SPD SILICON VALLEY BANK CO. LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2019

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

SPD SILICON VALLEY BANK CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2019
[English translation for reference only]

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[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2020) No. 27216

To the Board of Directors of SPD Silicon Valley Bank Co., Ltd.,

Opinion

What we have audited

We have audited the accompanying financial statements of SPD Silicon Valley Bank Co., Ltd (hereinafter "the 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 owners' 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 the 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 the 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.

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

Management of the 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 the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether 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 judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 the 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.

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.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People’s Republic of China

28 April 2020

SPD SILICON VALLEY BANK CO., LTD.

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

ASSETS	Note	31 December 2019	31 December 2018
Cash and deposits with the central bank	6(1)	3,530,245,090	2,638,435,317
Deposits with other banks	6(2)	2,877,870,693	2,098,471,396
Placements with other banks	6(3)	3,941,875,240	3,229,596,000
Financial assets at fair value through profit or loss	6(4)	-	32,814,416
Interest receivable	6(5)	36,417,735	39,755,111
Loans and advances	6(6)	6,245,357,796	4,391,851,463
Available-for-sale financial assets	6(7)	293,743,430	150,450,120
Fixed assets	6(8)	11,981,250	8,929,177
Construction in progress	6(9)	3,767,573	10,993,429
Intangible assets	6(10)	38,968,229	21,890,113
Long-term prepaid expenses	6(11)	6,845,179	4,376,771
Deferred tax assets	6(12)	44,459,267	11,896,507
Other assets	6(13)	8,114,834	9,015,762
TOTAL ASSETS		**17,039,646,316**	**12,648,475,582**
LIABILITIES			
Deposits from banks and other financial institutions	6(14)	859,768,820	898,350,000
Loans to banks and other financial institutions	6(15)	-	50,000,000
Customer deposits	6(16)	15,012,062,506	10,509,708,792
Payroll and welfare payable	6(17)	40,027,834	34,913,371
Taxes payable	6(18)	27,733,615	9,082,826
Interest payable	6(19)	37,100,006	54,298,324
Other liabilities	6(20)	32,527,476	49,347,964
TOTAL LIABILITIES		**16,009,220,257**	**11,605,701,277**
OWNERS' EQUITY			
Paid-in capital	6(21)	1,000,000,000	1,000,000,000
Capital reserve		34,777,987	34,777,987
Other comprehensive income	6(22)	3,585,920	2,447,805
Surplus reserve	6(23)	814,760	814,760
Statutory general reserve	6(24)	7,332,838	7,332,838
Accumulated loss	6(25)	(16,085,446)	(2,599,085)
TOTAL OWNERS' EQUITY		**1,030,426,059**	**1,042,774,305**
TOTAL LIABILITIES AND OWNER'S EQUITY		**17,039,646,316**	**12,648,475,582**

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

President
Jade Lu

Chief Finance Officer
Grace Guo

SPD SILICON VALLEY BANK CO., LTD.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

(All amounts expressed in RMB unless otherwise stated)
[English translation for reference only]

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Interest income	6(26)	453,443,979	304,126,743
Interest expense	6(26)	(187,412,544)	(153,102,809)
Net interest income		266,031,435	151,023,934
Fee and commission income	6(27)	26,591,314	12,643,029
Fee and commission expense	6(27)	(2,128,814)	(3,119,001)
Net fee and commission income		24,462,500	9,524,028
Losses from investment	6(28)	(41,079,502)	–
Losses on changes in fair value	6(29)	(37,123,802)	–
Net gains from foreign exchange		59,720,146	65,728,487
Other operating income	6(30)	13,343,128	10,746,203
Operating income		285,353,905	237,022,652
Tax and levies		(2,707,580)	(1,684,165)
General and administrative expenses	6(31)	(193,189,536)	(153,425,229)
Impairment losses on assets	6(32)	(112,715,923)	(38,176,960)
Operating expense		(308,613,039)	(193,286,354)
Net operating (loss)/profit		(23,259,134)	43,736,298
Non-operating income	6(33)	3,090,118	11,476,612
Non-operating expense		-	(912)
Total (loss)/profit		(20,169,016)	55,211,998
Income tax expense	6(34)	6,682,655	(13,049,111)
Net (loss)/profit		(13,486,361)	42,162,887
Other comprehensive income, net of tax	6(35)	1,138,115	2,323,609
Other comprehensive income that will be reclassified to profit or loss			
Changes in fair value of available-for-sale financial assets		1,138,115	2,323,609
Total comprehensive income		(12,348,246)	44,486,496

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

President
Jade Lu

Chief Finance Officer
Grace Guo

SPD SILICON VALLEY BANK CO., LTD.

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

		Note	For the year ended 31 December 2019	For the year ended 31 December 2018
1	**Cash flows from operating activities**			
	Net increase in customer deposits		4,465,229,912	4,655,297,038
	Net increase in deposits and placements from other banks		-	748,874,500
	Net decrease in deposits and placements with other banks		208,678,620	-
	Interest received		469,584,245	290,372,669
	Fee and commission and other operating income received		38,748,449	22,203,239
	Cash received relating to other operating activities		3,090,118	11,476,612
	Sub-total of cash inflow		**5,185,331,344**	**5,728,224,058**
	Net increase in deposit reserve with the central bank		(101,327,364)	(375,865,345)
	Net increase in loans and advances		(1,893,275,608)	(1,951,486,773)
	Net increase in deposits and placements with other banks		(37,406,240)	(490,848,999)
	Net decrease in deposits and placements from other banks		(88,581,180)	-
	Interest paid		(204,610,862)	(119,166,415)
	Fee and commission paid		(2,128,814)	(3,119,001)
	Cash paid to employees or on behalf of employees		(114,916,105)	(83,049,116)
	Tax paid		(18,590,888)	(8,269,327)
	Cash paid relating to other operating activities		(163,629,765)	(94,861,574)
	Sub-total of cash outflow		**(2,624,466,826)**	**(3,126,666,550)**
	Net cash flows from operating activities	6(36)	**2,560,864,518**	**2,601,557,508**
2	**Cash flows from investing activities**			
	Cash paid for purchase of bonds		(142,245,854)	(50,379,345)
	Cash paid for purchase of fixed assets, Construction in progress and other long-term intangible assets		(34,921,951)	(28,640,143)
	Net cash used in investing activities		**(177,167,805)**	**(79,019,488)**
3	**Cash flows from financing activities**			
	Net cash flows from financing activities		**-**	**-**

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

President	Chief Finance Officer
Jade Lu	Grace Guo

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

		Note	For the year ended 31 December 2019	For the year ended 31 December 2018
4	**Effect of foreign exchange rate changes on cash and cash equivalents**		**69,736,613**	**105,050,749**
5	**Net increase in cash and cash equivalents**		**2,453,433,326**	**2,627,588,768**
	Add: Cash and cash equivalents at beginning of year		6,510,363,196	3,882,774,428
6	**Cash and cash equivalents at year end**	6(36)	**8,963,796,522**	**6,510,363,196**

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

President
Jade Lu

Chief Finance Officer
Grace Guo

SPD SILICON VALLEY BANK CO., LTD.

