)	(869)	(363)
Total	85,684	85,098

3. Placements with and loans to banks and other financial institutions

Summarised by locations and types of banks and other financial institutions

	31 December 2019	31 December 2018
Placements with and loans to banks and other financial institutions measured at amortised cost		
Domestic banks	29,260	50,890
Other domestic financial institutions	13,522	1,222
Overseas banks	30,008	17,022
	72,790	69,134
Add: Accrued interest	206	216
Less: Impairment provision (Note III 18)	(180)	(172)
Sub-total	72,816	69,178
Placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income		
Other domestic financial institutions	6,514	3,746
Add: Accrued interest	39	10
Sub-total	6,553	3,756
Total	79,369	72,934

As at 31 December 2019, the impairment provision for placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income amounted to RMB72 million (31 December 2018: RMB16 million). Refer to Note III 18.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Derivative financial instruments

At the balance sheet date, the derivative financial instruments held by the Company are as follows:

	Notional amounts summarised by maturity date					Fair value	
	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total	Assets	Liabilities
31 December 2019							
Foreign exchange derivatives:							
Foreign exchange forward and swap contracts and options	209,314	248,233	38,676	-	496,223	4,412	(3,249)
Interest rate derivatives							
Interest rate swap and other interest rate derivatives	1,153,891	2,047,386	1,561,051	5,915	4,768,243	10,023	(10,009)
Precious metal derivatives	60,072	29,779	-	-	89,851	4,065	(8,146)
Total	1,423,277	2,325,398	1,599,727	5,915	5,354,317	18,500	(21,404)

	Notional amounts summarised by maturity date					Fair value	
	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total	Assets	Liabilities
31 December 2018							
Foreign exchange derivatives:							
Foreign exchange forward and swap contracts and options	476,739	386,716	11,292	-	874,747	7,359	(6,875)
Interest rate derivatives							
Interest rate swap and other interest rate derivatives	935,837	1,251,313	979,519	1,880	3,168,549	11,828	(12,060)
Precious metal derivatives	55,369	28,502	200	-	84,071	2,273	(2,670)
Total	1,467,945	1,666,531	991,011	1,880	4,127,367	21,460	(21,605)

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Company but does not reflect the risk.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Financial assets held under resale agreements

(a) Summarised by the categories of banks and other financial institutions

	31 December 2019	31 December 2018
Banks	38,165	10,370
Other financial institutions	24,054	26,566
	62,219	36,936
Add: Accrued interest	49	51
Less: Impairment provision (Note III 18)	(52)	(2)
Total	62,216	36,985

(b) Summarised by collateral

	31 December 2019	31 December 2018
Bonds	62,219	35,978
Bills	-	958
	62,219	36,936
Add: Accrued interest	49	51
Less: Impairment provision (Note III 18)	(52)	(2)
Total	62,216	36,985

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Loans and advances to customers

6.1 Summarised by corporate and individual

	31 December 2019	31 December 2018
Loans and advances to customers measured at amortised cost		
Loans and advances to corporates:		
Loans	809,499	781,829
Loans and advances to individuals:		
Property mortgage loans and licensed mortgage loans	411,066	310,793
New Generation Loans	157,364	153,745
Auto finance loans	179,224	172,029
Receivables from credit cards	540,434	473,295
Others	69,133	44,151
Sub-total	1,357,221	1,154,013
Total loans and advances to customers measured at amortised cost	2,166,720	1,935,842
Add: Accrued interest	5,704	6,261
Less: Loans impairment provision (Note III 6.6)	(69,560)	(54,033)
Total loans and advances to customers measured at amortised cost	2,102,864	1,888,070
Loans and advances to customers designated at fair value and changes included into other comprehensive income		
Loans and advances to corporates:		
Loans	61,582	19,985
Discounted bills	94,903	41,702
Total loans and advances to customers designated at fair value and changes included into other comprehensive income	156,485	61,687
Book value of loans and advances to customers	2,259,349	1,949,757

As at 31 December 2019, there were RMB5,498 million discounted bills (31 December 2018: RMB4,178 million) that had been pledged for agreements of borrowings from the Central bank.

As at 31 December 2019, there were RMB36,366 million loans (31 December 2018: RMB85,468 million) that had been pledged for medium-term borrowing facility.

For the year ended 31 December 2019, the Company disposed of and derecognised loans of RMB14,767 million (2018: RMB22,908 million) by transferring to third parties or credit asset securitisation and other ways.

As at 31 December 2019, the impairment provision for loans and advances to customers designated at fair value and changes included into other comprehensive income amounted to RMB453 million (31 December 2018: RMB154 million). Refer to Note III 6.6.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Loans and advances to customers (Continued)

6.2 Summarised by industry

	31 December 2019	31 December 2018
Agriculture, husbandry and fisheries	4,619	5,837
Extraction (heavy industry)	31,891	41,140
Manufacturing (light industry)	114,789	119,845
Energy	19,484	21,745
Transportation, storage and communication	43,768	39,131
Commerce	94,407	101,104
Real estate	228,663	176,016
Social service, technology, culture and sanitary industries	158,747	144,186
Construction	40,031	45,403
Discounted bills	94,903	41,702
Loans to individuals	1,357,221	1,154,013
Others	134,682	107,407
Total loans and advances to customers	2,323,205	1,997,529
Add: Accrued interest	5,704	6,261
Less: Loans impairment provision (Note III 6.6)	(69,560)	(54,033)
Book value of loans and advances to customers	2,259,349	1,949,757

6.3 Summarised by type of collateral held or other credit enhancements

	31 December 2019	31 December 2018
Unsecured loans	964,787	795,356
Guaranteed loans	192,876	200,873
Loans secured by collateral	1,070,639	959,598
Including: Loans secured by collateral	792,250	671,915
Loans secured by monetary assets	278,389	287,683
Sub-total	2,228,302	1,955,827
Discounted bills	94,903	41,702
Total loans and advances to customers	2,323,205	1,997,529
Add: Accrued interest	5,704	6,261
Less: Loans impairment provision (Note III 6.6)	(69,560)	(54,033)
Book value of loans and advances to customers	2,259,349	1,949,757

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Loans and advances to customers (Continued)

6.4 Summarised by overdue loans (Excluding accrued interest)

	31 December 2019				
	Overdue by 1 to 90 days (inclusive)	Overdue by 90 days to 1 year (inclusive)	Overdue by 1 to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	11,105	9,165	958	37	21,265
Guaranteed loans	2,338	1,266	3,257	278	7,139
Loans secured by collateral	7,217	9,109	7,060	259	23,645
Including: Loans secured by collateral	4,319	5,694	4,366	131	14,510
Loans secured by monetary assets	2,898	3,415	2,694	128	9,135
Total	20,660	19,540	11,275	574	52,049

	31 December 2018				
	Overdue by 1 to 90 days (inclusive)	Overdue by 90 days to 1 year (inclusive)	Overdue by 1 to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	9,817	7,140	1,275	1,119	19,351
Guaranteed loans	1,490	4,610	2,924	266	9,290
Loans secured by collateral	6,665	11,564	4,774	299	23,302
Including: Loans secured by collateral	4,060	7,123	3,703	160	15,046
Loans secured by monetary assets	2,605	4,441	1,071	139	8,256
Total	17,972	23,314	8,973	1,684	51,943

Overdue loans refer to the loans with either principal or interest being overdue by one day or more. For the overdue loans presented above, loans and advances to customers repayable by instalments, the total amount of loans is deemed overdue if part of the instalments is overdue.

For loans repaid on an instalment basis, only the amount which is not repaid upon maturity (not the total amount of loans) is deemed overdue. As at 31 December 2019, there were RMB48,550 million loans (31 December 2018: RMB49,480 million) that had been deemed overdue according to this criteria.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Loans and advances to customers (Continued)

6.5 Summarised by geographical region

	31 December 2019	31 December 2018
Eastern District	452,166	588,078
Southern District	434,909	349,964
Western District	213,246	184,593
Northern District	338,676	298,178
Head office	883,511	576,716
Overseas	697	-
Total loans and advances to customers	2,323,205	1,997,529
Add: Accrued interest	5,704	6,261
Less: Loans impairment provision (Note III 6.6)	(69,560)	(54,033)
Book value of loans and advances to customers	2,259,349	1,949,757

Details of the above geographical regions:

Eastern District:	Shanghai branch, Hangzhou branch, Yangzhou branch, Yiwu branch, Taizhou branch, Shaoxing branch, Huzhou branch, Ningbo branch, Wenzhou branch, Nanjing branch, Wuxi branch, Changzhou branch, Suzhou branch, Nantong branch, Taizhou branch, Fuzhou branch, Zhangzhou branch, Fujian Pilot Free Trade Zone Fuzhou branch, Xiamen branch, Fujian Pilot Free Trade Zone Xiamen branch, Quanzhou branch, Shanghai Pilot Free Trade Zone branch, Hefei branch, Wuhu branch, Xuzhou branch, Nanchang branch, Yancheng branch, Putian branch;
Southern District:	Shenzhen branch, Shenzhen Qianhai branch, Guangzhou branch, Guangdong Pilot Free Trade Zone Nansha branch, Zhuhai branch, Guangdong Pilot Free Trade Zone Hengqin branch, Foshan branch, Dongguan branch, Huizhou branch, Zhongshan branch, Haikou branch, Changsha branch, Hengyang branch, Yueyang branch, Nanning branch, Sanya branch, Zhenjiang branch, Changde branch;
Western District:	Chongqing branch, Chengdu branch, Deyang branch, Leshan branch, Mianyang branch, Kunming branch, Honghe branch, Wuhan branch, Jingzhou branch, Xiangyang branch, Yichang branch, Xi'an branch, Xianyang branch, Guiyang branch, Chongqing Pilot Free Trade Zone branch, Zunyi branch;
Northern District:	Beijing branch, Dalian branch, Tianjin branch, Tianjin Pilot Free Trade Zone branch, Jinan branch, Linyi branch, Weifang branch, Dongying branch, Qingdao branch, Yantai branch, Rizhao branch, Zhengzhou branch, Luoyang branch, Shenyang branch, Shijiazhuang branch, Taiyuan branch, Tangshan branch, Zibo branch, Jining branch, Jinzhong branch, Langfang branch, Nanyang branch, Weihai branch, Hohhot branch, Kaifeng branch, Taian branch, Baoding branch, Urumchi branch;
Head Office:	The departments of Head Office (including credit card department, capital operation department, special asset management department, financial institution department, asset management department, transaction banking department, auto consumer finance centre etc.)
Overseas:	Hong Kong branch.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Loans and advances to customers (Continued)

6.6 Movements in impairment provision for loans

	2019	2018
Loans and advances to customers measured at amortised cost		
Balance on 31 December 2018 and 31 December 2017	54,033	43,810
Effect of initial implementation of the revised accounting standards for financial instruments	-	3,899
Balance on 1 January 2019 and 1 January 2018	54,033	47,709
Provision for the current year	52,989	43,557
Amounts written off and sold for the current year (Note)	(47,681)	(46,409)
Recovery of loans and advances to customers in the current year written off previously	11,110	9,356
Decrease of loans and advances to customers due to rise in discount value	(481)	(675)
Other changes in the current year	(410)	495
Sub-total balance at the end of the year (Note III 18)	69,560	54,033
Loans and advances to customers designated at fair value and changes included into other comprehensive income		
Balance on 31 December 2018 and 31 December 2017	154	-
Effect of initial implementation of the revised accounting standards for financial instruments	-	54
Balance on 1 January 2019 and 1 January 2018	154	54
Provision for the current year	299	100
Sub-total balance at the end of the year	453	154
Total balance at the end of the year	70,013	54,187

Note: For the year 31 December 2019, the outstanding contract amount corresponding to the loans offset by the Company was RMB47,555 million (2018: RMB45,804 million). The Company still seeks to fully recover the legally-owned creditor's rights.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

7. Financial assets held for trading

	31 December 2019	31 December 2018
Bonds		
Governments	30,192	19,835
Policy banks	32,505	14,027
Banks and other financial institutions	45,209	37,365
Corporates	23,988	6,537
Funds	60,949	45,567
Right to yields of asset management plan/asset management plans	7,217	11,746
Right to yields of trust/trust plan	3,028	5,810
Wealth management products issued by other banks	1,525	5,159
Asset-backed securities from asset securitisation	1,286	1,708
Equity investments	472	666
Others	311	348
Total	206,682	148,768

As at 31 December 2019, there were RMB233 million bond investments that had been pledged for repurchase agreements (31 December 2018: Nil); there was no bond investments that had been pledged for time deposits from the PBoC (31 December 2018: RMB100 million).

8. Investment on debts

	31 December 2019	31 December 2018
Bonds		
Governments	421,236	335,577
Policy banks	53,050	62,913
Banks and other financial institutions	56,384	53,255
Corporates	27,887	25,594
Right to yields of asset management plan/asset management plans	66,449	110,520
Right to yields of trust/trust plan	31,224	38,771
Asset-backed securities from asset securitisation	881	2,317
Sub-total	657,111	628,947
Add: Accrued interest	8,092	7,780
Less: Impairment provision (Note III 18)	(8,913)	(7,361)
Total	656,290	629,366

As at 31 December 2019, there were RMB48,480 million bond investments that had been pledged for repurchase agreements (31 December 2018: 7,982 million); there were RMB18,503 million bond investments that had been pledged for agreements of time deposits from the PBoC (31 December 2018: 20,660 million); and there were RMB118,651 million bond investments that had been pledged for agreements of borrowings from the Central bank (31 December 2018: RMB94,000 million).

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

9. Other investment on debts

	31 December 2019	31 December 2018
Bonds		
Governments	10,821	1,583
Policy banks	25,794	14,145
Banks and other financial institutions	26,627	8,876
Corporates	15,582	6,388
Asset-backed securities from asset securitisation	15,701	4,288
Right to yields of asset management plan/asset management plans	27,517	9,610
Right to yields of trust/trust plan	58,200	25,089
Sub-total	180,242	69,979
Add: Accrued interest	2,022	685
Total	182,264	70,664

As at 31 December 2019, there were RMB2,400 million bond investment that had been pledged for agreements of borrowings from the Central bank (31 December 2018: Nil).

31 December 2019

	Amortised cost	Fair value	Fair value changes charged to other comprehensive income	Total impairment provision
Debt instruments	180,906	182,264	1,358	(1,278)

31 December 2018

	Amortised cost	Fair value	Fair value changes charged to other comprehensive income	Total impairment provision
Debt instruments	70,077	70,664	587	(332)

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

10. Other equity investment

	31 December 2019	31 December 2018
Listed equity	14	8
Unlisted equity	1,830	1,511
Total	1,844	1,519

	31 December 2019		
	Cost	Fair value	Fair value changes charged to other comprehensive income
Listed equity	4	14	10
Unlisted equity	1,905	1,830	(75)
Total	1,909	1,844	(65)

	31 December 2018		
	Cost	Fair value	Fair value changes charged to other comprehensive income
Listed equity	-	8	8
Unlisted equity	1,577	1,511	(66)
Total	1,577	1,519	(58)

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

11. Investment properties

	31 December 2019	31 December 2018
Cost:		
Balance at the beginning of the year	312	329
Transfer to property and equipment	(38)	(37)
Transfer from property and equipment	128	20
Balance at the end of the year	402	312
Accumulated depreciation:		
Balance at the beginning of the year	118	120
Provision	11	9
Transfer to property and equipment	(10)	(13)
Transfer from property and equipment	36	2
Balance at the end of the year	155	118
Book value		
Balance at the end of the year	247	194
Balance at the beginning of the year	194	209

As at 31 December 2019, there were RMB6 million (31 December 2018: RMB3 million) investment properties for which the corresponding registration certificates had not been obtained.

For the year ended 31 December 2019, the gross rental income earned from the investment properties amounted to RMB33 million (2018: RMB31 million). The accrued direct operating expense amounted to RMB1 million (2018: RMB1 million).

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

12. Property and equipment

2019

	Buildings	Transportation vehicles	Office and electronic equipment	Total
Cost:				
Balance at the beginning of the year	10,857	92	6,538	17,487
Additions	100	-	1,585	1,685
Transfer from investment properties	38	-	-	38
Transfer to investment properties	(128)	-	-	(128)
Transfer from construction in progress	68	-	26	94
Decrease	(48)	-	(544)	(592)
Balance at the end of the year	10,887	92	7,605	18,584
Accumulated depreciation:				
Balance at the beginning of the year	2,739	54	3,793	6,586
Additions	499	9	918	1,426
Transfer from investment properties	10	-	-	10
Transfer to investment properties	(36)	-	-	(36)
Decrease	(27)	-	(469)	(496)
Balance at the end of the year	3,185	63	4,242	7,490
Impairment provision:				
Balance at the beginning of the year	2	-	-	2
Balance at the end of the year (Note III 18)	2	-	-	2
Book value				
31 December 2019	7,700	29	3,363	11,092
31 December 2018	8,116	38	2,745	10,899

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

12. Property and equipment (Continued)

2018

	Buildings	Transportation vehicles	Office and electronic equipment	Total
Cost:				
Balance at the beginning of the year	8,452	98	5,262	13,812
Additions	24	5	1,555	1,584
Transfer from investment properties	37	-	-	37
Transfer to investment properties	(20)	-	-	(20)
Transfer from construction in progress	2,389	-	1	2,390
Decrease	(25)	(11)	(280)	(316)
Balance at the end of the year	10,857	92	6,538	17,487
Accumulated depreciation:				
Balance at the beginning of the year	2,364	50	3,360	5,774
Additions	412	12	710	1,134
Transfer from investment properties	13	-	-	13
Transfer to investment properties	(2)	-	-	(2)
Decrease	(48)	(8)	(277)	(333)
Balance at the end of the year	2,739	54	3,793	6,586
Impairment provision:				
Balance at the beginning of the year	2	-	-	2
Balance at the end of the year (Note III 18)	2	-	-	2
Book value				
31 December 2018	8,116	38	2,745	10,899
31 December 2017	6,086	48	1,902	8,036

As at 31 December 2019, the original cost of RMB64 million (31 December 2018: RMB73 million) and net book value of RMB21 million (31 December 2018: RMB22 million) of buildings were in use by the Company without having the registration certificates of property rights.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

13. Leases contracts

(a) Recognised in the balance sheet

2019

	Property
Cost of right-of-use assets:	
Balance at the beginning of the period	7,396
Increase in the current period	2,380
Decrease in the current period	-
Balance at the end of the period	9,776
Accumulated depreciation of right-of-use assets:	
Balance at the beginning of the period	-
Increase in the current period	2,259
Decrease in the current period	-
Balance at the end of the period	2,259
Impairment provision:	
Balance at the beginning of the period	-
Balance at the end of the period	-
Book value of right-of-use assets	
31 December 2019	7,517
1 January 2019	7,396
Lease liabilities	7,600

(b) As at 31 December 2019, lease payments related to lease contracts signed but unexecuted amounted to RMB53 million.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

14. Intangible assets

2019	Core deposits (Note)	Software	Others	Total
Cost/valuation				
Balance at the beginning of the year	5,757	4,088	7	9,852
Additions in the current year	-	220	1	221
Transfer from development expenditure	-	681	-	681
Decrease in the current year	-	(9)	-	(9)
Balance at the end of the year	5,757	4,980	8	10,745
Amortisation				
Balance at the beginning of the year	2,159	2,916	6	5,081
Amortisation in the current year	288	1,018	1	1,307
Decrease in the current year	-	(4)	-	(4)
Balance at the end of the year	2,447	3,930	7	6,384
Book value				
31 December 2019	3,310	1,050	1	4,361
31 December 2018	3,598	1,172	1	4,771

2018	Core deposits (Note)	Software	Others	Total
Cost/valuation				
Balance at the beginning of the year	5,757	3,132	7	8,896
Additions in the current year	-	638	-	638
Transfer from development expenditure	-	352	-	352
Decrease in the current year	-	(34)	-	(34)
Balance at the end of the year	5,757	4,088	7	9,852
Amortisation				
Balance at the beginning of the year	1,871	2,319	5	4,195
Amortisation in the current year	288	599	1	888
Decrease in the current year	-	(2)	-	(2)
Balance at the end of the year	2,159	2,916	6	5,081
Book value				
31 December 2018	3,598	1,172	1	4,771
31 December 2017	3,886	813	2	4,701

Note: Core deposits were accounts that a financial institution expected to maintain for an extended period of time due to ongoing business relationships. The intangible asset value associated with core deposits reflected the use of the deposits at a lower cost alternative source of funding.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

15. Goodwill

2019

	Balance at the beginning of the year	Increase in the current year	Decrease in the current year	Balance at the end of the year	Impairment provision
Former Ping An Bank	7,568	-	-	7,568	-

2018

	Balance at the beginning of the year	Increase in the current year	Decrease in the current year	Balance at the end of the year	Impairment provision
Former Ping An Bank	7,568	-	-	7,568	-

Former Ping An Bank was acquired by the Company in July 2011 and the goodwill acquired from this business combination amounted to RMB7,568 million. The goodwill acquired from the business combination was allocated to the eastern district, southern district, western district, northern district and credit card centre cash-generating units for impairment test so as to compare the recoverable amount with the carrying amount of the cash-generating units. Those cash-generating units were consistent with the cash-generating units recognised at the acquisition date and during the impairment test of goodwill in prior years.

The recoverable amounts of the cash-generating units were determined based on the present value of the expected future cash flows of the cash-generating units. The expected future cash flows were determined based on the expected cash flows from the 5 years' budget plan as approved by management. The cash flows beyond the 5 years' period were extrapolated based on the long-term average growth rates within the operating geographic locations and industries of the cash-generating units. The pre-tax discounted rate used to discount the cash flows reflected the specific risk associated with the cash-generating units. The discount rate for future cash flow is 10.47% (31 December 2018: 12.76%).

According to the results of impairment tests, as at 31 December 2019, there was no indication that goodwill may be impaired (31 December 2018: not impaired).

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

16. Deferred income tax assets

The temporary differences of deferred income tax assets and liabilities before offsetting are shown below:

	31 December 2019		31 December 2018	
	Deductible/ (Taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (Taxable) temporary difference	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
Provision for asset impairments	137,240	34,310	118,564	29,641
Salaries and bonuses	5,296	1,324	4,584	1,146
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	2,352	588	-	-
Others	400	100	232	58
Sub-total	145,288	36,322	123,380	30,845
Deferred income tax liabilities				
Identifiable assets acquired in business combination of Former Ping An Bank at fair value	(3,516)	(879)	(3,796)	(949)
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	-	-	(136)	(34)
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	(1,236)	(309)	(500)	(125)
Others	(1,636)	(409)	(1,076)	(269)
Sub-total	(6,388)	(1,597)	(5,508)	(1,377)
Net book value	138,900	34,725	117,872	29,468

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

16. Deferred income tax assets (Continued)

2019

	31 December 2018	Recognised in profit or loss (Note III 44)	Recognised in other comprehensive income (Note III 45)	31 December 2019
Deferred income tax assets				
Provision for asset impairments	29,641	4,994	(325)	34,310
Salaries and bonuses	1,146	178	-	1,324
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	-	588	-	588
Others	58	42	-	100
Sub-total	30,845	5,802	(325)	36,322
Deferred income tax liabilities				
Identifiable assets acquired in business combination of Former Ping An Bank at fair value	(949)	70	-	(879)
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	(34)	34	-	-
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	(125)	-	(184)	(309)
Others	(269)	(140)	-	(409)
Sub-total	(1,377)	(36)	(184)	(1,597)
Net book value	29,468	5,766	(509)	34,725

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

16 Deferred income tax assets (Continued)

2018

	31 December 2017	Effect of the revised accounting standards for financial instruments	1 January 2018	Recognised in profit or loss (Note III 44)	Recognised in other comprehensive income (Note III 45)	31 December 2018
Deferred income tax assets						
Provision for asset impairments	24,462	1,379	25,841	3,934	(134)	29,641
Salaries and bonuses	889	-	889	257	-	1,146
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	544	265	809	(809)	-	-
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	-	45	45	(45)	-	-
Changes in fair value of available-for-sale financial assets	179	(179)	-	-	-	-
Others	15	-	15	43	-	58
Sub-total	26,089	1,510	27,599	3,380	(134)	30,845
Deferred income tax liabilities						
Identifiable assets acquired in business combination of Former Ping An Bank at fair value	(1,019)	-	(1,019)	70	-	(949)
Changes in fair value of financial assets and liabilities held for trading, derivatives and precious metals	-	-	-	(34)	-	(34)
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	-	-	-	45	(170)	(125)
Property and equipment	(81)	-	(81)	(188)	-	(269)
Sub-total	(1,100)	-	(1,100)	(107)	(170)	(1,377)
Net book value	24,989	1,510	26,499	3,273	(304)	29,468

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

17. Other assets

(a) Summarised by nature

	31 December 2019	31 December 2018
Prepayments and guarantee deposits (Note III 17b)	1,366	1,245
Deposit of litigation fees (Note III 17c)	1,177	1,064
Fees receivable	1,560	927
Foreclosed assets (Note III 17d)	4,895	4,623
Construction in progress (Note III 17e)	876	738
Long-term prepaid expenses (Note III 17f)	1,516	1,094
Settlement receivables	4,713	1,886
Development expenditure	336	708
Interest receivable	1,333	1,152
Others (Note III 17g)	2,140	1,322
Total other assets	19,912	14,759
Less: Impairment provision		
Deposit of litigation fees (Note III 17c)	(643)	(486)
Foreclosed assets (Note III 17d)	(925)	(256)
Others (Note III 17g)	(403)	(239)
Total impairment provision	(1,971)	(981)
Net amount	17,941	13,778

(b) Prepayments and guarantee deposits summarised by ageing

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Less than 1 year	877	64.20%	931	74.78%
1 to 2 years	227	16.62%	66	5.30%
2 to 3 years	43	3.15%	43	3.45%
Over 3 years	219	16.03%	205	16.47%
Total	1,366	100.00%	1,245	100.00%

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

17. Other assets (Continued)

19. Placements from banks and other financial institutions

	31 December 2019	31 December 2018
Domestic banks	8,920	12,369
Overseas banks	16,946	12,190
Other overseas financial institutions	3	-
Add: Accrued interest	202	47
Total	26,071	24,606

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

(c) Deposit of litigation fees

	31 December 2019			
	Book value		Provision for bad debts	
	Amount	%	Amount	Coverage
Less than 1 year	376	31.95%	(65)	17.29%
1 to 2 years	325	27.61%	(183)	56.31%
2 to 3 years	258	21.92%	(196)	75.97%
Over 3 years	218	18.52%	(199)	91.28%
Total	1,177	100.00%	(643)	54.63%

	31 December 2018			
	Book value		Provision for bad debts	
	Amount	%	Amount	Coverage
Less than 1 year	476	44.74%	(84)	17.65%
1 to 2 years	319	29.98%	(181)	56.74%
2 to 3 years	140	13.16%	(104)	74.29%
Over 3 years	129	12.12%	(117)	90.70%
Total	1,064	100.00%	(486)	45.68%

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

17. Other assets (Continued)

(d) Foreclosed assets

	31 December 2019	31 December 2018
Lands and buildings	4,879	4,574
Others	16	49
Total	4,895	4,623
Less: Impairment provision (Note III 18)	(925)	(256)
Net amount	3,970	4,367

In the current year, the Company took possession of collateral held as security with a book value of RMB1,730 million (2018: RMB586 million). The collateral mainly comprised buildings. During the year, the Company disposed debt assets of RMB1,458 million (2018: RMB1,203 million). The Company planned to dispose of the repossessed assets through auctions, bidding or transfers in the future.

(e) Construction in progress

	31 December 2019	31 December 2018
Balance at the beginning of the year	739	1,872
Increase in the current year	1,000	1,395
Transfer to property and equipment	(94)	(2,390)
Transfer to long-term prepaid expenses	(769)	(138)
Balance at the end of the year	876	739

Construction in progress of the Company is listed as follows:

	2019					
	Budget	Balance at the beginning of the year	Increase in the current year	Decrease in the current year	Balance at the end of the year	Percentage of engineering investment to budget
Changsha branch Xiangjiang financial centre	1,155	489	221	-	710	61.47%
Others		250	779	(863)	166	
Total		739	1,000	(863)	876	

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

17. Other assets (Continued)

(f) Long-term prepaid expenses

	31 December 2019	31 December 2018
Balance at the beginning of the year	1,094	1,092
Increase in the current year	337	315
Transfer from construction in progress	769	138
Amortisation in the current year	(597)	(434)
Other decreases in the current year	(87)	(17)
Balance at the end of the year	1,516	1,094

(g) Others

	31 December 2019			
	Book value		Impairment provision	
	Amount	%	Amount	Coverage
Less than 1 year	1,381	64.53%	(83)	6.01%
1 to 2 years	186	8.69%	(23)	12.37%
2 to 3 years	394	18.41%	(162)	41.12%
Over 3 years	179	8.37%	(135)	75.42%
Total	2,140	100.00%	(403)	18.83%

	31 December 2018			
	Book value		Impairment provision	
	Amount	%	Amount	Coverage
Less than 1 year	720	54.47%	(47)	6.53%
1 to 2 years	406	30.71%	(56)	13.79%
2 to 3 years	45	3.40%	(19)	42.22%
Over 3 years	151	11.42%	(117)	77.48%
Total	1,322	100.00%	(239)	18.08%

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

18. Provision for asset impairments

	2019								
	Note III	31 December 2018	Provision in the current year (Note III 43)	Amounts written off in the current year	Recovery of assets written off previously	Amounts released upon disposal of assets	Decrease of loans due to rise in discount value	Other movements	31 December 2019
Impairment provision for deposits with banks and other financial institutions	2	363	502	-	-	-	-	4	869
Impairment provision for placements with and loans to banks and other financial institutions measured at amortised cost	3	172	8	-	-	-	-	-	180
Impairment provision for placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income		16	56	-	-	-	-	-	72
Impairment provision for financial assets held under resale agreements	5	2	50	-	-	-	-	-	52
Impairment provision for loans and advances to customers measured at amortised cost	6.6	54,033	52,989	(47,555)	11,110	(126)	(481)	(410)	69,560
Impairment provision for loans and advances to customers designated at fair value and changes included into other comprehensive income	6.6	154	299	-	-	-	-	-	453
Impairment provision for investment on debts	8	7,361	2,185	(642)	-	-	-	9	8,913
Impairment provision for other investment on debts	9	332	946	-	-	-	-	-	1,278
Impairment provision for property and equipment	12	2	-	-	-	-	-	-	2
Impairment provision for foreclosed assets	17d	256	794	-	-	(123)	-	(2)	925
Impairment provision for others		725	830	(252)	4	-	-	524	1,831
Total		63,416	58,659	(48,449)	11,114	(249)	(481)	125	84,135

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

18. Provision for asset impairments (Continued)

	2018									
	Note III	1 January 2018	Provision in the current year (Note III 43)	Amounts written off in the current year	Recovery of assets written off previously	Amounts released upon disposal of assets	Decrease of loans due to rise in discount value	Other movements	31 December 2018
Impairment provision for deposits with banks and other financial institutions	2	453	(94)	-	-	-	-	4	363
Impairment provision for placements with and loans to banks and other financial institutions measured at amortised cost	3	75	94	-	-	-	-	3	172
Impairment provision for placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income		25	(9)	-	-	-	-	-	16
Impairment provision for financial assets held under resale agreements	5	1	1	-	-	-	-	-	2
Impairment provision for loans and advances to customers measured at amortised cost	6.6	47,709	43,557	(45,804)	9,356	(605)	(675)	495	54,033
Impairment provision for loans and advances to customers designated at fair value and changes included into other comprehensive income	6.6	54	100	-	-	-	-	-	154
Impairment provision for investment on debts	8	4,270	3,318	-	-	(232)	-	5	7,361
Impairment provision for other investment on debts	9	67	265	-	-	-	-	-	332
Impairment provision for property and equipment	12	2	-	-	-	-	-	-	2
Impairment provision for foreclosed assets	17d	288	57	-	-	(88)	-	(1)	256
Impairment provision for others		547	364	(182)	9	(13)	-	-	725
Total		53,491	47,653	(45,986)	9,365	(938)	(675)	506	63,416

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

20. Borrowings from the Central bank

	31 December 2019	31 December 2018
Medium-term borrowing facility	105,800	132,000
Selling repurchase bonds to the Central bank	-	11,240
Selling repurchase bills to the Central bank	5,611	4,281
Add: Accrued interest	1,920	2,235
Total	113,331	149,756

21. Deposits from banks and other financial institutions

	31 December 2019	31 December 2018
Domestic banks	142,919	76,970
Other domestic financial institutions	223,804	307,244
Overseas banks	360	4,296
Add: Accrued interest	1,608	4,228
Total	368,691	392,738

22. Financial assets sold under repurchase agreements

	31 December 2019	31 December 2018
(a) Summarised by collateral		
Bonds	40,093	7,982
Add: Accrued interest	6	6
Total	40,099	7,988
(b) Summarised by banks and other financial institutions		
Banks	39,995	7,982
Other financial institutions	98	-
Add: Accrued interest	6	6
Total	40,099	7,988

Financial assets transferred as collateral under repurchase agreements are not derecognised.

23. Deposits due to customers

	31 December 2019	31 December 2018
Demand deposits		
Corporate customers	595,317	533,502
Individual customers	199,949	173,357
Sub-total	795,266	706,859

(All amounts in RMB million unless otherwise stated)

Time deposits (Note)		
Corporate customers	1,032,226	903,563
Individual customers	362,613	263,181
Sub-total	1,394,839	1,166,744
Pledged deposits held as collateral	185,259	175,098
Fiscal deposits	29,422	38,481
Time deposits from PBoC	16,716	17,903
Inward and outward remittances	15,433	23,472
Add: Accrued interest	22,833	20,585
Total	2,459,768	2,149,142

Note: As at 31 December 2019, time deposits included structural deposit of RMB507,711 million (31 December 2018: RMB433,562 million).

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

24. Employee benefits payable

	31 December 2019	31 December 2018
Short-term employee benefits payable (a)	14,130	12,159
Defined contribution plans and defined benefit plans payable (b)	87	77
Termination benefits payable (c)	1	2
	14,218	12,238

(a) Short-term employee benefits

2019	1 January 2019	Increase in the current year	Paid in the current year	31 December 2019
Wages and salaries, bonus, allowances and subsidies	11,389	16,456	(14,379)	13,466
Including: Deferred bonus	572	198	(147)	623
Social insurance, supplementary pension contributions and staff welfare	669	1,431	(1,537)	563
Housing funds	-	760	(760)	-
Labour union and training expenses	101	410	(410)	101
Others	-	7	(7)	-
Total	12,159	19,064	(17,093)	14,130

2018	1 January 2018	Increase in the current year	Paid in the current year	31 December 2018
Wages and salaries, bonus, allowances and subsidies	10,003	14,249	(12,863)	11,389
Including: Deferred bonus	498	204	(130)	572
Social insurance, supplementary pension contributions and staff welfare	529	1,407	(1,267)	669
Housing funds	-	691	(691)	-
Labour union and training expenses	89	371	(359)	101
Others	-	23	(23)	-
Total	10,621	16,741	(15,203)	12,159

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

24. Employee benefits payable(Continued)

(b) Defined contribution plans and defined benefit plans

	1 January 2019	Increase in the current year	Paid in the current year	31 December 2019
Basic pensions	34	971	(965)	40
Unemployment insurance	1	28	(28)	1
Defined benefit plan	42	8	(4)	46
Total	77	1,007	(997)	87

(c) Termination benefits payable

	31 December 2019	31 December 2018
Early retirement benefits payable	1	2

25. Taxes payable

	31 December 2019	31 December 2018
Corporate income tax payable	9,258	6,267
Unpaid VAT	2,270	2,661
VAT payable on transferring financial products	15	12
Additional taxes and surcharges payable	269	254
Others	219	172
Total	12,031	9,366

26. Debt securities issued

	31 December 2019	31 December 2018
Debt securities issued		
Hybrid capital debt instrument (Note 1)	3,650	5,116
Financial bonds (Note 2)	49,986	49,983
Tier 2 capital bonds (Note 3)	39,986	25,000
Convertible corporate bonds (Note 4)	-	-
Sub-total	93,622	80,099
Interbank certificates of deposit issued (Note 5)	418,422	300,129
Add: Accrued interest	1,718	1,656
Total	513,762	381,884

As at 31 December 2019 and 31 December 2018, the Company did not have any defaults of principal, interest or other breaches with respect to the subordinated bonds and the hybrid capital debt instrument.