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

	Paid-in capital 6(21)	Capital Reserve	Other comprehensive income 6(22)	Surplus reserve 6(23)	Statutory general reserve 6(24)	Accumulated loss 6(25)	Total
Balance at 1 January 2018	1,000,000,000	34,777,987	124,196	814,760	7,332,838	(44,761,972)	998,287,809
Net losses for the year	-	-	-	-	-	42,162,887	42,162,887
Other comprehensive income	-	-	2,323,609	-	-	-	2,323,609
Appropriation to surplus reserve	-	-	-	-	-	-	-
Appropriation to statutory general reserve	-	-	-	-	-	-	-
Balance at 31 December 2018	**1,000,000,000**	**34,777,987**	**2,447,805**	**814,760**	**7,332,838**	**(2,599,085)**	**1,042,774,305**

	Paid-in capital 6(21)	Capital Reserve	Other comprehensive income 6(22)	Surplus reserve 6(23)	Statutory general reserve 6(24)	Accumulated loss 6(25)	Total
Balance at 1 January 2019	1,000 ,000,000	34,777,987	2,447,805	814,760	7,332,838	(2,599,085)	1,042,774,305
Net losses for the year	-	-	-	-	-	(13,486,361)	(13,486,361)
Other comprehensive income	-	-	1,138,115	-	-	-	1,138,115
Appropriation to surplus reserve	-	-	-	-	-	-	-
Appropriation to statutory general reserve	-	-	-	-	-	-	-
Balance at 31 December 2019	**1,000,000,000**	**34,777,987**	**3,585,920**	**814,760**	**7,332,838**	**(16,085,446)**	**1,030,426,059**

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

President
Jade Lu

Chief Finance officer
Grace Guo

1 GENERAL INFORMATION

SPD SILICON VALLEY BANK (hereinafter referred to as the "SPDSVB" or “the Bank”) was established as a joint Chinese-foreign bank by SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD. (hereinafter referred to as the "SPD”) and SILICON VALLEY BANK (hereinafter referred to as the "SVB”) in the People’s Republic of China.

China Banking Regulatory Commission (hereinafter referred to as the "CBRC") approved the opening of the Bank on 30 July 2012 with Yin Jian Fu [2012] No 415. The registered capital of the Bank is RMB 1 billion. The Bank is to conduct business under the scope of the business set in Article 29 of the Regulation of the People’s Republic of China on the Administration of Foreign Owned Banks (hereinafter referred to as "the Administration Regulations") to provide foreign currency services to a variety of customers. The Bank later obtained Financial License from CBRC and obtained Business License from Shanghai Administration for Industry and Commerce on 10 August 2012.

SPDSVB Beijing Branch was approved to establish by CBRC Beijing (Jing Yin Jian Fu [2016] No.349) on 28 June 2016 and was established officially in March 2017. SPDSVB Shenzhen Branch was approved to establish by CBRC Shenzhen (Shen Yin Jian Fu [2018] No.201) on 24 August 2018 and was established officially in Sep 2018.

The financial statements were authorized for issue by the Board of the Bank on 28 April 2020.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the “Accounting Standards for Business Enterprises - Basic Standard”, and other relevant requirements (hereinafter collectively referred to as "Accounting Standards for Business Enterprises") issued by the Ministry of Finance on 15 February 2006.

These financial statements are prepared on a going concern basis.

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARD FOR BUSINESS ENTERPRISES

The financial statements are in accordance with the Accounting Standard for Business Enterprises and presented truly and completely, the financial position of the Bank as of 31 December 2019, and the financial performance and cash flow of the bank for the year then ended.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

4.1 PRINCIPAL ACCOUNTING POLICIES

(1) Accounting period

The accounting period starts on 1 January and ends on 31 December.

(2) Functional currency

The Bank uses RMB as its functional currency.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(3) Foreign currency translation

Monetary items denominated in foreign currencies are translated into RMB at the spot exchange rates at the balance sheet date and translation adjustments are recorded in the income statement.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into RMB using the spot exchange rates at the date of transactions.

The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(4) Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise cash and balances with original maturities of three months or less including deposits with other banks, placements with other banks and excess reserve with the Central Bank.

(5) Financial assets and financial liabilities

<u>Classification, recognition and measurement of financial assets and financial liabilities</u>

Financial assets are classified into following categories at initial recognition: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets.

The financial liabilitiesare classified into following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The classification of financial assets and liabilities depends on the intention and ability to hold the financial assets.

(a) Financial assets and financial liabilities at fair value through profit or loss

This category includes: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or a financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling, repurchasing or redemption in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets or financial liabilities meeting the following conditions are designated at fair value through profit or loss when:

- Doing so significantly reduces the inconsistences of the gain and losses recognized in the income statements which resulted from the different measurement basis of these financial assets & liabilities.

- Certain financial assets of financial liabilities portfolios that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(5) Financial assets and financial liabilities (Continued)

(a) Financial assets and financial liabilities at fair value through profit or loss (continued)

- Financial assets and financial liabilities at fair value through profit or loss are measured at fair value at the initial recognition and subsequently, and changes in fair value are recorded in the income statement. Interest, cash dividends and disposal gain or loss of the assets in the holding period are reported in income statement.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including deposits with the central bank, deposits with other banks, placements with other banks, and loans and advances. When the Bank provides funds or services directly to customers and does not intend to sell the receivables, the Bank classifies such financial assets as loans and receivables and recognizes them at fair value plus transaction costs at initial recognition. Subsequently, such assets are measured at amortized cost using effective interest method.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has both the positive intention and the ability to hold to maturity. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition. Subsequently, such assets are measured at amortized cost using effective interest method.

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Bank fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Bank shall reclassify the entire held-to-maturity portfolio into available-for-sale investments at fair value and the Bank is further prohibited to designate any investments as held-to-maturity during the following two financial years.

(d) Available-for-sale financial assets

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value at balance sheet dates. Gains and losses arising from changes in the fair value of financial assets classified as available-for-sale financial assets are recognized directly in owner's equity except for arising from impairment and foreign exchange gain and loss impact. Until the financial assets are derecognized, the cumulative gain or loss previously recognized in owner's equity should be recognized in the income statement. The interests calculated by effective interest method in debt instrument and cash dividends declared from available-for-sale investment in equity instruments are recorded into profit or loss.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(5) Financial assets and financial liabilities (Continued)

(e) Other financial liabilities

Other financial liabilities are recognized initially at fair value, being their issuance proceeds net of transaction costs incurred. They are subsequently stated at amortized cost using effective interest method in the balance sheet. The difference between the net amount of the actually received amount after deducting the transaction expenses and the amount due should be amortized within the borrowing period by the effective interest method.

<u>De-recognition of financial assets and financial liabilities</u>

Financial assets are derecognized when: (1) the rights to receive cash flows from the financial assets have expired; (2) the financial assets are transferred and the Bank has transferred substantially all risks and rewards of ownership; (3) the Bank does not transfer or retain nearly all the risks and rewards relating to the ownership of the financial asset, but the Bank waives its control over the financial assets.

When a financial asset is derecognized, the difference between its book value and the sum of the consideration received and the accumulated amount of changes in the fair value (involving the transfer of available for sale financial assets) originally included in the owner's equity should be included in the current profits and losses.

When all or part of the current obligation of a financial liability has been relieved, the financial liability or part of the obligation that has been relieved shall be derecognized. The difference between the book value of the derecognized part and the consideration paid shall be included in the current profit and loss.

<u>Fair value of financial assets</u>

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values of quoted investments in active markets are based on current bid prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial asset is not active, the Bank establishes fair value by using 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.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(6) Impairment of financial assets

(a) Assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The major criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the Bank would not otherwise consider;

(iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties of the issuer; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. In practice, the Bank will also determine the fair value of the financial assets with the observed market value and assess the impairment loss with that fair value.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(6) Impairment of financial assets (Continued)

(a) Assets carried at amortized cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of the portfolio's future cash flow should reflect changes related to the observed data of the phase change with the changes in direction and consistency. Expected to reduce differences between estimated losses and the actual losses, the Bank performs periodic review of the theory and hypothesis of the expected future cash flow.

The bank will compare the loan loss provision based on individual and combination with the loan loss provision based on local regulations such as the five-level classification impairment provision of the China Banking Insurance Regulatory Commission (CBRC). The bank will also consider the loan loss elements from "the Management of Commercial Bank Loan Loss Reserve" and "the Essentials for the Regulation of Commercial Bank Loan Loss Reserve Adjustment". The Request Notice evaluates the adequacy of loan loss provision, which will be calculated individually and in combination.

When a loan is unrecoverable, it is written off against the related allowance on impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses for loans and advances in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

(b) Assets classified as available-for-sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is removed from owner's equity and recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(7) Derivative financial instruments

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Some derivatives are embedded in hybrid contracts. If a hybrid contract contains a host that is an asset within the scope of IFRS 9, the embedded derivative is classified and measured together with the host. If a hybrid contract contains a host that is not an asset within the scope of IFRS 9, an embedded derivative shall be separated from the host and accounted for as a derivative if, and only if:

(i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;

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

(iii) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.

For the above assets, the Group may bifurcate the embedded derivative and measured it at fair value through profit or loss, or designate the entire hybrid instrument to be measured at fair value through profit or loss.

(8) Fixed assets

Fixed assets comprise office equipment and furniture, and computers and other equipment, whose useful life is over 1 year and the unit value is over RMB10,000. Fixed assets that do not belong to operating equipment, with unit value of over RMB10,000 (excluding) and useful life of over two years, shall also be accounted as fixed assets.

Fixed assets purchased or constructed by the Bank are initially measured at cost at the time of acquisition and are presented at cost net of accumulated depreciation. Acquisition cost includes direct cost relating to purchase of such fixed assets.

Subsequent costs are included in the carrying amount of the fixed assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. However, the carrying amount of any parts of fixed assets that are being replaced shall be derecognized and all related subsequent costs are recognized in profit and loss when incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For impaired fixed assets, depreciation is calculated based on carrying amounts after deducting the provision for impairment over their estimated remaining useful lives.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(8) Fixed assets (Continued)

Estimated useful lives, estimated residual value and annual depreciation rates are as follows:

	Estimated useful lives	Estimated residual value	Annual depreciation rate
Office equipment and furniture	5 years	0%~5%	19%~20%
Computers and other equipment	3~5 years	0%~5%	19%~33%

The Bank reviews the estimated residual value, useful lives and depreciation method of fixed assets and makes appropriate adjustments on an annual basis.

When the Bank disposes or ceases to use the fixed assets, or does not expect to further benefit from fixed assets, the Bank derecognizes the assets. Proceeds from sale, transfer or disposal of fixed assets are recorded in the income statement after deducting carrying value and related taxes.

(9) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalization and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation is charged starting from the following month.

(10) Intangible assets

Intangible assets comprises of software, and it is measured according to the initial cost when obtained. Intangible assets are amortized over their estimated useful lives of 5 years on the straight-line basis.

(11) Long-term prepaid expenses

Long-term prepaid expenses include leasehold improvements and other prepayment that should be amortized over more than one year. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortization.

(12) Impairment of non-financial assets

Fixed assets or other non-financial assets are reviewed for impairment if there are indications of impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Provision for impairment is determined on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Once an impairment loss is recognized, it shall not be reversed to the extent of recovery in value in subsequent periods.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(13) Financial guarantee contracts

A financial guarantee contract refers to a contract whereby the guarantor and the creditor agree that when the debtor fails to perform the debt, the guarantor shall perform the debt or bear the liability in accordance with the agreement. Financial guarantee contracts are measured at fair value when they are initially recognized as liabilities.

For financial guarantee contracts not designated as financial liabilities measured at fair value through profit and loss, after initial recognition, the amount determined according to the current best estimate of the expenditure required to perform relevant current obligations on the balance sheet date and the balance after deducting the accumulated amortization determined according to the revenue recognition principle from the initially recognized amount, whichever is higher for the subsequent measurement.

(14) Employee benefits

Employee benefits mainly include short-term employee salary and other long-term employment benefits incurred in exchange for service rendered by employees or various forms of rewards or compensation due to severance of labour relation.

(a) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, medical insurance, work injury insurance, maternity insurance, housing funds, union running costs and employee education costs, and short-term paid absences. The employee benefits are recognized in the accounting period in which the service has been rendered by the employees, and as costs of assets or expenses to whichever the employee service is attributable. Employee benefits which are non-monetary benefits shall be measured at fair value.

(b) Basic pension insurance

The Bank’s employees participate in the defined basic pension insurance plan set up and administered by local labour and social protection authorities. Basic pensions are provided for monthly according to stipulated bases and proportions to local labour and social security institutions. When employees retire, local labour and social security institutions have a duty to pay the basic pension insurance to them. The amounts payable are recognized as liabilities based on the above provisions in the accounting period in which the service has been rendered by the employees, and as costs of assets or expenses to whichever the employee service is attributable.

(15) Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognized using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using its effective interest rate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(15) Interest income and expenses (Continued)

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g., prepayment options, call/put options and similar options) but should not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, such as transaction costs and all other premiums or discounts. If the cash flows cannot be estimated, the Bank shall use contractual cash flows in the entire contract period. Once a financial asset has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(16) Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the related service has been provided.

(17) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets shall be recognized for deductible losses or tax credits that can be carried forward to subsequent years. The deferred tax assets and deferred tax liabilities at the balance sheet date shall be measured at the tax rates that, according to the requirements of tax laws, are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets shall be recognized to the extent that it is probable that future taxable profit will be available against which the deductible losses and tax credits can be utilized.

Deferred income tax related to fair value changes of available-for-sale investments is recognized in owner’s equity and is subsequently recognized in the income statement with de-recognition of investments.

Net amount of deferred income tax assets and deferred income tax liabilities both satisfying conditions below:

- Deferred income tax assets and deferred income tax liabilities are related to income tax of the same subject of tax payment levied by the same tax administration;
- The Bank’s deferred income tax assets and liabilities are netted as the amounts are recoverable from or due to the same tax authority.

(18) Government Grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including tax return, financial subsidy and etc.

Government grants are recognized when the grants can be received and the Group 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.

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(18) Government Grants (Continued)

Government grants related to assets refer to government grants which are obtained by the Group 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.

Government grants related to assets will be either deducted against the carrying amount of the assets, or recorded as deferred income and recognized evenly in profit or loss on a systemic basis over the useful lives of the assets. Government grants related assets. However, the income that compensate the future costs, expenses or losses are recorded as deferred income and recognized in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants measured at their nominal amounts will be related to income that compensate the incurred costs, expenses or losses are recognized in profit or loss, or deducted against related costs, expenses or losses directly recorded in profit and loss for the in current period. The Group 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.

(19) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

(20) Contingent liabilities

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

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

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(21) Segment reporting

The Bank identifies operating segments based on the internal organization structure, management requirement and internal reporting, then disclose segment information of reportable segment which is based on operating segment.

An operating segment is a component of the Bank: (a) that engages in business activities from which it may earn revenues and incur expenses(including revenues and expenses relating to transactions); (b) whose operating results are regularly reviewed by the Bank's senior management to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information, including the operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and fulfil certain criteria.

In 2019, the management of the bank evaluates the results of its business lines regularly. At present, the main business of the bank is corporate loan so there is no need to disclose segment information.

(22) Critical accounting estimates and judgements in applying accounting policies

The Bank makes critical estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to the critical estimates and key assumptions discussed below. It is possible that actual results may require material adjustments to the estimates referred to below.

(a) Allowance for impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment except that there are known situation demonstrates impairment losses have occurred on quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(All amounts expressed in RMB unless otherwise stated)

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(22) Critical accounting estimates and judgements in applying accounting policies(Continued)

(b) Income taxes

Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 TAXATION

The Bank's business activities are mainly subject to following major taxes:

Tax	Tax rate	Tax basis
Corporate income tax (a)	25%	Taxable income
Value added tax ("VAT") (b)	6%	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)
Urban maintenance and	7%	The payment amount of VAT
Educational surcharge	3%	The payment amount of VAT
Local educational surcharge	2%、1%	The payment amount of VAT

(a) According to the Income Tax Law, the tax rate is 25% this year (2018：25%).

Pursuant to the 'Circular on Enterprise Income Tax Policy concerning Deductions for Equipment and Appliances' (Cai Shui [2018] 54) issued by the State Administration of Taxation, during the period from 1 January 2018 to 31 December 2020, the cost of newly purchased equipment with the original cost less than RMB 5 million can be fully deducted against taxable profit in the next month after the asset is put into use, instead of being depreciated annually for tax filing.

(b) Pursuant to the *'Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax'*(Cai Shui [2016] 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, the Bank's business income is subject to VAT from 1 May 2016, and the applicable tax rate is 6%.