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

26. Debt securities issued (Continued)

Note 1: As approved by the PBoC and CBIRC, the Company issued a fixed-rate hybrid capital debt instrument amounting to RMB1.5 billion in the inter-bank market on 26 May 2009. The debt instrument has 15 years to maturity. The Company has the option to redeem the debt instrument at face value on 26 May 2019. The coupon rate for the first 10 years is 5.70%. If the Company does not exercise this option, the coupon rate will increase by 3.00% thereafter. In May 2019, the Bank has exerted the right of redemption to redeem all of bonds in full amount.

As approved by the PBoC and CBIRC, the Company issued a fixed-rate hybrid capital debt instrument amounting to RMB3.65 billion in the inter-bank market on 29 April 2011. The debt instrument has 15 years to maturity with an annual interest rate of 7.50%. The Company has the option to redeem the debt instrument at face value on 29 April 2021.

Note 2: As approved by the PBoC and CBIRC, the Company issued a financial debt instrument amounting to RMB15 billion and RMB35 million respectively in the inter-bank market on 19 July 2017 and 14 December 2018. The debt instruments have 3 years to maturity, with a fixed coupon rate of 4.20% and 3.79% respectively.

Note 3: As approved by the PBoC and CBIRC, the Company issued Tier 2 capital bonds in the inter-bank market with total amounts of RMB9 billion, RMB6 billion, RMB10 billion and RMB30 billion respectively on 6 March 2014, 9 April 2014, 8 April 2016 and 25 April 2019. These subordinated bonds have 10 years to maturity with fixed coupon rates. The Company has the option to redeem these bonds at the end of the fifth year on certain conditions and the coupon rates are 6.80%, 6.50%, 3.85% and 4.55% respectively. In March and April 2019, the Bank has exerted the right of redemption of Tier 2 capital bonds and phase II Tier 2 capital bonds in 2014 to redeem all of bonds in full amount.

When the triggering event occurs, the Company has the right to irrevocably fully write down the principals of bonds and other tier one capital tools issued in the current period, without the consent from bondholders, from the day following the triggering event. Any unpaid accumulated interest payable will no longer be paid. Once the principal of bonds are written down, the bonds are permanently cancelled, no longer be restored in any condition. The triggering event is the earlier of following: (i) if the principals are not written down, the issuer will be prohibited from operating by CBIRC; (ii) if no capital injection or equivalent support from the public sector, the issuer will be prohibited from operating by CBIRC.

Note 4: Approved by China Securities Regulatory Commission, the Company made a public issuance of RMB26 billion of convertible corporate bonds (“convertible bonds”) on 21 January 2019 with a term of six years. From 21 January 2019 to 21 January 2025, the coupon rate is 0.2% for the first year, and increased annually to 4% in the remaining years. Holders of the convertible bonds have the right to convert the convertible bonds to A shares of the Company at the conversion price for the period from the first trading day after six months since the completion of the issuance to the due date (“conversion period”). Within 5 trading days after the maturity of the current period of conversion, the Company will redeem all convertible bonds not converted at 110% of their par value (including the interest of the last period).

During the conversion period, if the closing price of the Company's A shares is no less than 120% (inclusive) of the current conversion for at least 5 trading days in 30 consecutive trading days, the Company has the right to redeem all or some of the convertible bonds not converted at their par value plus the accrued interest for the period.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

26. Debt securities issued (Continued)

In addition, when the total amount of the convertible bonds not converted is less than RMB30 million, the Company has the right to redeem all convertible bonds not converted at their par value plus the accrued interest for the period.

The initial conversion price of convertible bonds issued was RMB11.77 per share, which is not lower than the average transaction price of the Company's stock for the previous trading day and 20 trading days prior to the announcement of the prospectus, as well as the latest audited net assets per share and par value of shares. After the issuance, where such conditions as stock dividends distribution, transfer to paid-in capital, issuance of new shares or allotment of shares (excluding share capital increased from conversion of convertible bonds issued) change the Company's shares and cash dividends distribution happen, the Company will make adjustments for the conversion price accordingly. During the conversion period of the issuance, if the closing price of the Company's A shares is less than 80% of the current conversion for at least 15 trading days in 30 consecutive trading days, the Board of Directors of the Company has the right to propose a revision for lowering the conversion price and submit it to the shareholders' meeting for deliberation.

On 25 June 2019, the Company implemented the profit appropriation resolution for the year of 2018 and distributed cash dividends of RMB2,490 million. According to regulations of conversion price adjustment provided for in the prospectus, the conversion price of convertible bonds was adjusted from RMB11.77 per share to RMB11.63 per share since 26 June 2019 (ex-dividend date).

The closing price of the Company's A shares was no less than 120% of the current conversion price of convertible bonds for at least 15 trading days in 30 consecutive trading days from 25 July 2019 to 20 August 2019, and the conditional redemption clause was triggered for the first time. According to the resolution of all Executive Directors of the Company, the Company has decided to exercise the early redemption right of convertible bonds and redeemed all the convertible bonds registered on the redemption date (18 September 2019).

Among them, convertible bonds, with a face value of RMB25,999 million (2018: Nil), were converted to 2,235,506,832 A shares (2018: Nil) by exercising conversion. Convertible bonds, with a face value of RMB1 million (2018: Nil), were directly redeemed from holders.

Convertible bonds are as follows:

	Liability	Equity	Total
Issued amount of convertible bonds	22,263	3,737	26,000
Direct issuance expenses	(73)	(12)	(85)
Balance at the issuance date	22,190	3,725	25,915
Amortisation in the current year	673	-	673
Amount of bonds converted in the current year	(22,862)	(3,725)	(26,587)
Redemption amount	(1)	-	(1)
Balance at 31 December 2019	-	-	-

Note 5: As at 31 December 2019, the original term of interbank certificates of deposit issued but unmatured was from 1 month to 1 year, and the annual interest rate was from 2.60%-3.25% (31 December 2018: the original term was from 1 month to 3 years, and the annual interest rate was from 2.90% to 4.80%). The interbank certificates of deposit with an original term of less than 1 year (inclusive) amounted to RMB418,422 million (31 December 2018: RMB297,133 million).

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

27. Provisions

	31 December 2019	31 December 2018
Off-balance sheet provision for expected credit losses	1,704	836
Expected litigation losses	28	24
Other provisions	2	-
Total	1,734	860

28. Other liabilities

	31 December 2019	31 December 2018
Settlement & clearing and pending payables	6,224	9,512
Accrued and payable expenses	4,678	3,110
Inactive deposit account balances	139	212
Dividends payable (Note 1)	12	12
Amounts payable for custody	1,013	1,952
Contract liabilities	1,974	2,081
Quality warranties and deposits	440	605
Others	3,207	2,308
Total	17,687	19,792

Note 1: As at 31 December 2019 and 31 December 2018, the above-mentioned balance of dividends payable of RMB12 million had been overdue for more than 1 year as the related shareholders had not collected the dividends.

29. Share capital

As at 31 December 2019, the amount of the Company's ordinary shares fully paid was RMB19,405,918,198, with a par value of RMB1 per share. The nature and the structure of the share capital are as follows:

	31 December 2018	%	Movements in the year	31 December 2019	%
Unrestricted tradable shares RMB ordinary share capital	17,170	100%	2,236	19,406	100%

On 31 December 2019, the Company's registered capital was RMB17,170,411,366. As the change in registered capital was required to be approved by regulatory authorities, the Company's registered capital may differ from paid-in capital.

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

30. Other equity instrument

	31 December 2019	31 December 2018
Preference shares (Note 1)	19,953	19,953
Perpetual bonds (Note 2)	19,995	-
Total	39,948	19,953

Note 1:

Outstanding financial instruments	Dividend rate	Issue price (Yuan)	Number of shares issued (million)	Issued amount (million)	Maturity or renewal	Conversion
Preference shares	4.37%	100	200	20,000	No maturity date	No conversion during the period

On 7 March 2016, the Company issued 200 million preference shares at par. The amount of RMB19,952.5 million was included in other equity instrument after deducting issuance costs. In the duration, in the case that relevant requirements are satisfied, the Company has the option to redeem the whole or part of the preference shares on dividend payment day every year since the date of expiry of 5 years after the approval of CBIRC. The redemption right for the preference shares is entitled to the Company after approval of the CBIRC. The nominal dividend rate of the preference shares is 4.37%, and the dividend is paid by cash at fixed rate annually.

As authorised by the shareholders' annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. No profit will be distributed to ordinary shareholders unless the Company decides to completely distribute the current dividends on preference shares. The preference shares are non-cumulative preference shares and the Company has the option to cancel a portion or all of the dividends distribution. Preference shareholders shall not participate in the distribution of residual profits with ordinary shareholders.

As approved by CBIRC, the existing preference shares issued by the Company will be completely or partially converted to ordinary shares of the Company when the following triggering events of mandatory conversion happen:

(1) Where the triggering events of other tier 1 capital instruments happen, namely when the core tier 1 capital adequacy ratio falls to 5.125% (or lower), the preference shares will be completely or partially converted to A shares at once as agreed in the contract to restore the core tier 1 capital adequacy ratio above the triggering point.

(2) Where the triggering events of tier 2 capital instruments happen, the preference shares will be mandatorily converted to ordinary shares of the Company.

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

30. Other equity instrument (Continued)

If the triggering conditions for mandatory conversion are all met, the existing preference shares will be completely or partially converted to A shares at agreed conversion price after approval of the regulator. Since the issuing scheme for preference shares is approved by the Board of Directors, where such conditions as bonus shares (excluding the option of cash dividend distribution), transfer to paid-in capital, issuance of new shares (excluding transfer to paid-in capital from issuance of financial instruments (e.g., preference shares, convertible bonds, etc.) with the terms of being convertible to ordinary shares) and allotment of shares happen, the Company will make accumulative adjustments for mandatory conversion price successively following the sequential order of the above conditions without consideration of ordinary share cash dividends.

The preference shares issued by the Company are classified as equity instrument and presented in shareholders' equity in balance sheet. Based on relevant provisions of CBIRC, the preference shares meet all the criteria of qualified other tier 1 capital instruments.

Note 2: As approved by the PBoC and CBIRC, the Company proposed to issue debt instruments totalling RMB50 billion with write-down features and without fixed terms by instalment in the national inter-bank market. On 19 December 2019, the Company issued a debt instrument amounting to RMB20 billion with write-down features and without fixed terms in the national inter-bank market, and the issuance was completed on 26 December 2019. The par value per unit of the bonds was RMB100 and the coupon rate is 4.10% for the first 5 years, which shall be adjusted every 5 years.

Lifetime of the bonds is consistent with that of the Company to continue as a going concern. The Company has the option to redeem the whole or part of such bonds on annual interest payment date 5 years after the issuance date, provided that prerequisite for redemption is met and such redemption is approved by the CBIRC. When the operation prohibited triggering event occurs, the Company has the right to partially or fully write down the principals of the above existing bonds issued, which is not subject to the consent from bondholders. The above bonds are written down by the proportion of remaining par value to total remaining par value of other tier 1 capital instruments subject to the same triggering event. The operation prohibited triggering event is the earlier of following: (i) if the principals are not written down, the issuer will be prohibited from operating by CBIRC; (ii) if no capital injection or equivalent support from the public sector, the issuer will be prohibited from operating by relevant department. The written down part is irreversible. The principals of the bonds rank after depositors, general creditors and subordinated debts of higher ranks than bonds issued in the current period, but before shares held by shareholders when liquidated; bonds and other tier 1 capital instruments with the same liquidation ranks are liquidated in sequence.

Payment of interests on the above bonds are non-cumulative and the Company has the right to cancel a portion or all of the interest distribution, which will not constitute a breach of contract. The Company can dominate the bond interests cancelled for timely repayment of debts. No interests shall be distributed to ordinary shareholders before the Company decides to distribute interests in full amount to bondholders again.

After deduction of issuance expenses, the net amount of funds raised by above bonds will all be used to replenish other tier 1 capital and to improve capital adequacy ratio.

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

30. Other equity instrument (Continued)

Changes in outstanding perpetual bonds:

	31 December 2018		Increase in the current year		31 December 2019	
	Number of bonds Million	Book value (RMB million)	Number of bonds Million	Book value (RMB million)	Number of bonds Million	Book value (RMB million)
Issued amount of perpetual bonds	-	-	200	20,000	200	20,000
Issuance expenses	-	-	-	(5)	-	(5)
Total perpetual bonds	-	-	200	19,995	200	19,995

Equity attributable to holders of equity instrument is summarised as follows:

	31 December 2019	31 December 2018
Equity attributable to owners		
Equity attributable to holders of ordinary shares	273,035	220,089
Equity attributable to holders of other equity	39,948	19,953
Total	312,983	240,042

31. Capital reserve

	31 December 2019	31 December 2018
Share premium	80,816	56,465

32. Surplus reserve

In accordance with the Company Law, the Company is required to appropriate 10% of its profit after tax to its statutory surplus reserve until the reserve balance exceeds 50% of its registered capital. Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses or be converted to paid-in capital. When converting the statutory surplus reserve to paid-in capital, new shares can be distributed to shareholders according to the original share proportion, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital. The Company may also appropriate its profit after tax to the discretionary surplus reserve upon approval of the shareholders in general meetings.

As at 31 December 2019 and 31 December 2018, the amount of the surplus reserve represented the statutory surplus reserve.

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

33. General reserve

Pursuant to the relevant regulations issued by the MOF, the Company is required to maintain a general reserve within equity, through the appropriation of net profit.

34. Retained earnings

According to a resolution at the meeting of the Board of Directors dated on 13 February 2020, the Company appropriated RMB6,498 million to the general reserve based on net profit of 2019 audited by domestic certified public accountant. In the current year, no appropriation was made to the statutory surplus reserve as the balance of statutory surplus reserve exceeded 50% of the registered capital. The above distribution scheme is pending for the approval by the general meeting of shareholders.

The Company passed its profit appropriation resolution for the year of 2018 through the annual general meeting held on 30 May 2019. According to the resolution, the Company had made appropriation of cash dividends of RMB2,490 million for 2018 to its shareholders.

According to a resolution at the meeting of the Board of Directors dated on 6 March 2019, the Company appropriated RMB1,298 million to the general reserve based on net profit of 2018 audited by domestic certified public accountant. In the current year, no appropriation was made to the statutory surplus reserve as the balance of statutory surplus reserve exceeded 50% of the registered capital. The above distribution scheme was approved by the general meeting of shareholders on 30 May 2019.

According to a resolution at the Board of Directors dated on 23 January 2019, the Company distributed RMB4.37 (inclusive of tax) per preference share as dividends based on the amount of issued

Preference shares of 200 million (with a face value of RMB100 per share), and calculated with a nominal dividend rate of 4.37%. The calculation period for the dividends on preference shares was from 7 March 2018 to 6 March 2019. The dividends date was 7 March 2019. The total amount of the dividends distributed was RMB874 million (inclusive of tax). The Company distributed dividends directly to preference shareholders.

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

35. Net interest income

	2019	2018
Interest income:		
Balances with the Central bank	3,345	4,002
Due from transaction between financial enterprises	9,681	10,933
Loans and advances to customers	133,610	118,184
Financial investments	30,913	28,363
Others	-	1,406
Total	177,549	162,888
Interest expenses:		
Borrowings from the Central bank	4,290	4,299
Due from transaction between financial enterprises	12,615	18,686
Due to customers	56,002	49,638
Debt securities issued	14,477	15,520
Others	204	-
Total	87,588	88,143
Net interest income	89,961	74,745

36. Net fee and commission income

	2019	2018
Fee and commission income:		
Settlement fee income	2,789	2,477
Agency business fee income	6,841	4,123
Bank card fee income	30,200	25,266
Advisory and consulting fee income	1,245	1,463
Asset custody fee income	2,181	2,856
Others	2,647	3,177
Sub-total	45,903	39,362
Fee and commission expenses:		
Bank card fee expenses	6,981	6,426
Agency business fee expenses	1,705	1,210
Others	474	429
Sub-total	9,160	8,065
Net fee and commission income	36,743	31,297

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

37. Investment income

	2019	2018
Gains on investments in precious metals	701	573
Net gain on derivative financial instruments (excluding foreign exchange derivative financial instruments)	413	301
Spread gains on loans and advances to customers designated at fair value and changes included into other comprehensive income	1,182	835
Spread losses on loans and advances to customers measured at amortised cost	(21)	(66)
Interest income, spread gains and dividend income from financial instruments held for trading	7,070	7,455
Spread gains on other investment on debts	436	136
Spread gains on investment on debts	99	1
Other losses	(170)	(49)
Total	9,710	9,186

38. Gains and losses on changes in fair value

	2019	2018
Financial instruments held for trading	(191)	1,162
Derivative financial instruments (excluding foreign exchange derivative financial instruments)	240	(270)
Total	49	892

39. Net gains from foreign exchange and foreign exchange products

	2019	2018
Gains from changes in fair value of foreign exchange derivatives	708	2,022
Other foreign exchange gains/(losses)	488	(1,813)
Total	1,196	209

40. Other operating income

	2019	2018
Rental income	107	123
Others	3	47
Total	110	170

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

41. Taxes and surcharges

	2019	2018
City maintenance and construction tax	675	599
Educational surcharge	476	421
Others	139	129
Total	1,290	1,149

42. Business and administrative expenses

	2019	2018
Staff expenses		
Wages and salaries, bonus, allowances and subsidies	16,456	14,249
Social insurance and staff welfare	2,438	2,385
Housing funds	760	691
Labour union and training expenses	410	371
Others	7	23
Sub-total	20,071	17,719
Depreciation of property and equipment	1,426	1,134
Amortisation of expenses of improvements to property and equipment held under operating leases	476	429
Amortisation of intangible assets	1,307	888
Depreciation expenses of right-of-use assets	2,259	-
Rental expenses	842	2,758
Sub-total	6,310	5,209
General and administrative expenses	14,471	12,463
Total	40,852	35,391

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

43. Impairment losses on credit

	2019	2018
Impairment losses accrued/(reversed) in the current year:		
Deposits with banks and other financial institutions	502	(94)
Placements with and loans to banks and other financial institutions	64	85
Financial assets held under resale agreements	50	1
Loans and advances to customers	53,288	43,657
Investment on debts	2,185	3,318
Other investment on debts	946	265
Other assets	568	364
Expected loss of credit commitment for off-balance-sheet projects (Note III 27)	868	218
Total	58,471	47,814

44. Income tax expenses

	2019	2018
Income tax expenses for the current period	13,811	10,686
Deferred income tax expenses	(5,766)	(3,273)
Total	8,045	7,413

The reconciliation of income tax expense applicable to profit before tax at the statutory tax rate to income tax expense at the Company’s effective income tax rate is as follows:

	2019	2018
Profit before tax	36,240	32,231
Income tax at the statutory tax rate of 25%	9,060	8,058
Tax-exempt income	(3,944)	(2,742)
Non-deductible expenses and other adjustments	2,929	2,097
Income tax expenses	8,045	7,413

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

45. Other comprehensive income

	Other comprehensive income in balance sheet		Other comprehensive income in the income statement for the year ended 31 December 2019			
	31 December 2018	31 December 2019	Amount incurred before tax for the current year	Less: Reclassification of previous other comprehensive income to profit or loss	Less: Income tax expenses	Other comprehensive income after tax
I. Items that may not be reclassified into profit or loss in subsequent periods						
Changes in fair value of other equity investments	(43)	(48)	(7)	-	2	(5)
II. Items that will be reclassified into profit or loss in subsequent periods when specific condition is met						
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	453	1,011	803	(59)	(186)	558
Provisions for credit losses on financial assets designated at fair value and changes included into other comprehensive income	376	1,350	1,644	(345)	(325)	974
Exchange differences on translation of foreign currency financial statements	-	1	1	-	-	1
Total	786	2,314	2,441	(404)	(509)	1,528

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

45. Other comprehensive income (Continued)

	Other comprehensive income in balance sheet				Other comprehensive income in income statement for the year ended 31 December 2018			
	31 December 2017	Effect of initial implementation of the revised accounting standards for financial instruments	1 January 2018	31 December 2018	Amount incurred before tax for the current year	Less: Reclassification of previous other comprehensive income to profit or loss	Less: Income tax expenses	Other comprehensive income after tax
I. Items that may not be reclassified into profit or loss in subsequent periods								
Changes in fair value of other equity investments	-	(44)	(44)	(43)	1	-	-	1
II. Items that will be reclassified into profit or loss in subsequent periods when specific condition is met								
Changes in fair value of financial assets designated at fair value and changes included into other comprehensive income	-	(191)	(191)	453	989	(175)	(170)	644
Provisions for credit losses on financial assets designated at fair value and changes included into other comprehensive income	-	109	109	376	536	(135)	(134)	267
Gains or losses arising from changes in fair value of available-for-sale financial assets	(528)	528	-	-	-	-	-	-
Total	(528)	402	(126)	786	1,526	(310)	(304)	912

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

46. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares issued by the Company during the year. Diluted earnings per share are calculated by dividing the net profit attributable to the ordinary shareholders of the Company after adjustment based on potential dilutive ordinary shares by the adjusted weighted average number of ordinary shares issued by the Company during the year. The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2019 and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation. Convertible corporate bonds issued by the Company on 21 January 2019 were potential dilutive ordinary shares.

i. Basic earnings per share are calculated as follows:

	2019	2018
Net profit for the current year attributable to shareholders of the Company	28,195	24,818
Less: The preference dividends declared by the Company	(874)	(874)
Net profit for the current year attributable to ordinary shareholders of the Company	27,321	23,944
Weighted average number of outstanding ordinary shares (million)	17,764	17,170
Basic earnings per share (RMB Yuan)	1.54	1.39

ii. Diluted earnings per share are calculated as follows:

	2019	2018
Net profit for the current year attributable to shareholders of the Company	28,195	24,818
Less: The preference dividends declared by the Company	(874)	(874)
Add: Interest expenses of convertible corporate bonds in the current year (after tax)	520	-
Net profit for the current year attributable to ordinary shareholders of the Company	27,841	23,944
Weighted average number of outstanding ordinary shares (million)	17,764	17,170
Add: Assume that convertible corporate bonds are entirely converted to weighted average number of ordinary shares from the beginning of the period to the conversion date (million)	1,455	-
Weighted average number of outstanding ordinary shares of the year for calculating diluted earnings per share (million)	19,219	17,170
Diluted earnings per share (RMB Yuan)	1.45	1.39

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

47. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash	5,459	5,015
Cash equivalents:		
Within three months before the original maturity date		
- Deposits with banks and other financial institutions	28,818	23,452
- Placements with and loans to banks and other financial institutions	46,389	52,167
- Financial assets held under resale agreements	62,168	36,936
Unrestricted balance with the Central bank	31,211	41,899
Bond investments (with maturity of less than three months since acquired)	5,013	2,332
Sub-total	173,599	156,786
Total	179,058	161,801

48. Cash received relating to other operating activities

	2019	2018
Precious metals	13,198	34,996
Collection of amounts already written-off	10,158	8,939
Cash receipts from disposal of foreclosed assets	1,327	1,280
Derivative financial instruments	413	301
Gain on trading of bills	990	835
Short position of bonds	19,925	2,810
Others	375	4,106
Total	46,386	53,267

49. Cash paid relating to other operating activities

	2019	2018
Administrative expenses such as marketing and public relation expenses, rental expenses and others	26,083	17,624

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

50. Structured entities

(a) Unconsolidated structured entities

(i) Unconsolidated structured entities managed by the Company

(1) Wealth management products

The unconsolidated structured entities managed by the Company are primarily non-principal-guaranteed wealth management products (hereafter referred to as the "WMPs") issued and managed by the Company as an agency. On the basis of analysing the potential target group of customers, the Company designs and sells the investment plan to the specific target customer group. The Company distributes the funds and investment income to the investors in accordance with contracts. As the manager of non-principal-guaranteed WMPs, the Company charges fees and commissions such as selling charges, fixed management fee, fluctuant management fee, etc. The variable return from the structured entities is not significant.

As at 31 December 2019, the total size of unconsolidated WMPs issued and managed by the Company amounted to RMB590,499 million (31 December 2018: RMB537,781 million).

As the manager of WMPs, the Company proactively manages the due date of assets and liabilities, and also the position and the proportion of the current assets in order to maximise the interest of investors. Temporary placements to WMPs are a commonly used way to manage liquidity risk. The placements are not specified in the contracts. The transaction price is set by referencing the market interest rate. As at 31 December 2019, the balance of above-mentioned placements was RMB11,000 million (31 December 2018: RMB20,000 million); and interest income for the year ended 31 December 2019 was RMB223 million (2018: RMB287 million). The placements balance was presented in "Placements with banks and loans to banks and other financial institutions".

(2) Asset-backed securitisations

The other type of unconsolidated entity managed by the Company is the Special Purpose Trust (hereafter referred to as the "SPT") established by the third party in order to facilitate the asset-backed securitisations business. The credit assets are transferred from the Company to the SPTs to issue asset-backed securities for financing. As at 31 December 2019, the unconsolidated SPTs managed by the Company amounted to RMB48,426 million (31 December 2018: RMB36,620 million). Performing as the loan service provider, the Company manages the loans in associate with the SPTs and charges fee and commissions.

The Company also holds part of all levels of the asset-backed securities in SPTs. The variable return from the structured entities is not significant. As at 31 December 2019, the maximum exposure of unconsolidated SPTs is asset-backed securities initiated by the SPTs and held by the Company, which are recognised in financial assets and the carrying amount of which amounts to RMB855 million (31 December 2018: RMB97 million). The carrying amount of these asset-backed securities approximates their fair value.

For the year ended 31 December 2019, the Company did not give financial support to any of these unconsolidated SPTs (2018: Nil).

For certain asset-backed securitisations, the Company may hold part of subordinated tranches which may give rise to the Company's continuing involvement in the transferred assets. The assets are recognised on the balance sheet to the extent of the Company's continuing involvement, and the rest part shall be de-recognised. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. As at 31

December 2019, the Company continued to recognise assets totalling to RMB903 million (31 December 2018: RMB177 million).

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

50. Structured entities (Continued)

(a) Unconsolidated structured entities (Continued)

(ii) Unconsolidated structured entities invested by the Company

The Company invests in a number of other unconsolidated structured entities which are issued and managed by other entities for investment return in the year ended 31 December 2019. These assets include WMPs, funds, trust plans and earning rights, asset management plans and earning rights, loan support bills issued and managed by independent third parties and asset-backed securities from asset securitisation initiated by the Company and managed by independent third parties, etc. Trust plans and asset management plans the Company invests are issued and managed by non-banking financial institutions. Underlying assets in such plan mainly comprise corporate loans, notes, deposit receipt and asset-backed securities from asset securitisation. In the current year, the Company did not provide any liquidity support to those unconsolidated structured entities (2018: Nil).

As at 31 December 2019 and 31 December 2018, the carrying amount (including accrued interest) of and the Company's maximum exposure to these other unconsolidated structured entities is summarised in the table below:

	31 December 2019		
	Book value	Maximum Exposure to loss	Total size of structured entities
Financial assets held for trading			
Funds	60,949	60,949	1,884,978
WMPs	1,525	1,525	Note
Trust plans and earning rights	3,028	3,028	Note
Asset management plans and earning rights	7,217	7,217	Note
Asset-backed securities from asset securitisation	1,286	1,286	52,958
Sub-total	74,005	74,005	
Investment on debts			
Trust plans and earning rights	31,287	31,287	Note
Asset management plans and earning rights	66,642	66,642	Note
Asset-backed securities from asset securitisation	886	886	13,747
Loan-backed bills	702	702	Note
Sub-total	99,517	99,517	
Other investment on debts			
Trust plans and earning rights	58,413	58,413	Note
Asset management plans and earning rights	27,900	27,900	Note
Asset-backed securities from asset securitisation	15,911	15,911	100,361
Sub-total	102,224	102,224	
Total	275,746	275,746	

(All amounts in RMB million unless otherwise stated)

III. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

50. Structured entities (Continued)

(a) Unconsolidated structured entities (Continued)

(ii) Unconsolidated structured entities held by the Company (Continued)

	31 December 2018		
	Book value	Maximum exposure to loss	Total size of structured entities
Financial assets held for trading			
Funds	45,567	45,567	1,732,020
WMPs	5,159	5,159	Note
Trust plans and earning rights	5,810	5,810	Note
Asset management plans and earning rights	11,746	11,746	Note
Asset-backed securities from asset securitisation	1,708	1,708	40,039
Sub-total	69,990	69,990	
Investment on debts			
Trust plans and earning rights	38,886	38,886	Note
Asset management plans and earning rights	112,209	112,209	Note
Asset-backed securities from asset securitisation	2,324	2,324	34,511
Loan-backed bills	2,607	2,607	Note
Sub-total	156,026	156,026	
Other investment on debts			
Trust plans and earning rights	25,142	25,142	Note
Asset management plans and earning rights	9,694	9,694	Note
Asset-backed securities from asset securitisation	4,311	4,311	18,655
Sub-total	39,147	39,147	
Total	265,163	265,163	

The Company earns interest income, service fee income and investment income from its investments or providing services to structured entities.

Note: The information of total size of the unconsolidated structured entities listed above is not readily available from the public.

(b) Consolidated structured entities

Consolidated structured entities consist principally of principal-guaranteed WMPs that are issued and managed by the Company. For the year ended 31 December 2019, the Company did not provide any financial support to any of these consolidated structured entities (2018: Nil).

IV. OPERATING SEGMENT INFORMATION

The Company identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and implements management on such basis. The Company mainly manages the operation by way of geographical segments and business segments. Geographically, the Company separately operates five reporting segments, Eastern District, Southern District, Western District, Northern District and Head Office. And in business lines, the Company separately manages the production and operation of three reporting segments, wholesale banking business, retail banking business and other businesses. The operating segment information is shown in details as follows:

Geographical operating segments

The geographical operating segments are identified as follows:

Eastern District:	Shanghai branch, Hangzhou branch, Yangzhou branch, Yiwu branch, Taizhou branch, Shaoxing branch, Huzhou branch, Ningbo branch, Wenzhou branch, Nanjing branch, Wuxi branch, Changzhou branch, Suzhou branch, Nantong branch, Taizhou branch, Fuzhou branch, Zhangzhou branch, Fujian Pilot Free Trade Zone Fuzhou branch, Xiamen branch, Fujian Pilot Free Trade Zone Xiamen branch, Quanzhou branch, Shanghai Pilot Free Trade Zone branch, Hefei branch, Wuhu branch, Xuzhou branch, Nanchang branch, Yancheng branch, Putian branch;
Southern District:	Shenzhen branch, Shenzhen Qianhai branch, Guangzhou branch, Guangdong Pilot Free Trade Zone Nansha branch, Zhuhai branch, Guangdong Pilot Free Trade Zone Hengqin branch, Foshan branch, Dongguan branch, Huizhou branch, Zhongshan branch, Haikou branch, Changsha branch, Hengyang branch, Yueyang branch, Nanning branch, Sanya branch, Zhenjiang branch, Changde branch;
Western District:	Chongqing branch, Chengdu branch, Deyang branch, Leshan branch, Mianyang branch, Kunming branch, Honghe branch, Wuhan branch, Jingzhou branch, Xiangyang branch, Yichang branch, Xi'an branch, Xianyang branch, Guiyang branch, Chongqing Pilot Free Trade Zone branch, Zunyi branch;
Northern District:	Beijing branch, Dalian branch, Tianjin branch, Tianjin Pilot Free Trade Zone branch, Jinan branch, Linyi branch, Weifang branch, Dongying branch, Qingdao branch, Yantai branch, Rizhao branch, Zhengzhou branch, Luoyang branch, Shenyang branch, Shijiazhuang branch, Taiyuan branch, Tangshan branch, Zibo branch, Jining branch, Jinzhong branch, Langfang branch, Nanyang branch, Weihai branch, Hohhot branch, Kaifeng branch, Taian branch, Baoding branch, Urumchi branch;
Head Office:	The departments of Head Office (including credit card department, capital operation department, special asset management department, financial institution department, asset management department, transaction banking department, auto consumer finance centre, etc.);
Overseas:	Hong Kong branch.

(All amounts in RMB million unless otherwise stated)

IV. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical operating segments (Continued)

Management monitors the operating results of the Company's business units separately for the purpose of making decisions about resources allocations and performance assessment. When monitoring operating results of geographic regions, management mainly considers operating income, operating costs and operating profit.

For the year ended 31 December 2019	Eastern District	Southern District	Western District	Northern District	Head Office	Overseas	Total
Net interest income/(expenses) (1)	26,025	22,020	7,948	12,987	20,983	(2)	89,961
Net non-interest income (2)	2,550	3,308	843	1,663	39,633	-	47,997
Operating income	28,575	25,328	8,791	14,650	60,616	(2)	137,958
Operating expenses (3)	(7,226)	(6,699)	(2,714)	(5,355)	(20,113)	(35)	(42,142)
Including: Depreciation, amortisation and rental expenses	(1,153)	(959)	(533)	(1,036)	(2,629)	-	(6,310)
Impairment losses on credit and other assets	(11,955)	(9,256)	(4,036)	(14,341)	(19,923)	(16)	(59,527)
Net non-operating (expenses)/income	(20)	2	(28)	(26)	23	-	(49)
Segment profits/(losses)	9,374	9,375	2,013	(5,072)	20,603	(53)	36,240
Income tax expenses							(8,045)
Net profit							28,195

31 December 2019	Eastern District	Southern District	Western District	Northern District	Head office	Overseas	Offsetting	Total
Total assets	814,711	1,021,204	260,253	578,605	2,395,256	3,695	(1,134,654)	3,939,070
Total liabilities	806,785	1,013,051	258,730	584,361	2,094,069	3,745	(1,134,654)	3,626,087

(1) Included exterior net interest income/expense and interior net interest income/expense.
(2) Included net fee and commission income, investment income, gains or losses from changes in fair value, net gains from foreign exchange and foreign exchange products, other operating income, gains or losses from disposal of assets and other income.
(3) Included taxes and surcharges, and general and administrative expenses.

(All amounts in RMB million unless otherwise stated)

IV. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical operating segments (Continued)

For the year ended 31 December 2018	Eastern District	Southern District	Western District	Northern District	Head office	Total
Net interest income (1)	23,608	20,274	6,620	11,334	12,909	74,745
Net non-interest income (2)	3,136	2,944	809	1,569	33,513	41,971
Operating income	26,744	23,218	7,429	12,903	46,422	116,716
Operating expenses (3)	(7,478)	(6,725)	(2,670)	(5,136)	(14,531)	(36,540)
Including: Depreciation, amortisation and rental expenses	(1,136)	(945)	(537)	(977)	(1,614)	(5,209)
Impairment losses on credit and other assets	(5,359)	(6,090)	(8,612)	(12,900)	(14,910)	(47,871)
Net non-operating expenses/(income)	(30)	2	(17)	(13)	(16)	(74)
Segment profits/(losses)	13,877	10,405	(3,870)	(5,146)	16,965	32,231
Income tax expenses						(7,413)
Net profit						24,818

31 December 2018	Eastern District	Southern District	Western District	Northern District	Head office	Offsetting	Total
Total assets	741,691	839,989	208,909	484,593	1,897,288	(753,878)	3,418,592
Total liabilities	725,757	827,999	212,236	488,712	1,677,724	(753,878)	3,178,550

(1) Included exterior net interest income/expense and interior net interest income/expense.
(2) Included net fee and commission income, investment income, gains or losses from changes in fair value, net gains from foreign exchange and foreign exchange products, other operating income, gains or losses from disposal of assets and other income.
(3) Included taxes and surcharges, and general and administrative expenses.

IV. OPERATING SEGMENT INFORMATION (CONTINUED)

Business lines operating segments

For the year ended 31 December 2019, based on the management structure and policies, the business decisions, reporting and performance assessment should be in accord with two main business lines - wholesale banking business and retail banking business and other business segments. The segments are set out as follows:

Wholesale banking business
Wholesale banking business comprises corporate business and inter-bank business, providing financial products and services to corporate clients, governments and banks and other institutions. The financial products and services include: corporate loan, corporate deposit, trade financing, corporate and inter-bank wealth management, and all kinds of corporate intermediary businesses and inter-bank businesses.

Retail banking business
Retail banking business provides financial products and services to retail customers. The financial products and services include: personal loan, deposit, bank cards, individual wealth management, and others.

Other operations
The business line refers to the bond and money market investment by the Head Office in need of liquidity management. In addition, it refers to the collective management of non-performing assets and equity investment as well as assets, liabilities, income and expenses that are not directly attributable to a segment.
Segment assets, liabilities, revenues and profits are measured in accordance with the Company's accounting policy. Corporate tax is managed at company level, not for distribution in the operating segments. Segment income is mainly from interest income, and therefore interest income is presented in net amount. Net interest income, instead of interest income and interest expense, is used by the management.