6 NOTES TO FINANCIAL STATEMENTS ITEMS

(1) Cash and deposits with the central bank

	31 December 2019	31 December 2018
Statutory deposit reserve with the central bank	897,162,881	795,835,517
Surplus deposit reserve with the central bank	2,633,082,209	1,842,599,800
	3,530,245,090	**2,638,435,317**

According to the relevant provisions of the People's Bank of China ("PBOC"), the statutory reserve ratio for customer deposits denominated in RMB currencies was 10.5% and 5% in foreign currencies at 31 December 2019 (12.5% and 5% at 31 December 2018).

Statutory reserve deposits are not available to fund the Bank's day-to-day operations.

(2) Deposits with other banks

	Note	31 December 2019	31 December 2018
Deposits with domestic banks		1,150,375,106	1,340,654,597
Deposits with related parties	8(3)(c)(i)	1,129,269,383	519,644,413
Deposits with overseas banks		598,226,204	238,172,386
		2,877,870,693	**2,098,471,396**

(3) Placements with other banks

	31 December 2019	31 December 2018
Placements with domestic banks	**3,941,875,240**	**3,229,596,000**

(4) Financial assets at fair value through profit or loss

	31 December 2019	31 December 2018
Receivables from domestic banks	**-**	**32,814,416**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(5) Interest receivable

	Note	31 December 2019	31 December 2018
Loans and advances		17,099,998	14,460,573
Deposits with other banks		7,535,367	10,896,476
Available-for-sale financial assets		5,666,560	3,047,962
Placements with other banks		1,866,580	9,239,621
Deposits with related parties	8(3)(c)(ii)	4,249,230	2,110,479
		36,417,735	**39,755,111**

(6) Loans and advances

	31 December 2019	31 December 2018
Loans	6,379,334,304	4,486,058,696
Loans and advances, gross	**6,379,334,304**	**4,486,058,696**
Individually impairment allowance	(50,158,406)	(17,490,616)
Collective impairment allowance	(83,818,102)	(76,716,617)
Total impairment allowance	(133,976,508)	(94,207,233)
Loans and advances, net	**6,245,357,796**	**4,391,851,463**

(a) Analysis by industry sector

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Information and technology	2,526,694,625	39.60	1,762,240,681	39.28
Manufacturing	1,095,817,802	17.18	452,845,018	10.09
Wholesale and retail trading	653,588,534	10.24	688,652,301	15.35
Science research and technical Services	559,087,624	8.76	385,639,257	8.60
Leasing and business services	549,035,323	8.61	827,086,373	18.45
Financial Business	525,484,827	8.24	36,556,109	0.81
Transportation, warehousing and postal services	197,704,912	3.10	37,290,792	0.83
Resident services and other services	128,659,550	2.02	87,424,095	1.95
Education	83,714,400	1.31	180,786,315	4.03
Insurance	36,880,004	0.58	27,071,314	0.60
Construction	22,182,770	0.35	-	-
Accommodation and catering industry	483,933	0.01	466,441	0.01
Loans and advances, gross	**6,379,334,304**	**100.00**	**4,486,058,696**	**100.00**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(6) Loans and advances (Continued)

(b) Analysis by geographic sector

	31 December 2019	31 December 2018
Shanghai	2,535,290,997	1,371,026,496
Beijing	1,939,731,569	1,524,684,160
Guangdong	810,526,859	629,316,109
Zhejiang	483,208,408	208,472,674
Jiangsu	430,898,852	250,696,448
Anhui	37,996,413	-
Shaanxi	26,484,507	3,833,563
Jiangxi	14,000,000	-
Sichuan	10,941,167	32,235,972
Hubei	8,940,737	9,669,562
Liaoning	7,565,979	-
Shandong	6,918,039	-
Chongqing	4,034,899	-
Tianjin	848,537	3,394,146
Hebei	214,889	2,793,555
Overseas, Hong Kong, Macau and Taiwan	61,732,452	449,936,011
Loans and advances, gross	**6,379,334,304**	**4,486,058,696**

(c) Analysis by collateral type

	31 December 2019	31 December 2018
Mortgaged or pledged loans	4,180,813,930	3,397,309,923
Guaranteed loans	1,572,817,464	824,611,309
Unsecured loans	625,702,910	264,137,464
Loans and advances, gross	**6,379,334,304**	**4,486,058,696**

(d) Allowance for impairment losses

	2019		
	Individually assessed	Collectively assessed	Total
At 01 January 2019	17,490,616	76,716,617	94,207,233
Impairment losses charged	107,420,748	5,295,175	112,715,923
Impairment losses charge off	(74,752,958)	-	(74,752,958)
Translation adjustment	-	1,806,310	1,806,310
At 31 December 2019	**50,158,406**	**83,818,102**	**133,976,508**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(6) Loans and advances (Continued)

	2018		
	Individually assessed	Collectively assessed	Total
At 01 January 2018	9,969,667	52,278,746	62,248,413
Impairment losses charged	15,173,464	23,003,496	38,176,960
Impairment losses charge off	(7,691,760)	-	(7,691,760)
Translation adjustment	39,245	1,434,375	1,473,620
At 31 December 2018	**17,490,616**	**76,716,617**	**94,207,233**

(7) Available-for-sale financial assets

	31 December 2019	31 December 2018
Measured at fair value		
-Available for sale national bonds	**293,743,430**	**150,450,120**

(8) Fixed assets

	Office equipment and furniture	Computers and other equipment	Total
Cost			
31 December 2018	1,234,360	19,881,207	21,115,567
Additions	1,125,303	5,866,024	6,991,327
31 December 2019	2,359,663	25,747,231	28,106,894
Accumulated Depreciation			
31 December 2018	(674,496)	(11,511,894)	(12,186,390)
Additions	(241,077)	(3,698,177)	(3,939,254)
31 December 2019	(915,573)	(15,210,071)	(16,125,644)
Net book value			
31 December 2019	**1,444,090**	**10,537,160**	**11,981,250**
31 December 2018	**559,864**	**8,369,313**	**8,929,177**

(9) Construction in progress

	31 December 2018	Increase in the current year	Transfer to fixed assets	31 December 2019
Construction in progress	**10,993,429**	**17,977,723**	**25,203,579**	**3,767,573**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(10) Intangible assets

	31 December 2018	Addition	31 December 2019
Cost	39,960,433	25,921,727	65,882,160
Accumulated amortization	(18,070,320)	(8,843,611)	(26,913,931)
Net book value	**21,890,113**	**17,078,116**	**38,968,229**

(11) Long-term prepaid expenses

	31 December	Addition	31 December 2019
Cost	20,291,272	4,417,930	24,709,202
Accumulated amortization	(15,914,501)	(1,949,522)	(17,864,023)
Net book value	**4,376,771**	**2,468,408**	**6,845,179**

(12) Deferred taxes

Movement of deferred tax assets:

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Balance at the beginning of the period		11,896,507	20,703,133
Credited to profit or loss	6(34)	32,942,132	(8,032,089)
Credited to other comprehensive income		(379,372)	(774,537)
Balance at the end of the year		**44,459,267**	**11,896,507**

Deferred tax assets and deferred tax liabilities without taking into consideration the offsetting of balances:

(a) Deferred tax assets

	31 December 2019		31 December 2018	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Impairment allowance	28,052,892	112,211,569	6,177,749	24,710,995
Gains or loss on changes in fair value	9,280,951	37,123,802	-	-
Accrued bonus	5,036,675	20,146,700	4,201,048	16,804,193
Tax differences on Intangible assets amortization	3,020,541	12,082,164	2,081,829	8,327,316
Accrued expenses	2,274,481	9,097,923	1,116,876	4,467,503
Tax differences on fixed assets	112,929	451,717	223,738	894,954
Total	**47,778,469**	**191,113,874**	**13,801,240**	**55,204,961**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(12) Deferred taxes (Continued)

(b) Deferred tax liabilities

	31 December 2019		31 December 2018	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
One time amortization of fixed assets tax adjustment	(2,123,894)	(8,495,575)	(1,088,797)	(4,355,188)
Changes in fair value of available-for-sale financial assets	(1,195,308)	(4,781,229)	(815,936)	(3,263,740)
	(3,319,202)	**(13,276,804)**	**(1,904,733)**	**(7,618,928)**

(c) The net balances of deferred tax assets and liabilities after offsetting are as follows:

	31 December 2019	31 December 2018
Deferred tax assets, net	**44,459,267**	**11,896,507**

(13) Other assets

	Note	31 December 2019	31 December 2018
Fee and commission receivables from related parties	8(3)(c)(iii)	3,436,583	5,753,283
Prepaid expenses		2,933,912	2,539,056
Others		1,744,339	723,423
		8,114,834	**9,015,762**

(14) Deposits from banks and other financial institutions

	31 December 2019	31 December 2018
Deposits from domestic banks	739,768,820	803,350,000
Deposits from other institutes	120,000,000	95,000,000
	859,768,820	**898,350,000**

(15) Loans to banks and other financial institutions

	31 December 2019	31 December 2018
Loans to domestic banks	-	50,000,000

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(16) Customer deposits

	31 December 2019	31 December 2018
Deposits measured by amortized cost		
Corporate current deposits	7,157,597,856	4,164,753,757
Corporate terms deposits	4,770,760,848	6,344,955,035
	11,928,358,704	**10,509,708,792**
Structured deposits measured by fair value	3,083,703,802	-
	15,012,062,506	**10,509,708,792**

(17) Payroll and welfare payable

	31 December 2019	31 December 2018
Short term payroll and welfare payable(a)	40,027,834	34,913,371
Defined contribution plans payable(b)	-	-
	40,027,834	**34,913,371**

As at 31 December 2019, short term payroll and welfare payable of the Bank are bonuses and subsidies (31 December 2018: same).

(a) Short term payroll and welfare payable

	31 December 2018	Net Increase	Net Decrease	31 December 2019
Salaries and bonus	34,913,371	101,296,733	96,182,270	40,027,834
Employee welfare and benefits	-	2,163,952	2,163,952	-
Social insurance	-	9,982,468	9,982,468	-
Include:				
Medical insurance	-	3,359,167	3,359,167	-
Industrial injury insurance	-	51,652	51,652	-
Maternity insurance	-	340,050	340,050	-
Housing fund	-	6,587,415	6,587,415	-
	34,913,371	**120,030,568**	**114,916,105**	**40,027,834**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(b) Defined contribution plans payable

	31 December 2018	Net Increase	Net Decrease	31 December 2019
Basic endowment insurance	-	6,050,465	6,050,465	-
Unemployed insurance	-	181,134	181,134	-
	-	**6,231,599**	**6,231,599**	**-**

(18) Taxes payable

	31 December 2019	31 December 2018
Corporate Income tax payable	20,754,395	4,728,870
VAT payable	6,185,865	3,907,036
Business tax and levies payable	793,355	446,920
	27,733,615	**9,082,826**

(19) Interest payable

	31 December 2019	31 December 2018
Interest payable to customer deposits	31,494,712	44,740,728
Interest payable to other banks	5,605,294	9,557,596
	37,100,006	**54,298,324**

(20) Other liabilities

	31 December 2019	31 December 2018
Deferred loan fees	10,048,202	7,170,281
Accrued expense	9,142,072	5,053,411
Project fee payable	5,039,110	1,953,530
Funds to be settled	3,869,584	307,647
SD Transaction fee payable	-	32,814,416
Other	4,428,508	2,048,679
	32,527,476	**49,347,964**

(21) Paid-in capital

As of 19 June 2012, the Bank has received paid-in capital of RMB 327,000,000 and USD 27,458,138 from SPD, equivalent to RMB 500 million (or USD 79,613,744) . The Bank has received paid-in capital of USD 79,748,632 from SVB, equivalent to RMB 500 million. The Bank has received accumulative paid-in capital amounted to RMB 1 billion. In the paid in capital account, the exchange rate used when the foreign currency is converted into RMB is the exchange rate published by the people's Bank of China on the day when the capital contribution is received. There is no change for the gross amount of paid-in capital in 2019.

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(22) Other comprehensive income

	31 December 2018	Attributable to equity owners of the Company after tax	31 December 2019
Gains or losses arising from changes in fair value of available-for-sale financial assets 6(35)	**2,447,805**	**1,138,115**	**3,585,920**

(23) Surplus reserve

	31 December 2018	Additions	31 December 2019
Surplus reserve	**814,760**	**-**	**814,760**

Pursuant to the "Company Law of the PRC" and the Group's Articles of Association, the Bank is required to appropriate 10% of its net profit in statutory condensed consolidated financial statements to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. The Bank can appropriate to the discretionary surplus reserve after statutory surplus reserve has been made.

(24) Statutory general reserve

	31 December 2018	Additions	31 December 2019
Statutory general reserve	**7,332,838**	**-**	**7,332,838**

Pursuant to Cai Jin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions"(the "Requirements") issued by Ministry of Finance on 30 March 2012, the general reserve should not be less than 1.5% of the aggregate amount of risk assets, and the minimum threshold can be accumulated over a period of no more than five years.

(25) Accumulated loss

	31 December 2019	31 December 2018
Opening balance	(2,599,085)	(44,761,972)
Add: Net (loss)/profit	(13,486,361)	42,162,887
Less: Surplus reserve	-	-
Statutory general reserve	-	-
Closing balance	**(16,085,446)**	**(2,599,085)**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(26) Net interest income

Interest Income	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Loans		296,115,707	205,547,655
Placements with other banks		80,754,292	43,109,163
Deposits with other banks		49,185,780	34,433,228
Deposits with central bank		10,387,568	7,571,254
National bonds		8,782,883	3,886,834
Deposits with related parties	8(3)(b)(i)	8,217,749	9,578,609
		453,443,979	**304,126,743**
Interest expense			
Customer deposit		(152,022,061)	(132,913,254)
Deposits from other banks		(34,137,039)	(18,916,162)
Placements from other banks		(1,251,458)	(1,273,393)
Other		(1,986)	-
		(187,412,544)	**(153,102,809)**
Net interest income		**266,031,435**	**151,023,934**

(27) Net fee and commission income

	For the year ended 31 December 2019	For the year ended 31 December 2018
Loans related fees and commissions	23,715,280	10,521,433
Settlement and clearing fees	2,819,309	1,614,328
Other	56,725	507,268
Fee and commission income	**26,591,314**	**12,643,029**
Fee and commission expense	(2,128,814)	(3,119,001)
Net fee and commission income	**24,462,500**	**9,524,028**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(28) Losses from investment

	31 December 2019	31 December 2018
Realized losses on SD	(41,079,502)	-

(29) Losses on changes in fair value

	31 December 2019	31 December 2018
Unrealized losses on SD	(37,123,802)	-

(30) Other operating income

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
Advisory service income from related parties	8(3)(b)(ii)	12,743,128	10,718,295
Other		600,000	27,908
		13,343,128	**10,746,203**

(31) General and administrative expenses

	For the year ended 31 December 2019	For the year ended 31 December 2018
Payroll	120,030,568	97,037,239
Telecommunications and computers maintenance expenses	16,792,816	14,908,557
Rental and utilities	16,009,309	11,979,778
Intangible assets amortization	8,843,611	6,064,165
Professional service expenses	7,174,731	4,834,879
Depreciation of fixed assets	3,939,254	2,654,192
Insurance	3,776,046	2,309,078
Traveling expenses	2,527,353	1,922,010
Long-term amortized expenses	1,949,522	1,997,645
Marketing expenses	1,247,925	1,461,156
Entertainment expenses	883,278	559,452
Stationery expenses	412,342	203,745
Low value consumables	318,551	586,270
Other	9,284,230	6,907,063
	193,189,536	**153,425,229**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(31) General and administrative expenses (Continued)

Payroll includes:

	For the year ended 31 December 2019	For the year ended 31 December 2018
Salaries and bonuses	101,296,733	82,478,754
Social insurance	9,982,468	8,986,927
Housing funds	6,587,415	4,452,290
Employment welfare expenses	2,163,952	1,119,268
	120,030,568	**97,037,239**

(32) Impairment losses on assets

	For the year ended 31 December 2019	For the year ended 31 December 2018
Impairment losses on loans and advances	**112,715,923**	**38,176,960**

(33) Non-operating income

	For the year ended 31 December 2019	For the year ended 31 December 2018
Government subsidy income	3,057,466	11,464,475
Other	32,652	12,137
	3,090,118	**11,476,612**