Inter-segment transactions are mainly money transference. The terms of the transaction are set by period and by referencing the capital cost in the market. "Internal interest net income/expense" refers to the net interest income and expense from transfer pricing between operating segments, which will be presented in operation business of each branch after offsetting. In addition, "external interest net income/expense" refers to the interest income received from the third party or interest expense paid to the third party. The total amount of "external interest net income/expense" from every operating segment should be equal to the net interest income in the Company's income statement.

Segment revenue, profit, assets and liabilities include those directly attributable to a segment, and those allocated pro rata.

The Company thoroughly conducts internal funds transfer pricing, using term matching and re-pricing method to calculate the income and expense of an individual account (contract), in order to enhance gearing, reasonable pricing, and comprehensive evaluation of the Company's performance.

(All amounts in RMB million unless otherwise stated)

IV. OPERATING SEGMENT INFORMATION (CONTINUED)

Business lines operating segments (Continued)

For the year ended 31 December 2019	Wholesale banking business (1)	Retail banking business	Other operations	Total
Net interest income (2)	32,468	50,320	7,173	89,961
Net non-interest income/(expenses) (3)	19,487	29,653	(1,143)	47,997
Operating income	51,955	79,973	6,030	137,958
Operating expenses (4)	(14,254)	(27,888)	-	(42,142)
Including: Depreciation, amortisation and rental expenses	(1,842)	(4,468)	-	(6,310)
Impairment losses on credit and other assets	(33,000)	(27,043)	516	(59,527)
Net non-operating income/(expenses)	5	13	(67)	(49)
Segment profits	4,706	25,055	6,479	36,240
Income tax expenses				(8,045)
Net profit				28,195
31 December 2019				
Total assets	1,713,281	1,294,376	931,413	3,939,070
Total liabilities	2,691,402	590,150	344,535	3,626,087

(1) Included small enterprise business.
(2) Included exterior net interest income/expense and interior net interest income/expense.
(3) Included net fee and commission income, investment income, gains or losses from changes in fair value, net gains from foreign exchange and foreign exchange products, other operating income, gains or losses from disposal of assets and other income.
(4) Included taxes and surcharges, and general and administrative expenses.

(All amounts in RMB million unless otherwise stated)

IV. OPERATING SEGMENT INFORMATION (CONTINUED)

Business lines operating segments (Continued)

For the year ended 31 December 2018	Wholesale banking business (1)	Retail banking business	Other operations	Total
Net interest income (2)	29,266	38,812	6,667	74,745
Net non-interest income (3)	17,854	23,071	1,046	41,971
Operating income	47,120	61,883	7,713	116,716
Operating expenses (4)	(13,269)	(23,020)	(251)	(36,540)
Including: Depreciation, amortisation and rental expenses	(1,729)	(3,419)	(61)	(5,209)
Impairment losses on credit and other assets	(32,484)	(16,604)	1,217	(47,871)
Net non-operating expenses	(1)	(14)	(59)	(74)
Segment profits	1,366	22,245	8,620	32,231
Income tax expenses				(7,413)
Net profit				24,818
31 December 2018				
Total assets	1,492,753	1,098,626	827,213	3,418,592
Total liabilities	2,390,425	466,185	321,940	3,178,550

(1) Included small enterprise business.
(2) Included exterior net interest income/expense and interior net interest income/expense.
(3) Included net fee and commission income, investment income, gains or losses from changes in fair value, net gains from foreign exchange and foreign exchange products, other operating income, gains or losses from disposal of assets and other income.
(4) Included taxes and surcharges, and general and administrative expenses.

(All amounts in RMB million unless otherwise stated)

IV. OPERATING SEGMENT INFORMATION (CONTINUED)

Business lines operating segments (Continued)

Information about major customers

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue for the years ended 31 December 2019 and 31 December 2018.

V. COMMITMENTS AND CONTINGENT LIABILITIES

1. Capital commitments

	31 December 2019	31 December 2018
Authorised but not contracted	2,259	396
Contracted but not provided	1,416	1,509
Total	3,675	1,905

2. Operating lease commitments

The Company adopted the new leasing standard on 31 December 2019. For operating lease contracts meeting the exemption conditions of short-term lease and low-value lease, lease contracts signed but unexecuted and operating lease contracts as at 31 December 2018, the total future minimum lease payments under such leases are as follows:

	31 December 2019	31 December 2018
Within 1 year (inclusive)	99	2,280
1 to 2 years (inclusive)	16	1,889
2 to 3 years (inclusive)	16	1,586
Over 3 years	5	2,913
Total	136	8,668

(All amounts in RMB million unless otherwise stated)

V. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

3. Credit commitments

	31 December 2019	31 December 2018
Bank acceptance notes	363,574	251,154
Letter of guarantee issued	69,168	62,957
Letter of credit issued	62,643	83,757
Sub-total	495,385	397,868
Unused limit of credit cards	433,267	190,531
Total	928,652	588,399
Credit risk weighted amounts of credit commitments	275,106	194,921

Financial guarantee contracts commit the Company to make payments on behalf of customers upon the failure of the customers to perform the terms of the contracts. Provisions for expected credit losses of bank acceptance notes, letter of guarantee issued and letters of credit issued are presented in provisions. Provisions for expected credit losses of unused limit of credit cards are presented in impairment provision for loans and advances to customers.

As at 31 December 2019, the Company had revocable loan commitments amounting to RMB1,497.3 billion (31 December 2018: RMB1,483.7 billion), which are revocable under certain conditions or can be automatically revoked upon deterioration of a borrower's credit capacity according to the loan contract. The total contractual amount of the loan commitment does not necessarily indicate the future cash outflows.

4. Fiduciary activities

Entrusted loans business

The Company acts as an agent and grants such entrusted loans to borrowers under the direction of the third-party lenders who fund these loans. The Company has been contracted by the third-party lenders to manage the administration and collection of these loans on their behalf. The credit risk is not recognised on the balance sheet as it remains with the trustees. As at 31 December 2019 and 31 December 2018, the scale of entrusted loans is as follows:

	31 December 2019	31 December 2018
Entrusted deposits	214,517	254,211
Entrusted loans	214,517	254,211

Entrusted funding and entrusted investments

The Company's entrusted funding and entrusted investments are primarily unconsolidated non-guaranteed WMPs sold to enterprises or individuals. Details are set out in Note III 50.

V. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUE)

5. Contingency

5.1 Legal proceedings

As at 31 December 2019, the total claimed amount of the litigation cases of which the Company was the defendant was RMB2,367 million (31 December 2018: RMB1,422 million). These litigation cases are under legal proceedings. In the opinion of management, the Company has made adequate allowance for any probable losses based on the prevailing facts and circumstances.

5.2 Redemption and underwriting commitments of voucher-type government bonds and savings bonds (electronic)

As an underwriting agent of the MOF, the Company underwrites PRC voucher-type government bonds and savings bonds (electronic) and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the notional value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2019, the Company has sold voucher-type government bonds and savings bonds (electronic) with accumulated amounts of RMB2,767 million (31 December 2018: RMB1,586 million) and RMB1,393 million (31 December 2018: RMB2,804 million) respectively, to the general public that the Company has the obligation of early redemption. The MOF will not provide funding for the early redemption of these voucher-type government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

As at 31 December 2019 and 31 December 2018, there was no unexpired underwriting commitment of the government bonds.

VI. CAPITAL MANAGEMENT

The primary objectives of the Company's capital management are to support the continuous growth in business, to ensure that the Company complies with regulatory capital requirements and to maximise shareholders' value. The Company regularly reviews its capital positions and implementation of related capital management strategy and to support the achievements of medium and long-term business objectives through active capital management, so as to unceasingly improve the use efficiency of capital. Capital structure is adjusted actively depending on the change of economic environment and risk characteristics. The required information of capital adequacy is filed with the CBIRC by the Company on a quarterly basis.

The Company calculates capital adequacy ratio pursuant to *Administrative Measures for the Capital Management of Commercial Banks (Provisional)* promulgated by CBIRC in June 2012. In accordance with the requirements, for the purpose of the reporting period, credit-risk-weighted assets are measured using weighted method; market-risk-weighted assets are measured using standard method; and operating-risk-weighted assets are measured using standard indicator approach.

(All amounts in RMB million unless otherwise stated)

VI. CAPITAL MANAGEMENT (CONTINUED)

Pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Provisional)* issued by CBIRC, the capital positions calculated by the Company on 31 December 2019 are shown below:

	Note	31 December 2019	31 December 2018
Core tier 1 capital adequacy ratio	(a)	9.11%	8.54%
Tier 1 capital adequacy ratio	(a)	10.54%	9.39%
Capital adequacy ratio	(a)	13.22%	11.50%
Core tier 1 capital			
Share capital		19,406	17,170
Capital reserve and investment revaluation reserve		80,816	56,465
Surplus reserve		10,781	10,781
General reserve		46,348	39,850
Retained earnings		113,370	95,037
Other comprehensive income		2,314	786
Deduction items from core tier 1 capital			
Goodwill	(b)	7,568	7,568
Other intangible assets (excluding land use rights)	(b)	3,870	4,579
Other net deferred tax assets that rest on bank's future earnings		7,951	8,160
Other tier 1 capital		39,948	19,953
Tier 2 capital			
Tier 2 capital tool and surplus		43,636	30,099
Excessive loan impairment provision		30,963	19,281
Net core tier 1 capital	(c)	253,646	199,782
Net tier 1 capital	(c)	293,594	219,735
Net capital	(c)	368,193	269,115
Risk-weighted assets	(d)	2,784,405	2,340,236

Note:

(a) Core tier 1 capital adequacy ratio equals to net amount of core tier 1 capital over risk-weighted assets. Tier 1 capital adequacy ratio equals to net amount of tier 1 capital over risk-weighted assets.

(b) Goodwill and other intangible assets (excluding land use right) are the net amounts from deduction of the associated deferred tax liability.

(c) Net amount of core tier 1 capital is core tier 1 capital minuses exclusive items. Net amount of tier 1 capital equals to tier 1 capital minuses exclusive items of core tier 1 capital. Net amount of capital equals to total capital minus exclusive items of total capital.

(d) Risk-weighted assets include credit risk-weighted assets, market risk-weighted assets, and operating risk-weighted assets.

VII. RISK DISCLOSURE

1. Credit risk

Credit risk is the risk of loss arising from that a party of the financial instrument fails to fulfil its obligations.

The Company has established relevant mechanism for unified credit management, and periodically monitors the limit and reviews the credit risk.

1.1 Credit risk management

(i) Loans and advances to customers and credit commitments

The Company has established a concentrated, vertical and individual comprehensive risk management framework and a “dispatched risk management, matrix and double-line reporting” risk management model. The Risk Management Committee of the Head Office is responsible for coordinating risk management of all levels. Professional departments such as the Risk Management Department, Corporate Credit Authorisation Department, Retail Risk Management Department, are responsible of credit management of the bank. The Risk Management Committee of the Head Office dispatch responsible leader for risk management or risk directors to branches and business unites, who undertake credit management duties in their own institutions.

The Company has formulated a complete set of credit management processes and internal control mechanisms, so as to carry out whole process management of credit business. Credit management procedures for its corporate and personal loans comprise the processes of credit origination, credit review, credit approval, disbursement and post management. In addition, the Company has formulated relevant policies of credit underwriting, which have defined the functions and responsibilities of different credit operational processes, and have enhanced the monitoring of the related compliance for improving the overall effective control of credit risk.

The Company also further enhanced its credit risk monitoring and early warning management system in order to improve its credit risk monitoring. The Company actively responds to the change of the credit environment by conducting regular analysis on credit risk situations and matters and taking precautionary risk control measures with a forward-looking vision. The Company has also set up a problematic loan optimisation mechanism to speed up the problematic loan optimisation process and to prevent them from deteriorating to non-performing loans.

Risks arising from credit commitments are similar to those associated with loans and advances. Transactions of financial guarantees and loan commitments are, therefore, subject to the same portfolio management and the same requirements for application and collateral as loans and advances to customers.

If the Company, after executing all necessary procedures, still considers that it is not expected to recover the whole or part of the financial assets, they shall be offset. Signs indicating that amounts are not expected to be recovered include: (1) the enforcement has been terminated, and (2) the Company recovers the amounts by confiscating and disposing the collaterals but it is estimated that the value of the collaterals could not fully cover the principal and interest.

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.1 Credit risk management (Continued)

(ii) Bonds

The Company manages credit risk exposure of bonds and bills by setting restriction of investment size, issuer profile and rating and also post-investment management. Generally, corporate credit rating of issuer of bonds designated in foreign currencies is required to be equal to or higher than BBB (by Standard & Poor's or equivalent rating agencies) when purchasing. Corporate credit rating of issuer of bonds designated in RMB is required to be equal to or higher than AA (credit rating institutes shall obtain the admission by the Company) when purchasing. In respect of bond investing business, the Company implement List system access management for non-financial enterprises with credit rating of AA and AA+ or higher; in case of multiple rating results for the same issuer, the lowest rating result shall prevail.

(iii) Non-bond investment on debts

Non-bond investment on debts include WMPs issued by other banks, asset management plans and trust plans, etc. The Company has rating-based access policies in place towards the cooperating trust companies, securities companies and fund companies, and grants credit facility to the repurchase parties of trust beneficial rights, issuers of WMPs, and ultimate financing parties of directional asset management plans. Subsequent risk management is carried out on a regular basis.

(iv) Interbank transactions

Interbank transactions include deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements by other banks, etc. The Company reviews and monitors credit risk of individual financial institutions periodically and credit quota has been maintained for each bank and other institutions.

1.2 Measurement of expected credit losses

Starting from 1 January 2018, the revised accounting standards for financial instruments was implemented. The Company uses the "ECL model" to make impairment provision for debt instrument financial assets measured at amortised cost and those designated at fair value and changes included into other comprehensive income, loan commitments and financial guarantee contracts.

For financial instruments included in the measurement of expected credit losses, the Company applies "three stages" impairment model to measure the loss allowance and recognise expected credit losses in assessing whether the credit risk on a financial instrument has increased significantly since initial recognition.

Stage 1: Financial instruments with credit risk not increased significantly since initial recognition are classified to Stage 1.
Stage 2: Financial instruments with credit risk increased significantly since initial recognition yet without credit impairment are classified to Stage 2.
Stage 3: Financial instrument with credit impairment are classified to Stage 3.

The loss allowance for the financial instruments at Stage 1 is determined at the amount of expected credit losses on the financial instrument within the next 12 months. The loss allowance for the financial instruments at Stage 2 and Stage 3 is determined at the amount of expected credit losses on the financial instrument within the lifetime.

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.2 Measurement of expected credit losses (Continued)

Purchased or underlying financial assets that are impaired for which the credit impairment has been incurred refer to financial assets that are impaired at initial recognition. Impairment provision for of these assets represent the expected credit losses over the whole duration period.

The Company tests financial assets for expected credit losses impairment using risk parameter model and discounted cash flow model. The risk parameter model is applicable to personal loan assets, and corporate loan assets and investment on debts classified as Stage 1 and Stage 2. The discounted cash flow model is applicable to corporate loan assets and investment on debts classified as Stage 3.

Expected credit losses are assessed by taking into account the forward-looking information, and complicated models and assumptions are used in measuring expected credit losses. These models and assumptions involve future macro-economic conditions and the credit record of the borrower (such as, possibility of default by customers and losses therefrom). The Company uses judgements, assumptions and estimates in measuring the expected credit risk in accordance with the accounting standards, including:

- Classification of similar credit risk portfolios
- Parameters for measuring expected credit losses
- Criteria for significant increase in credit risk and default definition
- Definition of credit-impaired assets
- Forward-looking information
- Future cash flows forecast for loans and advances to corporates and investment on debts in stage 3

<u>Parameters for measuring expected credit losses</u>

Based on whether the credit risk has increased significantly and whether the credit impairment has occurred, the Company measures impairment provision for different assets by the 12-month or lifetime expected credit losses. Key parameters for measuring expected credit losses include default probability, default loss rate, default risk exposure and discount rate. Based on the internal rating system used in current risk management, the Company, in accordance with the accounting standards for financial instruments, establishes the default probability, default loss rate and default risk exposure model by taking into account the quantitative analysis of historical statistics (such as counterparty rating, guarantee method and collateral category, repayment method, etc.) and forward-looking information.

- PD refers to the possibility that borrowers are unable to perform their repayment obligation in the next 12 months or during the rest of the lifetime. The Company calculates PD by combining historical default experience, which is calculated by adjusting the result of internal rating model or collective assessment, and forward-looking information to reflect the debtor's PD under the current macro-economic environment at a certain time point;
- LGD refers to the Company's expectation of the extent of the losses caused by default risk exposure. LGD varies with the type of the counterparty in the transaction, the measure and priority of recourse, and the accessibility of collaterals and other credit supports. The default loss rate is the percentage of the risk exposure loss in the event of default;
- EAD refers to the repayment due to the Company when default occurs.

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.2 Measurement of expected credit losses (Continued)

Parameters for measuring expected credit losses(Continued)

The Company adopts internal credit risk rating to reflect the PD assessment results of a single counterparty and adopts different internal rating models for different counterparties. The information about the borrower and specific information of the loan collected upon the application for loan will be included in rating model. The Company's rating system consists of 24 grades for non-default and one grade for default. The Company regularly monitors and reviews assumptions related to the calculation of expected credit losses, including the probability of default, default loss rate and default risk exposure in terms of different maturities and changes in value of collaterals.

Criteria for significant increase in credit risk

At each balance sheet date, the Company assesses whether the credit risk of relevant financial instruments has increased significantly since initial recognition. The Company fully considers all the reasonable and supportable information on whether the credit risk has changed significantly, including forward-looking information. Main considerations include regulatory and business environment, internal and external credit rating, solvency, operation capacity, loan contract terms, repayment behaviour, etc. The Company, based on individual financial instruments or financial instrument groupings with similar credit risk characteristics, determines changes in the risk of default in the estimated lifetime of financial instruments by comparing the risk of default of financial instruments at the balance sheet date with that at the initial recognition.

The Company sets quantitative and qualitative criteria to judge whether the credit risk of financial instruments changes significantly since initial recognition, and the criteria include: overdue for more than 30 days, changes in PD, changes in credit risk classification and other situations indicating significant changes in credit risk.

Definition of credit-impaired assets

Under the accounting standards for financial instruments, in order to determine whether credit impairment occurs, the defined criteria adopted by the Company are consistent with the internal credit risk management objectives for relevant financial instruments, both of which incorporate quantitative and qualitative indicators. When assessing whether a debtor has suffered a credit impairment, the Company usually considers the following factors:

- Borrowings overdue for over 90 days after the contractual payment day;
- Default of internal credit rating;
- Concessions made by the lender to the borrower for economic or contractual reasons related to the financial difficulties of the borrower
- Significant financial difficulty of the borrower
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The active market for financial assets disappears

Financial assets may be credit-impaired due to the joint effect of multiple events rather than separately identifiable events.