(34) Income tax expense

	For the year ended 31 December 2019	For the year ended 31 December 2018
Current income tax	26,259,477	5,017,022
Deferred income tax	(32,942,132)	8,032,089
	(6,682,655)	**13,049,111**

Reconciliation between income tax and account which calculated using applicable tax rate:

	For the year ended 31 December 2019	For the year ended 31 December 2018
(Loss)/Profit before income tax	(20,169,016)	55,211,998
Provision for income tax calculated at 25%	(5,042,255)	13,803,000
Expenses not deductible for tax purposes	555,321	217,819
Exempt income	(2,195,721)	(971,708)
	(6,682,655)	**13,049,111**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(35) Other comprehensive income

	For the year ended 31 December 2019		
	Amount before tax	Income tax	Net amount after tax
Other comprehensive income items which will not be reclassified subsequently to profit or loss			
Gains or losses arising from changes in fair value of available-for-sale financial assets	1,517,487	(379,372)	1,138,115
Less: Reclassification of previous other comprehensive income to profit or loss	-	-	-
Total other comprehensive income	**1,517,487**	**(379,372)**	**1,138,115**

	For the year ended 31 December 2018		
	Amount before tax	Income tax	Net amount after tax
Other comprehensive income items which will not be reclassified subsequently to profit or loss			
Gains or losses arising from changes in fair value of available-for-sale financial assets	3,098,146	(774,537)	2,323,609
Less: Reclassification of previous other comprehensive income to profit or loss	-	-	-
Total other comprehensive income	**3,098,146**	**(774,537)**	**2,323,609**

(36) Notes to the statement of cash flows

(a) Cash and cash equivalents

	31 December 2019	31 December 2018
Deposits with other banks with maturity less than three months from acquisition date	2,494,877,313	1,506,799,396
Placements with other banks with maturity less than three months from acquisition date	3,835,837,000	3,160,964,000
Surplus deposit reserve with the central bank	2,633,082,209	1,842,599,800
	8,963,796,522	**6,510,363,196**

(All amounts expressed in RMB unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(36) Notes to the statement of cash flows (Continued)

(b) Reconciliation from net (loss)/profit to cash flows from operating activities

	For the year ended 31 December 2019	For the year ended 31 December 2018
Net (loss)/profit:	(13,486,361)	42,162,887
Adjusted by:		
Provision for asset impairment	112,715,923	38,176,960
Depreciation and amortization	14,732,387	10,716,002
Gains from foreign exchange	(69,736,613)	(105,050,749)
Deferred tax assets (increase)/decrease	(32,942,132)	8,032,089
Increase in operating receivables	(1,891,568,905)	(2,852,863,361)
Increase in operating payables	4,441,150,219	5,460,383,680
Net cash generated from operating activities	**2,560,864,518**	**2,601,557,508**

(c) Net change in cash and cash equivalents

Cash and cash equivalents at end of the year	8,963,796,522	6,510,363,196
Less: cash and cash equivalents at beginning of the year	(6,510,363,196)	(3,882,774,428)
Net increase in cash and cash equivalents	**2,453,433,326**	**2,627,588,768**

(All amounts expressed in RMB unless otherwise stated)

7 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Off-balance sheet items

	31 December 2019	31 December 2018
Irrevocable loan commitment	111,506,830	130,874,485
Letters of credit issued	19,408,551	28,139,120
	130,915,381	**159,013,605**

(2) Operating lease commitments

Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2019	31 December 2018
Within 1 year	8,698,896	8,076,970
Over 1 year less than 2 years	7,534,193	3,433,642
	16,233,089	**11,510,612**

8 RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS

(1) Related parties who control the Bank

Name of entity	Registered location	Main business	Relations with the Bank	Economic nature
SPD	Shanghai China	Banking	Joint control	Joint-equity commercial bank
SVB	Santa Clara USA	Banking	Joint control	Foreign enterprise

(2) Shareholdings of related parties

	31 December 2019		**31 December 2018**	
	Amount	Percentage	Amount	Percentage
SPD	500,000,000	50%	500,000,000	50%
SVB	500,000,000	50%	500,000,000	50%
	1,000,000,000	100%	1,000,000,000	100%

(All amounts expressed in RMB unless otherwise stated)

8 RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (Continued)

(3) Related party transactions

(a) Pricing policy

The major transactions entered into by the Bank with its related parties are inter-bank borrowing and lending. The terms of inter-bank borrowing and lending with related parties follow commercial terms arranged in the ordinary course of the Bank's business.

(b) Significant related party transactions

(i) Inter-banking financing

	For the year ended 31 December 2019	For the year ended 31 December 2018
Interest income from SPD	**8,217,749**	**9,578,609**

(ii) Services rendered

	For the year ended 31 December 2019	For the year ended 31 December 2018
Advisory service income from SVB	12,658,222	10,648,295
Advisory service income from SPD	84,906	70,000
	12,743,128	**10,718,295**

(c) Balance with related parties

(i) Deposits with related banks

	31 December 2019	31 December 2018
SPD	966,030,389	408,442,665
SVB	163,238,994	111,201,748
	1,129,269,383	**519,644,413**

(ii) Interest receivable

	31 December 2019	31 December 2018
SPD	4,231,661	2,098,156
SVB	17,569	12,323
	4,249,230	**2,110,479**

(iii) Other receivables

	31 December 2019	31 December 2018
Fee and commission receivable from SVB	3,436,583	5,753,283

9 FINANCIAL RISK MANAGEMENT

(1) Overview

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of these risks or combination of risks. Risk management is core to financial business. The Bank's goal is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems.

The main business that the Bank is exposed to are credit risk, market risk and liquidity risk. Market risk includes foreign exchange risk and interest rate risk.

(2) Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty may fail to discharge an obligation, resulting in financial losses to the Bank. Significant changes in the economy, or in a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. If the counterparties of the transaction are focused on the same industries or geographic region, the credit concentration risk increases. Credit exposures arise principally in loans and advances, and due from banks and other financial institutions. Management closely monitors its exposure to credit risk. In terms of credit business and credit risk management, the Bank adopts the organisation structure where front office, middle office and back office are segregated. The Board of Directors ("BOD") has the ultimate decision-making power over all the matters in relation to credit business and credit risk management. The BOD, and assigned by the BOD, the Risk Management Committee (RMC), the Related-Party Transactions Control Committee (RTCC), the President, the Head of Risk Management Department, the Head of Credit Management Department, and the Supervisor of Client Advisory Services (SCAS) have been delegated with certain authorities and responsibilities in relation to credit business and credit risk management. Risk management department and Credit Management Department centrally coordinate the credit risk management functions and communicate with the Bank's senior management.

(a) Measurement of credit risk

(i) *Deposits with other banks and financial institutions*

The Risk management department reviews and monitors the credit risk of individual financial institutions on regular basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Bank.

9 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(a) Measurement of credit risk (Continued)

(ii) *Loans and advances and off balance exposures*

The Bank uses internal rating system CRR10 to evaluate credit risk of the borrowers. At the same time, the Bank also assigns loan grade to each facility under a five grade asset classification system according to the Credit Risk Classification"("the Guidance") issued by CBRC. Under the Bank's own system and the CBRC Guidance, the Bank classifies its credit assets and off-balance sheet credit exposure into five categories, which are namely pass, special mention, substandard, doubtful and loss. The last three categories are also classified as "non-performing credit assets".

The core definition from the Guidance of the Bank's credit asset classification is as follows:

Pass: The borrower is able to fulfil the contractual obligations, and there is no uncertainty that principal and interest can be paid on time.

Special Mention: The borrowers is able to make current due payments, but there exist some indications that may have negative impact on the borrower's future payments.

Substandard: The borrower's repayment ability has been in doubt and its normal income cannot repay the loan principal and interest in full. Losses may be incurred by the Bank, even with the enforcement of guarantees and collateral.

Doubtful: The borrower cannot repay the principal and the interest in full. Significant losses will be incurred even with the enforcements of guarantees and collateral.

Loss: After taking into consideration all possible recovery actions and necessary legal procedures, the principal and interest cannot be collected or only a very small portion of principal and interest can be collected.