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.2 Measurement of expected credit losses (Continued)

Forward-looking information (Continued)

Both the assessment of significant increase in credit risk and the calculation of expected credit losses involve forward-looking information. The Company identifies key economic indicators that affect credit risks and expected credit losses of all asset portfolios based on historical data analysis, such as YOY changes of GDP, Consumer Price Index, Purchasing Managers' Index, and M2, etc.

The Company evaluates and predicts the economic indicators at least annually, and provides best estimates and examines the evaluation results on a regular basis. In 2019, the Company collected time sequence data of the past 10 years of the above key economic indicators from the China Macro-economy Database published by Wind to establish forecasting function by analysing endogenous relationship across periods between economic indicators on the basis of random shock simulated using Monte Carlo model. In consideration of experts' experience and professional judgement, the Company predicted key economic indicators forecasting values under different scenarios. The Company determined macro-economic assumptions and scenario weights to measure related impairment provision by selecting different fractiles as the macro-economic value of three types of scenarios (optimistic, basic and pessimistic).

The impact of these economic indicators on default probability, and default loss rate varies between different business types. The Company considers internal and external data, expert forecasts and statistical analysis to determine the relationship between these economic indicators and default probability, default loss rate and default risk exposure. The Company annually reviews key parameters and assumptions used in the calculation of expected credit losses and makes necessary updates and adjustments according to the external economic development and changes in industrial and regional risks.

Sensitivity analysis and management overlay

Expected credit losses are sensitive to parameters used in the model, macro-economic variables of forward-looking estimates, weight probability of the three scenarios, and other factors considered in the expert judgement. Changes in these input parameters, assumptions, models, and judgements will have an impact on the significant increase in credit risk and the measurement of expected credit losses.

The Company's weights of basis scenario account for the highest proportion, and the weights of basis scenario are similar to the sum of the weights of non-basis scenario. If the weight of optimistic scenario increases by 10% while the weight of basis scenario decreases by 10%, provision for credit impairment as at 31 December 2019 decreases by RMB918 million (31 December 2018: RMB571 million); if the weight of pessimistic scenario increases by 10% while the weight of basis scenario decreases by 10%, provision for credit impairment increases by RMB1,554 million (31 December 2018: RMB814 million).

For new changes in external economic situation not reflected in models, management of the Company has considered such changes and additionally increased loss provision, further enhancing risk compensation capability of the Company.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.2 Measurement of expected credit losses (Continued)

Sensitivity analysis and management overlay (Continued)

The table below illustrates changes in impairment provision and provisions recognised in balance sheet after all financial assets and credit commitments in Stage 2 are transferred into Stage 1 due to significant changes in credit risk.

	31 December 2019	31 December 2018
The total amount of impairment provision and provisions as all financial assets and credit commitments in Stage 2 are transferred into Stage 1	77,612	56,105
The total amount of impairment provision and provisions recognised in balance sheet	84,912	63,994
Difference - amount	(7,300)	(7,889)
Difference - %	-9%	-12%

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.2 Measurement of expected credit losses (Continued)

The table below illustrates the changes in the carrying amount of the Company's major financial assets for the current year (including accrued interest):

		2019						
				Changes in three stages				
Item	Stage of impairment	Opening balance	Net increase/(decrease) in the current year (Note)	Net transfer/(reversal) from Stage 1 to Stage 2	Net transfer/(reversal) from Stage 1 to Stage 3	Net transfer/(reversal) from Stage 2 to Stage 3	Write-off in the current year	Ending balance
Loans and advances to customers	Stage 1	1,899,923	416,765	(84,351)	79	-	-	2,232,416
	Stage 2	45,185	(38,679)	84,351	-	(41,492)	-	49,365
	Stage 3	58,682	(5,412)	-	(79)	41,492	(47,555)	47,128
	Sub-total	2,003,790	372,674	-	-	-	(47,555)	2,328,909
Investment on debts	Stage 1	620,382	38,999	(13,318)	(1,172)	-	-	644,891
	Stage 2	5,797	(7,544)	13,318	-	(10,058)	-	1,513
	Stage 3	10,548	(2,337)	-	1,172	10,058	(642)	18,799
	Sub-total	636,727	29,118	-	-	-	(642)	665,203
Other investment on debts	Stage 1	70,109	112,113	(600)	-	-	-	181,622
	Stage 2	34	(34)	600	-	(500)	-	100
	Stage 3	521	(479)	-	-	500	-	542
	Sub-total	70,664	111,600	-	-	-	-	182,264

Note: Changes due to purchase, origination, or derecognition (except for write-off) for the current year.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.2 Measurement of expected credit losses (Continued)

The table below illustrates the changes in the carrying amount of the Company's major financial assets for the current year (including accrued interest):

		2018						
				Changes in three stages				
Item	Stage of impairment	Opening balance	Net increase/(decrease) in the current year (Note)	Net transfer/(reversal) from Stage 1 to Stage 2	Net transfer/(reversal) from Stage 1 to Stage 3	Net transfer/(reversal) from Stage 2 to Stage 3	Write-off in the current year	Ending balance
Loans and advances to customers	Stage 1	1,588,016	378,959	(65,775)	(1,277)	-	-	1,899,923
	Stage 2	44,635	(20,413)	65,775	-	(44,812)	-	45,185
	Stage 3	71,579	(13,182)	-	1,277	44,812	(45,804)	58,682
	Sub-total	1,704,230	345,364	-	-	-	(45,804)	2,003,790
Investment on debts	Stage 1	656,033	(32,671)	(2,980)	-	-	-	620,382
	Stage 2	13,273	(3,609)	2,980	-	(6,847)	-	5,797
	Stage 3	6,875	(3,174)	-	-	6,847	-	10,548
	Sub-total	676,181	(39,454)	-	-	-	-	636,727
Other investment on debts	Stage 1	54,147	16,517	(514)	(41)	-	-	70,109
	Stage 2	-	-	514	-	(480)	-	34
	Stage 3	-	-	-	41	480	-	521
	Sub-total	54,147	16,517	-	-	-	-	70,664

Note: Changes due to purchase, origination, or derecognition (except for write-off) for the current year.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.2 Measurement of expected credit losses (Continued)

The table below illustrates the changes in the balance of the impairment provision for the Company's major financial assets for the current year:

		2019							
					Changes in three stages				
Item	Stage of impairment	Opening balance	Net increase/(decrease) in the current year (Note 1)	Increase in/(reversal of) provision (Note 2)	Net transfer/(reversal) from Stage 1 to Stage 2	Net transfer/(reversal) from Stage 1 to Stage 3	Net transfer/(reversal) from Stage 2 to Stage 3	Write-off in the current year	Ending balance
Loans and advances to customers	Stage 1	17,266	12,723	3,803	(3,765)	381	-	-	30,408
	Stage 2	7,931	(3,202)	12,881	3,765	-	(13,486)	-	7,889
	Stage 3	28,990	(1,304)	38,480	-	(381)	13,486	(47,555)	31,716
	Sub-total	54,187	8,217	55,164	-	-	-	(47,555)	70,013
Investment on debts	Stage 1	1,438	136	(80)	(159)	(36)	-	-	1,299
	Stage 2	329	(221)	497	159	-	(674)	-	90
	Stage 3	5,594	(202)	2,064	-	36	674	(642)	7,524
	Sub-total	7,361	(287)	2,481	-	-	-	(642)	8,913
Other investment on debts	Stage 1	275	638	(80)	(76)	-	-	-	757
	Stage 2	1	(1)	5	76	-	(80)	-	1
	Stage 3	56	(99)	483	-	-	80	-	520
	Sub-total	332	538	408	-	-	-	-	1,278

Note 1: Changes due to purchase, origination, or derecognition (except for write-off) for the current year.
Note 2: This item mainly includes changes in default probability, default risk exposure, default loss rate caused by regular updates of model parameters, and impacts of changes in stages on the measurement of expected credit losses.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.2 Measurement of expected credit losses (Continued)

The table below illustrates the changes in the balance of the impairment provision for the Company's major financial assets for the current year:

		2018							
					Changes in three stages				
Item	Stage of impairment	Opening balance	Net increase/(decrease) in the current year (Note 1)	Increase in/(reversal of) provision (Note 2)	Net transfer/(reversal) from Stage 1 to Stage 2	Net transfer/(reversal) from Stage 1 to Stage 3	Net transfer/(reversal) from Stage 2 to Stage 3	Write-off in the current year	Ending balance
Loans and advances to customers	Stage 1	11,941	9,592	957	(5,175)	(49)	-	-	17,266
	Stage 2	3,447	(889)	9,600	5,175	-	(9,402)	-	7,931
	Stage 3	32,375	(5,263)	38,231	-	49	9,402	(45,804)	28,990
	Sub-total	47,763	3,440	48,788	-	-	-	(45,804)	54,187
Investment on debts	Stage 1	1,351	1,929	(411)	(1,431)	-	-	-	1,438
	Stage 2	682	(63)	24	1,431	-	(1,745)	-	329
	Stage 3	2,237	(413)	2,025	-	-	1,745	-	5,594
	Sub-total	4,270	1,453	1,638	-	-	-	-	7,361
Other investment on debts	Stage 1	67	262	(11)	(43)	-	-	-	275
	Stage 2	-	-	-	43	-	(42)	-	1
	Stage 3	-	-	14	-	-	42	-	56
	Sub-total	67	262	3	-	-	-	-	332

Note 1: Changes due to purchase, origination, or derecognition (except for write-off) for the current year.
Note 2: This item mainly includes changes in default probability, default risk exposure, default loss rate caused by regular updates of model parameters, and impacts of changes in stages on the measurement of expected credit losses.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.3 Credit risk measurement

Credit risk exposure analysis

The Company conducts internal rating on the risk characteristics of assets based on the quality status of assets, and classifies the credit ratings of financial assets included in the measurement of expected credit losses into "low risk", "medium risk", "high risk" and "default" according to the internal rating yardstick. The credit ratings are only for internal credit risk management. “Low risk” means that an asset has high quality, and there is sufficient evidence to show that no default is expected to occur on the asset, or there is no sufficient reason to suspect that default is expected to occur on the asset; “medium risk” refers to factors that may adversely affect the quality of an asset, but there is no sufficient reason to suspect that the asset is expected to default; “high risk” means that there are factors that have an obvious adverse effect on the quality of an asset, but no occurrence of default; the criterion for "default" is consistent with the definition of credit-impaired assets.

The table below provides an analysis on the credit risk rate of the loans and advances to customers and investment on debts included in the expected credit losses assessment. The carrying amount of financial assets below represents the Company's maximum credit risk exposure with these assets.

<u>Loans and advances to customers</u>

	31 December 2019				
	Stage 1	Stage 2	Stage 3		Total
Credit rating	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased credit-impaired financial assets	
Low risk	1,196,528	670	-	-	1,197,198
Medium risk	1,029,144	18,079	-	-	1,047,223
High risk	6,744	30,616	-	-	37,360
Default	-	-	47,128	-	47,128
Book value	2,232,416	49,365	47,128	-	2,328,909
Impairment provision	(29,955)	(7,889)	(31,716)	-	(69,560)
Book value	2,202,461	41,476	15,412	-	2,259,349

	31 December 2018				
	Stage 1	Stage 2	Stage 3		Total
Credit rating	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased credit-impaired financial assets	
Low risk	1,036,906	148	-	-	1,037,054
Medium risk	849,814	12,203	-	-	862,017
High risk	13,203	32,834	-	-	46,037
Default	-	-	58,682	-	58,682
Book value	1,899,923	45,185	58,682	-	2,003,790
Impairment provision	(17,114)	(7,931)	(28,988)	-	(54,033)
Book value	1,882,809	37,254	29,694	-	1,949,757

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.3 Credit risk measurement (Continued)

Credit risk exposure analysis (Continued)

Investment on debts

	31 December 2019				
	Stage 1	Stage 2	Stage 3		Total
Credit rating	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased credit-impaired financial assets	
Low risk	588,546	-	-	-	588,546
Medium risk	56,345	1,513	-	-	57,858
High risk	-	-	-	-	-
Default	-	-	18,799	-	18,799
Book value	644,891	1,513	18,799	-	665,203
Impairment provision	(1,299)	(90)	(7,524)	-	(8,913)
Book value	643,592	1,423	11,275	-	656,290

	31 December 2018				
	Stage 1	Stage 2	Stage 3		Total
Credit rating	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased credit-impaired financial assets	
Low risk	540,052	1,098	-	-	541,150
Medium risk	80,330	2,926	-	-	83,256
High risk	-	1,773	-	-	1,773
Default	-	-	10,548	-	10,548
Book value	620,382	5,797	10,548	-	636,727
Impairment provision	(1,438)	(329)	(5,594)	-	(7,361)
Book value	618,944	5,468	4,954	-	629,366

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.3 Credit risk measurement (Continued)

Risk concentration of the maximum credit risk exposure

Credit risk is often greater when counterparties are concentrated in a single industry or geographic location or have comparable economic characteristics.

The majority of the loans and financial guarantee contracts of the Company are related to the local customers within Mainland China. However, different areas in Mainland China have their own unique characteristics in terms of economic development. Therefore, each area in Mainland China could present different credit risks.

Please refer to Note III 6 for an analysis of concentration of loans and advances by industry and geographical region.

Collateral and other credit enhancements

The amount and type of collateral required are determined by the Company based on its assessment of the credit risk of the counterparty. The Company has implemented guidelines regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, mainly in bills, beneficial right of trust, or securities;
- For corporate lending, mainly charges over real estate properties, inventories, shares or trade receivables;
- For retail lending, mainly in residential properties mortgages.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of impairment losses.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.3 Credit risk measurement (Continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (deducting impairment losses):

	31 December 2019				
	Stage 1	Stage 2	Stage 3	N/A	Maximum exposure to credit risk without taking account of any collateral and other credit enhancements
Balances with the Central bank	246,771	-	-	-	246,771
Deposits with banks and other financial institutions	85,684	-	-	-	85,684
Placements with and loans to banks and other financial institutions	79,369	-	-	-	79,369
Financial assets designated at fair value and changes included into the profits and losses for the period (excluding equity investments)	-	-	-	206,210	206,210
Derivative financial assets	-	-	-	18,500	18,500
Financial assets held under resale agreements	62,216	-	-	-	62,216
Loans and advances to customers	2,202,461	41,476	15,412	-	2,259,349
Other investment on debts (excluding equity investments)	181,622	100	542	-	182,264
Investment on debts	643,592	1,423	11,275	-	656,290
Other financial assets	10,459	-	-	-	10,459
Sub-total	3,512,174	42,999	27,229	224,710	3,807,112
Off-balance sheet items (Note)	921,478	4,805	665	-	926,948
Including: Bank acceptance notes	358,448	3,905	281	-	362,634
Letter of guarantee issued	68,349	133	-	-	68,482
Letter of credit issued	62,024	541	-	-	62,565
Unused limit of credit cards	432,657	226	384	-	433,267
Total	4,433,652	47,804	27,894	224,710	4,734,060

Note: Off-balance sheet items represented letter of credit issued, bank acceptance notes, letter of guarantee issued and unused limit of credit cards, after deducting off-balance sheet provision for expected credit losses.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.3 Credit risk measurement (Continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (deducting impairment losses) (Continued):

	31 December 2018				
	Stage 1	Stage 2	Stage 3	N/A	Maximum exposure to credit risk without taking account of any collateral and other credit enhancements
Deposits with the Central bank	273,513	-	-	-	273,513
Deposits with banks and other financial institutions	85,098	-	-	-	85,098
Placements with and loans to banks and other financial institutions	72,934	-	-	-	72,934
Financial assets held for trading (excluding equity investments)	-	-	-	148,102	148,102
Derivative financial assets	-	-	-	21,460	21,460
Financial assets held under resale agreements	36,985	-	-	-	36,985
Loans and advances to customers	1,882,809	37,254	29,694	-	1,949,757
Investment on other debts (excluding equity investments)	70,109	34	521	-	70,664
Investment on debts	618,944	5,468	4,954	-	629,366
Other financial assets	6,871	-	-	-	6,871
Sub-total	3,047,263	42,756	35,169	169,562	3,294,750
Off-balance sheet items	581,835	4,900	828	-	587,563
Including: Bank acceptance notes	245,870	4,102	733	-	250,705
Letter of guarantee issued	62,348	267	-	-	62,615
Letter of credit issued	83,330	382	-	-	83,712
Unused limit of credit cards	190,287	149	95	-	190,531
Total	3,629,098	47,656	35,997	169,562	3,882,313

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

1. Credit risk (Continued)

1.3 Credit risk measurement (Continued)

The Company closely monitors collateral related to credit-impaired financial assets, as the possibility is greater that the Company confiscates such collateral in order to lower the potential losses when compared with other collaterals. On 31 December 2019 and 31 December 2018, the Company's credit-impaired financial assets and the value of the collateral held to lower the potential losses are set out as follows:

	31 December 2019			
	Total exposure	Impairment provision (Note)	Book value	Fair value of the collateral held
Credit-impaired assets				
Loans and advances to customers:				
- Loans and advances to corporates	31,054	19,171	11,883	12,738
- Loans and advances to individuals	16,074	12,545	3,529	7,328
Financial investments:				
- Investment on debts	18,799	7,524	11,275	9,315
- Other investment on debts	542	520	542	-
Total credit-impaired assets	66,469	39,760	27,229	29,381

	31 December 2018			
	Total exposure	Impairment provision (Note)	Book value	Fair value of the collateral held
Credit-impaired assets				
Loans and advances to customers:				
- Loans and advances to corporates	46,383	19,090	27,295	35,567
- Loans and advances to individuals	12,299	9,900	2,399	2,440
Financial investments:				
- Investment on debts	10,548	5,594	4,954	6,438
- Other investment on debts	521	56	521	-
Total credit-impaired assets	69,751	34,640	35,169	44,445

Note: As at 31 December 2019, an impairment loss, amounting to RMB520 million (31 December 2018: RMB58 million), in the Company's loans and advances to corporates and other investment on debts was included in other comprehensive income.

Restructured loans and advances to customers

Restructured loans and advances to customers refer to those loans with renegotiated contract provisions due to deteriorated financial performance or inability to scheduled repayment. The Company reaches agreement with the borrowers in consideration of their financial difficulty or makes concessions based on the court order. As at 31 December 2019, the restructured loans and advances to customers of the Company amounted to RMB19,707 million (31 December 2018: RMB23,039 million).

VII. RISK DISCLOSURE (CONTINUED)

2. Liquidity risk

Liquidity risk refers to that an enterprise encounters the shortage of funds when fulfilling its obligations associated with financial liabilities.

It is the Company's ultimate responsibility to manage liquidity risk. Asset liability management committee is the top management of the Company's liquidity risk management. Asset liability management department, in the authority of asset liability management committee, is responsible for daily liquidity risk management. The performance of Board of Directors and senior management is evaluated regularly by Board of Supervisors. Internal audit department is responsible for the internal auditing of liquidity risk.

Liquidity risk has been paid attention to by the Company, not only by constantly improving the liquidity risk management framework, but also by effective identification, measurement, monitoring, controlling the liquidity risk, conducting pressure test on liquidity risk, cautiously assessing the future needs on liquidity, continuously improving and refining emergency plan against liquidity risk, and enhancing the communication and coordination of each relevant department in order to improve the response efficiency of liquidity risk.

By the end of reporting period, the Company's liquidity is sufficiently maintained, with major liquid index equal to or higher than the regulatory requirements; various businesses grow steadily, with adequate and superior liquid asset reserve on a continuous basis.

The Company will continuously work on the improvement on the pertinence and flexibility of liquidity risk management to maintain the balanced development of capital sources and operations; Meanwhile, the Company will continuously promote the structure optimisation of assets and liabilities, and strengthen the management of stable deposits and liquidation base.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

2. Liquidity risk (Continued)

As at 31 December 2019, the remaining contractual maturity analysis of the Company's financial assets and financial liabilities (based on contractual undiscounted cash flows) was as follows:

	31 December 2019							
	Overdue/on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial instruments cash flows:								
Financial assets:								
Cash and balances with the Central bank	39,768	-	-	-	-	-	212,462	252,230
Amounts due from other financial institutions (1)	27,181	101,127	31,522	69,191	-	-	-	229,021
Financial assets held for trading	4,565	5,394	16,024	45,843	49,925	41,614	61,421	224,786
Loans and advances to customers	15,828	303,409	360,291	706,053	707,156	543,304	-	2,636,041
Investment on debts	7,422	5,732	29,072	110,920	342,480	259,864	-	755,490
Other investment on debts	600	3,943	8,153	65,444	92,605	33,743	-	204,488
Other equity investment	-	-	-	-	-	-	1,844	1,844
Other financial assets	4,854	352	2,405	-	1,413	29	-	9,053
Total financial assets	100,218	419,957	447,467	997,451	1,193,579	878,554	275,727	4,312,953
Financial liabilities:								
Borrowings from the Central bank	-	28,940	1,740	84,261	-	-	-	114,941
Amounts due to other financial institutions (2)	189,156	108,059	80,541	58,191	-	-	-	435,947
Financial liabilities held for trading	1,369	27,282	870	180	-	-	-	29,701
Due to customers	822,358	368,059	261,958	514,509	547,200	9,572	-	2,523,656
Debt securities issued	-	38,250	173,020	230,782	86,108	-	-	528,160
Lease liabilities	440	351	368	1,872	5,375	469	-	8,875
Other financial liabilities	12,769	-	-	4,016	903	-	-	17,688
Total financial liabilities	1,026,092	570,941	518,497	893,811	639,586	10,041	-	3,658,968
Net liquidity	(925,874)	(150,984)	(71,030)	103,640	553,993	868,513	275,727	653,985
Derivative cash flows:								
Derivative financial instruments settled on a net basis	-	192	889	2,143	(71)	16	-	3,169
Derivative financial instruments settled on a gross basis								
Including: Cash inflow	20,354	121,521	120,083	267,473	36,491	-	-	565,922
Cash outflow	(25,204)	(121,561)	(120,681)	(268,643)	(36,287)	-	-	(572,376)
	(4,850)	(40)	(598)	(1,170)	204	-	-	(6,454)

(1) Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.
(2) Amounts due to other financial institutions included financial assets sold under repurchase agreements.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

2. Liquidity risk (Continued)

As at 31 December 2018, the remaining contractual maturity analysis of the Company's financial assets and financial liabilities (based on contractual undiscounted cash flows) was as follows:

	31 December 2018							
	Overdue/on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
Non-derivative financial instruments cash flows:								
Financial assets:								
Cash and balances with the Central bank	49,003	-	-	-	-	-	229,525	278,528
Amounts due from other financial institutions (1)	19,154	92,672	25,034	59,763	-	-	-	196,623
Financial assets held for trading	1,491	1,814	9,478	39,860	39,658	19,848	45,403	157,552
Loans and advances to customers	29,758	245,186	339,395	622,654	594,641	428,493	-	2,260,127
Investment on debts	5,713	9,466	16,238	93,776	359,018	238,975	-	723,186
Other investment on debts	480	66	3,122	15,800	35,320	31,593	-	86,381
Other equity investment	-	-	-	-	-	-	1,519	1,519
Other financial assets	2,249	572	1,610	-	550	29	-	5,010
Total financial assets	107,848	349,776	394,877	831,853	1,029,187	718,938	276,447	3,708,926
Financial liabilities:								
Borrowings from the Central bank	-	21,012	17,886	113,059	-	-	-	151,957
Amounts due to other financial institutions (2)	136,609	67,528	95,921	126,147	13	-	-	426,218
Financial liabilities held for trading	-	7,020	-	1,561	-	-	-	8,581
Due to customers	788,989	232,327	272,693	548,830	350,857	2,271	-	2,195,967
Debt securities issued	-	15,750	33,590	277,020	68,639	-	-	394,999
Other financial liabilities	17,329	-	-	2,364	-	-	-	19,693
Total financial liabilities	942,927	343,637	420,090	1,068,981	419,509	2,271	-	3,197,415
Net liquidity	(835,079)	6,139	(25,213)	(237,128)	609,678	716,667	276,447	511,511
Derivative cash flows:								
Derivative financial instruments settled on a net basis	-	58	165	871	(296)	(27)	-	771
Derivative financial instruments settled on a gross basis								
Including: Cash inflow	32,581	348,039	139,981	388,424	10,645	-	-	919,670
Cash outflow	(34,161)	(347,867)	(139,663)	(388,520)	(10,582)	-	-	(920,793)
	(1,580)	172	318	(96)	63	-	-	(1,123)

(1) Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.
(2) Amounts due to other financial institutions included financial assets sold under repurchase agreements.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

2. Liquidity risk (Continued)

Analysis of credit commitments by contractual expiry date:

	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	Total
31 December 2019							
Bank acceptance notes	56,173	90,057	217,344	-	-	-	363,574
Credit card commitments	40	3,175	15,155	201,163	213,734	-	433,267
Letter of guarantee issued	5,871	5,668	20,450	35,809	1,370	-	69,168
Letters of credit issued	9,438	20,040	32,993	172	-	-	62,643
Total	71,522	118,940	285,942	237,144	215,104	-	928,652
31 December 2018							
Bank acceptance notes	46,074	71,050	134,030	-	-	-	251,154
Credit card commitments	114	1,609	8,207	63,835	116,766	-	190,531
Letter of guarantee issued	3,175	6,080	16,634	32,951	4,117	-	62,957
Letters of credit issued	9,768	17,111	56,749	-	129	-	83,757
Total	59,131	95,850	215,620	96,786	121,012	-	588,399

Management expects that not all of the commitments will be drawn before expiry of the commitments.

VII. RISK DISCLOSURE (CONTINUED)

3. Market risk

The principal market risk faced by the Company comes from interest rates and the position of exchange rate products. The target of market risk management is to avoid uncontrollable loss of revenue or equity caused by market risk, and to offset the impact of volatility risk of financial instruments on the Company. The Board of Directors of the Company is responsible for approving policies of market risk management, and authorises the Asset and Liability Management Committee to specifically approve the credit limit on market risk for capital investment business, while conducting regular supervision on market risks. The specialised department under the Asset and Liability Management Committee undertakes regular functions of market risk monitoring, including determining a reasonable level of market risk exposure, monitoring daily operation of treasury business, giving advice to adjust maturity structure and interest rate structure of assets and liabilities.

Transaction account interest rate risk comes from the change in interest rates and product price of the transaction account resulting from the change in market interest rates, which in turn affects the profit or loss of the Company for the year. The Company mainly manages the transaction account by adopting measures such as the interest rate sensitive limit and daily and monthly stop-loss limit to ensure that the fluctuations of interest rate and market value of products are within the affordable scope of the Company.

Bank account interest rate risk comes from the mismatch of the maturity date or contract re-pricing date between interest-earning assets and interest-bearing liabilities. Interest-earning assets and interest-bearing liabilities of the Company are primarily priced in RMB. The Company manages interest rate risk primarily by adjusting the asset/liability pricing structure, regularly monitoring sensitive gaps of interest rate, analysing characteristics of asset/liability re-pricing, and using an asset/liability management system to conduct scenario analysis on interest risk. The Company regularly convenes the Asset and Liability Management Committee meetings to adjust the asset/liability structure timely and appropriately and manage interest rate risk by predicting future macro-economic trends and analysing base rate policies of the Peoples' Bank of China.

In the opinion of management, as the market risk of the Company's trading business activities is not material, the Company has not separately disclosed quantitative information about exposure to market risk arising from the trading portfolio.

3.1 Foreign exchange risk

The Company's foreign exchange risk exposure mainly comprises exposures from the mismatch of foreign currency assets and liabilities, and off-balance sheet foreign exchange position arising from derivative transactions. The currency risk of the Company mainly arises from loans and advances, investments and deposits denominated in foreign currencies. The Company has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

3. Market risk (Continued)

3.1 Foreign exchange risk (Continued)

As at 31 December 2019, the Company's foreign currency assets and liabilities summarised by currency are as follows:

	31 December 2019			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets:				
Cash and balances with the Central bank	8,836	756	94	9,686
Amounts due from other financial institutions (1)	59,091	2,417	3,392	64,900
Financial assets held for trading and derivative financial assets	1,750	-	370	2,120
Loans and advances to customers	133,309	5,809	21,422	160,540
Investment on debts	21,408	667	1,463	23,538
Other investment on debts	8,394	-	-	8,394
Other equity investment	16	-	-	16
Other assets	61	31	1	93
Total assets	232,865	9,680	26,742	269,287
Liabilities:				
Amounts due to other financial institutions (2)	13,546	47	11,934	25,527
Financial liabilities held for trading and derivative financial liabilities	44	-	-	44
Due to customers	203,274	11,873	5,724	220,871
Other liabilities	245	27	275	547
Total liabilities	217,109	11,947	17,933	246,989
Net position of foreign currency (3)	15,756	(2,267)	8,809	22,298
Notional amount of derivative financial instruments	(10,548)	2,118	(8,555)	(16,985)
Total	5,208	(149)	254	5,313
Off-balance sheet credit commitments	26,656	27	4,358	31,041

(1) Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.
(2) Amounts due to other financial institutions included financial assets sold under repurchase agreements.
(3) The net position of foreign currency comprised the related net position of monetary assets and liabilities.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

3. Market risk (Continued)

3.1 Foreign exchange risk (Continued)

As at 31 December 2018, the Company's foreign currency assets and liabilities summarised by currency are as follows:

	31 December 2018			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Assets:				
Cash and balances with the Central bank	7,735	644	81	8,460
Amounts due from other financial institutions (1)	64,358	1,214	3,268	68,840
Financial assets held for trading and derivative financial assets	2,506	-	405	2,911
Loans and advances to customers	118,512	9,322	18,958	146,792
Investment on debts	17,567	653	698	18,918
Other investment on debts	5,605	-	-	5,605
Other equity investment	1	-	-	1
Other assets	1,168	78	33	1,279
Total assets	217,452	11,911	23,443	252,806
Liabilities:				
Amounts due to other financial institutions (2)	20,825	30	6,762	27,617
Financial liabilities held for trading and derivative financial liabilities	1	-	-	1
Due to customers	206,450	7,963	4,164	218,577
Other liabilities	2,682	47	15	2,744
Total liabilities	229,958	8,040	10,941	248,939
Net position of foreign currency (3)	(12,506)	3,871	12,502	3,867
Notional amount of derivative financial instruments	14,788	(4,485)	(12,129)	(1,826)
Total	2,282	(614)	373	2,041
Off-balance sheet credit commitments	49,219	319	4,475	54,013

(1) Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.
(2) Amounts due to other financial institutions included financial assets sold under repurchase agreements.
(3) The net position of foreign currency comprised the related net position of monetary assets and liabilities.

VII. RISK DISCLOSURE (CONTINUED)

3. Market risk (Continued)

3.1 Foreign exchange risk (Continued)

The table below indicates the sensitivity analysis of exchange rate changes of the currencies to which the Company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement in the exchange rates against the RMB, with all other variables held constant on profit before tax. A negative amount in the table reflects a potential net reduction in profit before tax, while a positive amount reflects a net potential increase. As the Company has no cash flow hedges and has only a minimal amount of equity instruments denominated in foreign currencies, changes in exchange rates do not have any material potential impact on equity.

31 December 2019

Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-5	+/-260
HKD	+/-5	-/+7

31 December 2018

Currency	Change in exchange rate in %	Effect on profit before tax (RMB equivalent)
USD	+/-5	+/-114
HKD	+/-5	-/+31

3.2 Interest rate risk

The Company’s interest rate risk comes from the mismatch of the maturity date or contract re-pricing date between interest-earning assets and interest-bearing liabilities. Interest-earning assets and interest-bearing liabilities of the Company are primarily priced in RMB. The PBoC sets a cap and a floor on interest rates on deposits and loans, respectively.

The Company manages its interest rate risk by adjusting the composition of assets and liabilities, monitoring indicators such as the interest rate sensitivity gap on a regular basis and measuring risk exposure in accordance with the re-pricing characteristics of assets and liabilities. The Asset and Liability Management Committee meets regularly and manages interest rate risk exposures by adjusting the composition of the assets and liabilities in accordance with movements in market interest rates.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

3. Market risk (Continued)

3.2 Interest rate risk (Continued)

As at 31 December 2019, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's balance sheet items are summarised as follows:

	31 December 2019					
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets:						
Cash and balances with the Central bank	237,234	-	-	-	14,996	252,230
Precious metals	-	-	-	-	51,191	51,191
Amounts due from other financial institutions (1)	159,199	67,031	-	-	1,039	227,269
Financial assets held for trading and derivative financial assets	22,083	44,895	40,669	35,251	82,284	225,182
Loans and advances to customers	1,094,488	893,222	262,523	3,412	5,704	2,259,349
Investment on debts	40,301	90,270	283,941	233,686	8,092	656,290
Other investment on debts	11,768	59,655	78,637	30,182	2,022	182,264
Other equity investment	-	-	-	-	1,844	1,844
Property and equipment	-	-	-	-	11,092	11,092
Goodwill	-	-	-	-	7,568	7,568
Right-of-use assets	-	-	-	-	7,517	7,517
Other assets	-	-	-	-	57,274	57,274
Total assets	1,565,073	1,155,073	665,770	302,531	250,623	3,939,070
Liabilities:						
Borrowings from the Central bank	29,810	81,601	-	-	1,920	113,331
Amounts due to other financial institutions (2)	376,210	56,836	-	-	1,815	434,861
Financial liabilities held for trading and derivative financial liabilities	23,230	-	-	-	27,865	51,095
Due to customers	1,481,982	479,828	447,554	8,981	41,423	2,459,768
Debt securities issued	210,272	223,150	78,622	-	1,718	513,762
Lease liabilities	-	-	-	-	7,600	7,600
Other liabilities	-	-	-	-	45,670	45,670
Total liabilities	2,121,504	841,415	526,176	8,981	128,011	3,626,087
Interest rate risk gap	(556,431)	313,658	139,594	293,550	N/A	N/A

(1) Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.
(2) Amounts due to other financial institutions included financial assets sold under repurchase agreements.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

3. Market risk (Continued)

3.2 Interest rate risk (Continued)

As at 31 December 2018, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's balance sheet items are summarised as follows:

	31 December 2018					
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets:						
Cash and balances with the Central bank	266,940	-	-	-	11,588	278,528
Precious metals	-	-	-	-	56,835	56,835
Amounts due from other financial institutions (1)	135,827	57,820	-	-	1,370	195,017
Financial assets held for trading and derivative financial assets	12,351	38,877	45,152	50,813	23,035	170,228
Loans and advances to customers	1,068,896	668,657	198,334	7,609	6,261	1,949,757
Investment on debts	25,820	82,385	327,779	185,601	7,781	629,366
Other investment on debts	3,386	14,278	31,145	21,170	685	70,664
Other equity investment	-	-	-	-	1,519	1,519
Property and equipment	-	-	-	-	10,899	10,899
Goodwill	-	-	-	-	7,568	7,568
Other assets	-	-	-	-	48,211	48,211
Total assets	1,513,220	862,017	602,410	265,193	175,752	3,418,592
Liabilities:						
Borrowings from the Central bank	38,071	109,450	-	-	2,235	149,756
Amounts due to other financial institutions (2)	298,150	122,891	10	-	4,281	425,332
Financial liabilities held for trading and derivative financial liabilities	6,914	285	-	-	22,981	30,180
Due to customers	1,323,966	503,471	274,611	1,000	46,094	2,149,142
Debt securities issued	48,447	268,149	63,632	-	1,656	381,884
Other liabilities	-	-	-	-	42,256	42,256
Total liabilities	1,715,548	1,004,246	338,253	1,000	119,503	3,178,550
Interest rate risk gap	(202,328)	(142,229)	264,157	264,193	N/A	N/A

(1) Amounts due from other financial institutions included deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

(2) Amounts due to other financial institutions included financial assets sold under repurchase agreements.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

3. Market risk (Continued)

3.2 Interest rate risk (Continued)

The Company principally uses sensitivity analyses to measure and control interest rate risk. In respect of the financial assets and liabilities held for trading, in the opinion of management, the interest rate risk to the Company arising from this portfolio is not significant. For other financial assets and liabilities, the Company mainly uses a gap analysis to measure and control the related interest rate risk.