(b) Risk limit control and mitigation measurements

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risks accepted in relation to single borrower and groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, where necessary.

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(c) Credit risk impairment analysis and provision policies

According to the accounting policies, if there is objective evidence that a financial asset is impaired and the impairment can be reasonably assessed, the Bank recognises such impairment and impairment loss is provided for.

The objective evidences of impairment are as follows:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of financial covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position.

The Bank's policy requires review of impairment for individual material financial assets at least quarterly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified.

(d) Maximum exposure to credit risk before collateral held or other credit enhancements

	31 December 2019	31 December 2018
Balance-sheet items:		
Deposits with other banks	2,877,870,693	2,098,471,396
Placements with other banks	3,941,875,240	3,229,596,000
Financial assets at fair value through profit or loss	-	32,814,416
Interest receivable	36,417,735	39,755,111
Loans and advances	6,245,357,796	4,391,851,463
Available-for-sale financial assets	293,743,430	150,450,120
Other receivables	5,180,922	6,476,706
	13,400,445,816	**9,949,415,212**

The below table represents a worst case scenario of credit exposure to the Bank at 31 December 2019, without taking account of any collateral held or other credit enhancements attached. For balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, 68.08% of the total on-balance maximum exposure (31 December 2018: 65.23%) is derived from deposits with other banks and loans and advances.

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(d) Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

	31 December 2019	31 December 2018
Off-balance sheet items:		
Irrevocable loan commitment	111,506,830	130,874,485
Letters of credit issued	19,408,551	28,139,120
	130,915,381	**159,013,605**

(e) Loans and advances

	31 December 2019	31 December 2018
Neither past due nor impaired(i)	6,259,163,359	4,450,077,465
Past due but not impaired(ii)	26,858,370	1,000,000
Impaired(iii)	93,312,575	34,981,231
Total	**6,379,334,304**	**4,486,058,696**
Less: allowance for impairment losses	(133,976,508)	(94,207,233)
Loans and advances, net	**6,245,357,796**	**4,391,851,463**

(i) The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the five rating classification system of CBRC adopted by the Bank.

	31 December 2019	31 December 2018
Pass	6,258,164,319	4,450,077,465
Special mention	999,040	-
	6,259,163,359	**4,450,077,465**

(ii) Loans and advances past due but not impaired

Analysis of loans and advances past due but not impaired by overdue days:

	Up to 30days	30-60 days	60-90 days	Total
31 December 2019	**26,858,370**	**-**	**-**	**26,858,370**

	Up to 30days	30-60 days	60-90 days	Total
31 December 2018	**1,000,000**	**-**	**-**	**1,000,000**

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(e) Loans and advances (Continued)

(iii) Impaired loans and advances

	31 December 2019	31 December 2018
Corporate impaired loans and advances	93,312,575	34,981,231
Less: Impairment losses charged	(50,158,406)	(17,490,616)
Impaired loans and advances, Net	43,154,169	17,490,615

Analysis of impaired loans and advances by overdue days:

	Up to 3 months	3 months to 1 year	1 year or above	Total
31 December 2019	**-**	**88,550,670**	**4,761,905**	**93,312,575**

	Up to 3 months	3 months to 1 year	1 year or above	Total
31 December 2018	**6,263,840**	**28,717,391**	**-**	**34,981,231**

(3) Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates, etc.

The Bank separates exposures to market risk into either trading or non-trading portfolios. The trading portfolio consists of positions in financial instruments held with trading intent in the market. The non-trading portfolio consists of interest rate risk management of assets and liabilities, and foreign currency of financial instruments which are held to maturity and available for sale.

At present, the Market Risk Management Department takes responsibility of monitoring and controlling the market risk. The Bank has established the reporting system for market risk, monitoring and analysing market risk changes and limits, and these reports are presented to the senior management on a regular basis.

(a) Market Risk measurement approaches

In response to the changes in benchmark interest rates, the primary tool for evaluating current and expected risk is Net Interest Income (NII) Sensitivity Analysis, i.e. regularly calculating the gaps between interest bearing assets and liabilities by maturity or repricing and analysing the sensitivity based on the gaps and the rate changes. The Bank has established the reporting procedure for NII sensitivity, and these reports are presented to the senior management regularly.

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(b) Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of exchange rate on its financial position and cash flows.

The Bank's principle in controlling exchange rate risk is to match its assets and liabilities in each currency and to maintain exchange rate risk within established limits. The Bank has set risk limits for exposure of each currency and monitors it on regular basis. The Bank has set risk limits according to the guidelines established by the Risk Management Committee, the relevant regulatory requirements, and management's assessment of the current market condition. The Bank also manages its foreign capital sources and usage of foreign currencies to minimize potential currency mismatches.

31 December 2019	RMB	USD(RMB equivalent)	HKD(RMB equivalent)	Other currencies (RMB equivalent)	Total
Financial assets:					
Cash and deposits with central bank	3,217,517,028	312,701,189	26,873	-	3,530,245,090
Deposits with other banks	579,216,943	2,241,414,718	2,615,094	54,623,938	2,877,870,693
Placements with other banks	1,150,000,000	2,791,875,240	-	-	3,941,875,240
Interest receivable	18,249,716	18,161,846	282	5,891	36,417,735
Loans and advances	4,766,814,896	1,478,542,900	-	-	6,245,357,796
Available-for-sale financial assets	293,743,430	-	-	-	293,743,430
Other receivables	5,180,922	-	-	-	5,180,922
Total	**10,030,722,935**	**6,842,695,893**	**2,642,249**	**54,629,829**	**16,930,690,906**
Financial liabilities:					
Deposits from banks and other financial institutions	859,768,820	-	-	-	859,768,820
Customer deposits	8,225,550,028	6,732,035,656	1,306,516	53,170,306	15,012,062,506
Interest payable	11,124,767	25,975,224	6	9	37,100,006
Other payables	3,869,584	-	-	-	3,869,584
Total	**9,100,313,199**	**6,758,010,880**	**1,306,522**	**53,170,315**	**15,912,800,916**
Net balance sheet	**930,409,736**	**84,685,013**	**1,335,727**	**1,459,514**	**1,017,889,990**
Financial guarantee and credit commitment	**50,000,000**	**74,063,990**	**-**	**6,851,391**	**130,915,381**

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(b) Currency risk (Continued)

31 December 2018	RMB	USD(RMB equivalent)	HKD(RMB equivalent)	Other currencies (RMB equivalent)	Total
Financial assets:					
Cash and deposits with central bank	2,342,964,881	294,760,714	709,722	-	2,638,435,317
Deposits with other banks	325,004,911	1,756,004,843	7,782,708	9,678,934	2,098,471,396
Placements with other banks	450,000,000	2,779,596,000	-	-	3,229,596,000
Financial assets at fair value through profit or loss	32,814,416	-	-	-	32,814,416
Interest receivable	14,721,944	25,031,232	862	1,073	39,755,111
Loans and advances	3,227,977,129	1,163,874,334	-	-	4,391,851,463
Available-for-sale financial assets	150,450,120	-	-	-	150,450,120
Other receivables	6,476,706	-	-	-	6,476,706
Total	**6,550,410,107**	**6,019,267,123**	**8,493,292**	**9,680,007**	**12,587,850,529**
Financial liabilities:					
Deposits from banks and other financial institutions	898,350,000	-	-	-	898,350,000
Loans to banks and other financial institutions	50,000,000	-	-	-	50,000,000
Customer deposits	4,486,458,109	6,003,099,626	11,335,872	8,815,185	10,509,708,792
Interest payable	31,810,588	17,632,844	60	4,854,832	54,298,324
Other payables	33,122,063	-	-	-	33,122,063
Total	**5,499,740,760**	**6,020,732,470**	**11,335,932**	**13,670,017**	**11,545,479,179**
Net balance sheet position	**1,050,669,347**	**(1,465,347)**	**(2,842,640)**	**(3,990,010)**	**1,042,371,350**
Financial guarantee and credit commitment	**89,640,570**	**69,373,035**	**-**	**-**	**159,013,605**

(c) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Bank operates its business predominantly in mainland China under the interest rate scheme regulated by the PBOC. On August 20, 2019, the first quotation formed according to the new mechanism of loan market quotation rate (LPR) was officially launched, and the newly issued loans were priced mainly by referring to the quotation rate of loan market. On December 28, 2019, the people's Bank of China issued an announcement that financial institutions should, in principle, complete the conversion of pricing benchmark of stock floating rate loans to LPR from March to August 2020. Since the people's Bank of China issued the reform and improvement of the formation mechanism of the quoted interest rate (LPR) in the loan market on August 20, the Bank responded positively and completed the modification of the contract text of the floating interest rate loan in the first time. After August 20, 100% of the loans that obtained the credit approval have signed the loan contract based on the LPR. By the end of December 2019, the bank had achieved 100% signing of loan contracts based on LPR.