As at 31 December 2019 and 31 December 2018, the gap analyses of the financial assets and liabilities (excluding financial assets and liabilities designated at fair value and changes included into the profits and losses) were as follows:

	31 December 2019 Changes in interest rate (basis points)		31 December 2018 Changes in interest rate (basis points)	
	(50)	50	(50)	50
Effect on the net interest income increase/(decrease)	2,089	(2,089)	1,227	(1,227)
Effect on equity increase/(decrease)	1,441	(1,441)	516	(516)

The above gap analyses assume that the interest rate risk profile of the financial assets and liabilities (excluding financial assets and liabilities designated at fair value and changes included into the profits and losses) remains static.

The sensitivity of the net interest income is the effect of a reasonable possible change in interest rates on the net interest income for one year, in respect of the financial assets and liabilities (excluding financial assets and liabilities designated at fair value and changes included into the profits and losses) held at the balance sheet date. The sensitivity of equity is calculated by revaluing the year end portfolio of fixed-rate financial assets at fair value through other comprehensive income, based on a reasonable possible change in interest rates. Impact on income tax has not been considered in calculating the above effect on the net interest income and equity.

The above sensitivity analyses are based on the following assumptions: all assets and liabilities that are re-priced/due within three months (inclusive), and between three months and one year (inclusive) are assumed to be re-priced in the mid of the respective bands; and there are parallel shifts in the yield curve.

Regarding the above assumptions, the effect on the net interest income and equity as a result of the actual increases or decreases in interest rates may differ from that of the above sensitivity analyses.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

4. Fair value of financial instruments

4.1 Financial assets and liabilities continuously measured at fair value

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The sources of the inputs comprise Bloomberg, Reuters, China Bond Market Website and National Equities Exchange and Quotations.

Level 3: Unobservable inputs for the asset or liability.

As at 31 December 2019, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

31 December 2019	Quoted prices in active markets ("Level 1")	Valuation technique - observable market variables ("Level 2")	Valuation technique - unobservable market variables ("Level 3")	Total
Financial assets:				
Placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income	-	6,553	-	6,553
Financial assets held for trading	538	205,394	750	206,682
Derivative financial assets	-	18,500	-	18,500
Loans and advances to custmers designated at fair value and changes included into other comprehensive income	-	-	156,485	156,485
Other investment on debts	-	182,264	-	182,264
Other equity investment	11	3	1,830	1,844
Total	549	412,714	159,065	572,328
Financial liabilities:				
Financial liabilities held for trading	5,960	23,731	-	29,691
Derivative financial liabilities	-	21,404	-	21,404
Total	5,960	45,135	-	51,095

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

4 Fair value of financial instruments (Continued)

4.1 Financial assets and liabilities continuously measured at fair value (Continued)

As at 31 December 2018, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

31 December 2018	Quoted prices in active markets ("Level 1")	Valuation technique - observable market variables ("Level 2")	Valuation technique - unobservable market variables ("Level 3")	Total
Financial assets:				
Placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income	-	3,756	-	3,756
Financial assets held for trading	25	148,735	8	148,768
Derivative financial assets	-	21,460	-	21,460
Loans and advances designated at fair value and changes included into other comprehensive income	-	-	61,687	61,687
Other investment on debts	-	70,664	-	70,664
Other equity investment	8	-	1,511	1,519
Total	33	244,615	63,206	307,854
Financial liabilities:				
Financial liabilities held for trading	8,575	-	-	8,575
Derivative financial liabilities	-	21,605	-	21,605
Total	8,575	21,605	-	30,180

The Company takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. The Company had no transfer between Level 1 and Level 2 in 2019.

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market; the fair value of those not traded in an active market is determined by the Company using valuation techniques. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include risk-free interest rate, benchmark rate, exchange rate, credit spread, liquidity premium, EBITDA multiplier and restricted discount.

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

4 Fair value of financial instruments (Continued)

4.1 Financial assets and liabilities continuously measured at fair value (Continued)

Financial instruments classified to level 2 are mainly investments in bonds, foreign exchange forwards and swaps, interest rate swaps, currency options, precious metal contracts, inter-bank borrowings, financial investments, etc. The fair value of RMB denominated bonds is determined based on the valuation result from the China Central Depository & Clearing Co., Ltd. while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign exchange forwards and swaps, interest rate swaps, and currency options are determined by using the discounted cash flow method and the Blair-Scholes model. The fair value of the precious metals is determined in accordance with the closing price from Shanghai Gold Exchange. Inter-bank borrowings and financial investments are evaluated using the discounted cash flow method. All significant parameters used valuation techniques which was observable market information.

There were no financial assets or liabilities that were not continuously measured at fair value as at 31 December 2019 and 31 December 2018.

The changes in Level 3 financial assets are analysed below:

Financial assets held for trading

	2019
31 December 2018	8
Purchases	762
Gains recognised in the profits and losses	(20)
31 December 2019	750

Loans and advances to customers designated at fair value and changes included into other comprehensive income

	2019
31 December 2018	61,687
Purchases	2,801,250
Sales	(2,711,488)
Gains recognised in the profits and lossesr	5,036
31 December 2019	156,485

Other equity investment

	2019
31 December 2018	1,511
Purchases	328
Sales	-
Gains recognised in the profits and losses	(9)
31 December 2019	1,830

(All amounts in RMB million unless otherwise stated)

VII. RISK DISCLOSURE (CONTINUED)

4 Fair value of financial instruments (Continued)

4.2 Financial assets and liabilities not measured at fair value

Financial assets and liabilities that are not measured at fair value include: balances with the Central bank, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions measured at amortised cost, financial assets held under resale agreements, loans and advances to customers measured at amortised cost, investment on debts, borrowings from the Central bank, deposits from banks and other financial institutions, placements from banks and other financial institutions, proceeds from financial assets sold under repurchase agreements, due to customers, and debt securities issued.

The following table summarises the carrying amount and fair value of the investment on debts and debt securities issued that are not measured or disclosed at fair value:

	31 December 2019				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
Investment on debts	656,290	-	664,131	-	664,131
Debt securities issued	513,762	-	513,698	-	513,698

	31 December 2018				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
Investment on debts	629,366	-	631,616	-	631,616
Debt securities issued	381,884	-	381,124	-	381,124

(1) The fair value of investment on debts is determined based on quoted market prices, presented in level 1. If relevant market information cannot be obtained for investment on debts, discounted cash flow model is used to carry on the valuation, or where applicable, the quoted price with similar credit risk, maturity and yield is used, presented in level 2 and level 3.

(2)

(3) The fair value of debt securities issued is determined based on quoted market prices, presented in level 1. If all the significant inputs in calculating the fair value of debt securities issued are observable, the fair value is presented in level 2.

Discounted cash flow model is used to determine the financial assets and financial liabilities that are not measured at fair value other than the above. As the periods for these financial instruments are short or their interest rates float based on the market interest rate, there are no significant differences between their book values and fair values:

Assets	Liabilities
Cash and balances with the Central bank	Borrowings from the Central bank
Deposits with banks and other financial institutions	Deposits from banks and other financial institutions
Placements with and loans to banks and other financial institutions measured at amortised cost	Placements from banks and other financial institutions
Financial assets held under resale agreements	Financial assets sold under repurchase agreements
Loans and advances to customers measured at amortised cost	Due to customers
Other financial assets	Other financial liabilities

(All amounts in RMB million unless otherwise stated)

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Major related party relationship

(1) The parent company:

Name	Place of registration	Percentage of equity interest held	
		31 December 2019	31 December 2018
Ping An Insurance (Group) Company of China, Ltd.	Shenzhen, PRC	58.00%	58.00%

Ping An Insurance (Group) Company of China, Ltd. (hereafter referred to as "China Ping An") was established in Shenzhen, the People's Republic of China on 21 March 1988. The business scope of China Ping An includes investment in insurance business; supervision and management of various domestic and international businesses of investment holding enterprises; management of insurance funds; conducting of domestic and international insurance businesses with the approval; conducting of other businesses approved by the China Insurance Regulatory Commission and the relevant state departments.

As at 31 December 2019, 8.44% of shares (31 December 2018: 8.44%) of the Company were indirectly held by China Ping An through its subsidiary, Ping An Life Insurance Company of China, Ltd.

(2) Other major shareholders:

Name	Relationship with the Company
China Electronics Shenzhen Company	Shareholder that holds less than 5% of the equity interests of the Company and dispatches director to the Company
Shenzhen Yingzhongtai Investment Co., Ltd.	Shareholder that holds less than 5% of the equity interests of the Company and dispatches supervisor to the Company

The transactions between the Company and its parent company and related parties, other major shareholders and their related parties are processed according to the normal commercial terms and business procedures. The above related parties mainly refer to subsidiaries, associates, joint ventures, key management, etc. Key management refers to the personnel that have the authority and responsibility to plan, direct and control business activities, including directors, supervisors and senior management of the Company.

2. Major transactions between the Company and China Ping An and its related parties during the year are as follows:

Balance at the end of the year	31 December 2019	31 December 2018
Loans and advances to customers	25,132	24,414
Right-of-use assets	422	-
Other assets	11	608
Deposits from banks and other financial institutions	13,640	5,642
Due to customers	51,485	58,716
Lease liabilities	460	-
Other liabilities	1,113	623
Letter of guarantee issued	279	1,325
Petty Consumer Loan under insurance (Note 1)	-	5
Trade Finance under credit insurance (Note 2)	-	79
Letter of guarantee under comprehensive financial business (Note 3)	15,000	18,000
Other equity instrument (Note 4)	11,589	11,589

(All amounts in RMB million unless otherwise stated)

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

2. Major transactions between the Company and China Ping An and its related parties during the year are as follows (Continued):

Transactions during the year	2019	2018
Interest income from transaction between financial enterprises	667	11
Interest income from loans and advances to customers	843	1,271
Agency fee income	1,666	911
Custody fee income	14	9
Investment income	44	43
Interest expenses on deposits from banks and other financial institutions	67	122
Interest expenses for transaction between financial enterprises	679	35
Interest expenses of due to customers	732	797
Interest expenses of lease liabilities	9	-
Insurance premium expenses	62	199
Payment under operating leases	50	199
Service fee expenditure (Note 5)	6,574	4,293
Depreciation expenses of right-of-use assets	129	-

Note 1: For the purpose of Petty Consumer Loan under insurance, loan applicant insures himself under individual consumption credit guarantee insurance of Ping An Insurance (Group) Company of China, Ltd. and its holding subsidiaries other than the Company (hereafter referred as "Ping An Group"), where the Company acts as the insurer who issues individual consumption loan to the applicant with the insurance as guarantee.

Note 2: For the purpose of Trade Finance under credit insurance, third party risk allocation mechanisms like credit insurance are introduced in trade financing, where the Company or the client as the insured and the Company as the beneficiary provides credit granting support to the enterprises in trading chain. In case of credit fund loss, Ping An Group will indemnify the Company accordingly.

Note 3: For the purpose of letter of guarantee under comprehensive financial business, Ping An Group raises funds to establish debt investment plan in order to loan to the client for investing certain projects, where the Company issues financing guarantee, and Ping An Group acts as beneficiaries. The Company provides letter of guarantee based on credit granting to the borrowers, whose credit granting risk control measures are primarily based on the guarantee provided by the borrowers.

Note 4: On 7 March 2016, the Company issued 200 million preference shares at par, with a total amount of RMB20 billion. The net amount of raised money excluding issuance expenses amounted to RMB19,953 million. Ping An Group subscribed to RMB11.6 billion of the total amount, and the actual subscription amount excluding issuance expenses amounted to RMB11,589 million. On 7 March 2019, the Company distributed a total amount of dividends on preference shares amounting to RMB507 million to Ping An Group, and the nominal dividend rate was 4.37%.

Note 5: Service fee expenditure is mainly arising from the use of Ping An Group's Wanlitong credit card reward platform service, network platform service fee, the use of communication service, etc.

(All amounts in RMB million unless otherwise stated)

VIII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

3. Major transactions between the Company and other major shareholders and their related parties during the year are as follows:

Balance at the end of the year	31 December 2019	31 December 2018
Due to customers	3	2

4. Major transactions with the key management personnel during the year are listed below:

Loans	2019	2018
Balance at the beginning of the year	29	31
Increase in the current year	-	8
Decrease in the current year	(4)	(10)
Balance at the end of the year	25	29
Interest income from loans	1	1

As at 31 December 2019 and 31 December 2018, the annual interest rates of these loan transactions ranged from 1.13% to 8.53% and from 1.13% to 8.53% respectively.

Deposits	2019	2018
Balance at the beginning of the year	30	21
Increase in the current year	996	646
Decrease in the current year	(993)	(637)
Balance at the end of the year	33	30
Interest expenses on deposits	-	1

The above deposit transactions were processed according to the normal commercial terms and business procedures.

5. Details of the compensation for key management personnel are as follows:

	2019	2018
Salaries and other short term employee benefits	33	40
Post-employment benefits	1	1
Deferred bonus accruals	-	3
Total	34	44

As at 31 December 2019, the Company has authorised a total credit facility of RMB58,365 million (31 December 2018: RMB35,585 million) for entities relating to the key management personnel of the Company and the associates, which included an outstanding loan balance amounting to RMB3,661 million (31 December 2018: RMB3,144 million) and the balance of outstanding facility of the off-balance sheet items was RMB1,098 million (31 December 2018: Nil). As at 31 December 2019, the Company took a deposit amounting to RMB3,095 million from the above entities relating to the key management personnel of the Company and the associates (31 December 2018: RMB1,942 million).

IX. Events after the balance sheet date

1. Profit appropriation after the balance sheet date

As approved by the 5th meeting of the 11th Board of Directors of the Company dated 13 February 2020, the Company distributed RMB4.37 (inclusive of tax) per preference share as dividends based on the amount of issued preference shares of 200 million (with a face value of RMB100 per share), which was calculated at a nominal dividend rate of 4.37%. The calculation period for the dividends on preference shares was from 7 March 2019 to 6 March 2020. The dividends distribution date was 9 March 2020. The total amount of the dividends distributed was RMB874 million (inclusive of tax). The Company distributed dividends directly to preference shareholders.

As approved by the 5th meeting of the 11th Board of Directors of the Company dated 13 February 2020, the Company proposed to distribute a cash dividend of RMB2.18 (inclusive of tax) for every 10 shares based on the total share capital of 19,406 million shares as at 31 December 2019 after the appropriation to general reserve. The cash dividends proposed to distribute totalled RMB4,230 million. The above distribution scheme was pending for approval by shareholders' general meeting.

2. Analysis on the impact of Novel Coronavirus Pneumonia (“NCP”)

Since the outbreak of pneumonia caused by the novel coronavirus in January 2020, the prevention and control of the pneumonia has been continuously carried out nationwide. The Company will fully implement the requirements of the *Notice on Matters concerning Further Strengthening Financial Support for the Prevention and Control of NCP*, jointly issued by the PBoC, the Ministry of Finance, the CBIRC, the CSRC and the State Administration of Foreign Exchange (“SAFE”), to strengthen financial support for the prevention and control of the epidemic.

The pneumonia epidemic will affect the operation of enterprises in some provinces, cities and industries, including Hubei Province, as well as the overall economic operation, which may affect the asset quality or ROE of the Company's credit assets and investment assets to a certain extent. The degree of impact will depend on the prevention and control, duration of the epidemic, and the implementation of various regulatory policies.

The Company will continue to pay close attention to the development of the pneumonia epidemic, evaluate and actively respond to its impact on the Company's financial position and operating results. As at the date when the financial statements are authorised to issue, the evaluation is still in progress.

X. COMPARATIVE INFORMATION

Certain comparative figures have been restated to conform to the current year’s presentation.

(All amounts in RMB million unless otherwise stated)

XI. OTHER SIGNIFICANT ITEMS

Assets and liabilities measured at fair value

2019	31 December 2018	Gains or losses from changes in fair value during the year	Accumulated valuation gain taken into other comprehensive income	31 December 2019
Assets:				
Precious metals	56,835	2,202	-	51,191
Placements with and loans to banks and other financial institutions designated at fair value and changes included into other comprehensive income	3,756	-	14	6,553
Financial assets held for trading	148,768	(168)	-	206,682
Derivative financial assets	21,460	(4,998)	-	18,500
Loans and advances to customers designated at fair value and changes included into other comprehensive income	61,687	-	-	156,485
Other investment on debts	70,664	-	1,324	182,264
Other equity investment	1,519	-	(65)	1,844
Total	364,689	(2,964)	1,273	623,519
Liabilities:				
Financial liabilities held for trading	8,575	(64)	-	29,691
Derivative financial liabilities	21,605	(682)	-	21,404
Total	30,180	(746)	-	51,095

SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB million unless otherwise stated)
[English translation for reference only]

Net asset return and earnings per share

2019	Net asset return (%)		Earnings per share (RMB Yuan)	
	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	10.01%	11.30%	1.54	1.45
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit or loss	9.97%	11.25%	1.53	1.44

2018	Net asset return (%)		Earnings per share (RMB Yuan)	
	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	10.88%	11.49%	1.39	1.39
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit or loss	10.83%	11.44%	1.39	1.39

Including: Net profit therein attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss:

	2019	2018
Net profit for the current year attributable to shareholders of the Company	28,195	24,818
Less: The preference dividends declared by the Company	(874)	(874)
Net profit attributable to ordinary shareholders of the Company	27,321	23,944
Add/(Less): Non-recurring profit or loss items	-	-
Loss/gain on disposals of property and equipment, foreclosed assets and long-term equity investment	30	(98)
Loss/gain from contingencies	3	(1)
Other net loss/gain	(173)	(54)
Income tax effect	31	35
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit or loss	27,212	23,826

The above net asset return and earnings per share are calculated in accordance with the rules stipulated in the *Regulation on Information Disclosure of Public Companies No. 9* as revised by the China Securities Regulatory Commission on 11 January 2010. The non-recurring profit and loss is calculated in accordance with the rules stipulated in the CSRC Announcement [2008] No. 43 *Interpretation of Information Disclosure of Public Companies No. 1 - Non-recurring profit and loss*, effective from 1 December 2008.

The profit or loss arising from changes in the fair value of financial assets and liabilities held for trading in the Company's ordinary course of business, and investment income arising from disposals of investment on debts, other investment on debts and financial liabilities held for trading are not disclosed as non-recurring gains or losses.

Section XI Documents Available for Inspection Catalogue

1. The accounting statements sealed and signed by Chairman, President, CFO/the person in charge of accounting institution.
2. The original copy of audit report sealed by the accounting firm and sealed and signed by certified public accountants.
3. Originals of the Company's documents and announcements which have been publicly disclosed in *China Securities Journal*, *Securities Times*, *Shanghai Securities News*, *Securities Daily* during the reporting period.

The Board of Ping An Bank Co., Ltd.
14 February 2020