The table below summarizes the Bank’s exposures to interest rate risks. The table presents the Bank’s assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates:

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

31 December 2019	Within 3 months	3-12 months	1-5 years	Non-interest bearing	Total
Financial asset:					
Cash and deposits with central bank	3,530,245,090	-	-	-	3,530,245,090
Deposits with other banks	2,494,877,313	382,993,380	-	-	2,877,870,693
Interest receivable	-	-	-	36,417,735	36,417,735
Placements with other banks	3,835,837,000	-	106,038,240	-	3,941,875,240
Loans and advances	6,099,024,430	146,333,366	-	-	6,245,357,796
Available-for-sale financial assets	-	-	293,743,430	-	293,743,430
Other receivables	-	-	-	5,180,922	5,180,922
Total	**15,959,983,833**	**529,326,746**	**399,781,670**	**41,598,657**	**16,930,690,906**
Financial liabilities:					
Deposits from banks and other financial institutions	353,221,820	506,547,000	-	-	859,768,820
Customer deposits	12,506,672,415	2,505,390,091	-	-	15,012,062,506
Interest payable	-	-	-	37,100,006	37,100,006
Other payables	-	-	-	3,869,584	3,869,584
Total	12,859,894,235	3,011,937,091	-	40,969,590	15,912,800,916
Net interest re-pricing gap	**3,100,089,598**	**(2,482,610,345)**	**399,781,670**	**629,067**	**1,017,889,990**

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

31 December 2018	Within 3 months	3-12 months	1-5 years	Non-interest bearing	Total
Financial asset:					
Cash and deposits with central bank	2,638,435,317	-	-	-	2,638,435,317
Deposits with other banks	1,506,799,396	591,672,000	-	-	2,098,471,396
Financial assets at fair value through profit or loss	12,044,416	20,770,000	-	-	32,814,416
Interest receivable	-	-	-	39,755,111	39,755,111
Placements with other banks	3,160,964,000	68,632,000	-	-	3,229,596,000
Loans and advances	2,843,560,028	761,510,266	786,781,169	-	4,391,851,463
Available-for-sale financial assets	-	-	150,450,120	-	150,450,120
Other receivables	-	-	-	6,476,706	6,476,706
Total	**10,161,803,157**	**1,442,584,266**	**937,231,289**	**46,231,817**	**12,587,850,529**
Financial liabilities:					
Deposits from banks and other financial institutions	65,000,000	833,350,000	-	-	898,350,000
Customer deposits	8,976,557,464	1,524,950,358	8,200,970	-	10,509,708,792
Loan to banks and other institutions	50,000,000	-	-	-	50,000,000
Interest payable	-	-	-	54,298,324	54,298,324
Other payables	12,044,416	20,770,000	-	307,647	33,122,063
Total	**9,103,601,880**	**2,379,070,358**	**8,200,970**	**54,605,971**	**11,545,479,179**
Net interest re-pricing gap	**1,058,201,277**	**(936,486,092)**	**929,030,319**	**(8,374,154)**	**1,042,371,350**

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

The table below illustrates the potential impact from a simple 100 basis point move of interest rates to the financial position of the Bank on the Bank's reported net interest income in the coming year:

	31 December 2019	31 December 2018
+ 100 basis point parallel move in all yield curves	17,815,995	5,747,438
- 100 basis point parallel move in all yield curves	(17,815,995)	(5,747,438)

In performing the above analysis, the Bank has made following assumptions:

i. There are no significant changes in business operations after balance sheet date;
ii. The impacts on different assets and liabilities are the same;
iii. Interest rates are re-priced in the middle of each specified time period;
iv. Customers' responses to interest rate movement are not considered;
v. Impact from interest rate movement on market prices of assets and liabilities are not considered;
vi. Impact from interest rate movement on off-balance sheet items are not considered;
vii. The necessary actions to be taken by the Bank in response to the interest rate movements are not considered.

Due to these limitations to the Bank's approach, actual impact from interest rate fluctuation may vary from the analysis above.

(4) Liquidity risk

The Bank is exposed to daily and calls and its available cash resources from overnight deposits, current accounts, maturing deposits on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a reasonably high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank.

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

(a) Non-derivative cash flows of financial assets and liabilities

The table below presents the cash flows payable by the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Within 1 month	**Within 3 months**	**3-12 months**	**1-5 years**	**Total**
31 December 2019					
Financial assets:					
Cash and deposits with the central bank	3,530,245,090	-	-	-	3,530,245,090
Deposits with other banks	2,356,035,116	139,941,802	387,969,852	-	2,883,946,770
Placements with other banks	3,837,677,029	-	-	113,306,826	3,950,983,855
Loan and advances	335,490,774	461,869,275	3,316,224,455	2,601,118,206	6,714,702,710
Available-for-sale financial assets	-	-	9,760,000	320,352,000	330,112,000
Other receivables	5,180,922	-	-	-	5,180,922
Total	**10,064,628,931**	**601,811,077**	**3,713,954,307**	**3,034,777,032**	**17,415,171,347**
Financial liabilities:					
Deposits from banks and other financial institutions	353,784,595	-	514,948,492	-	868,733,087
Customer deposits	9,576,843,899	2,940,499,875	2,542,992,903	-	15,060,336,677
Other payables	3,869,584	6,323,963	20,770,000	-	30,963,547
Total	**9,934,498,078**	**2,946,823,838**	**3,078,711,395**	**-**	**15,960,033,311**
Net cash flows	**130,130,853**	**(2,345,012,761)**	**635,242,912**	**3,034,777,032**	**1,455,138,036**

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

(a) Non-derivative cash flows of financial assets and liabilities (Continued)

31 December 2018	Within 1 month	Within 3 months	3-12 months	1-5 years	Total
Financial assets:					
Cash and deposits with the central bank	2,638,435,317	-	-	-	2,638,435,317
Deposits with other banks	1,232,706,974	275,550,711	604,861,464	-	2,113,119,149
Placements with other banks	3,162,986,541	-	70,070,451	-	3,233,056,992
Financial assets at fair value through profit or loss	5,720,453	6,323,963	20,770,000	-	32,814,416
Loan and advances	151,685,552	540,581,482	2,193,143,833	1,821,914,587	4,707,325,454
Available-for-sale financial assets	-	-	4,625,000	168,500,000	173,125,000
Other receivables	6,476,706	-	-	-	6,476,706
Total	**7,198,011,543**	**822,456,156**	**2,893,470,748**	**1,990,414,587**	**12,904,353,034**
Financial liabilities:					
Deposits from banks and other financial institutions	-	65,526,918	858,602,013	-	924,128,931
Customer deposits	6,864,946,125	2,122,415,659	1,542,203,563	8,382,515	10,537,947,863
Other payables	6,028,100	6,323,963	20,770,000	-	33,122,063
Total	**6,870,974,225**	**2,194,266,540**	**2,421,575,576**	**8,382,515**	**11,495,198,857**
Net cash flows	**327,037,318**	**(1,371,810,384)**	**471,895,172**	**1,982,032,072**	**1,409,154,177**

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

(b) Off-balance sheet items

	Within 1 year	1-5 years	Total
31 December 2019			
Letters of credit issued	19,408,551	-	19,408,551
Irrevocable loan commitment	99,879,830	11,627,000	111,506,830
Operating lease commitments	8,698,896	7,534,193	16,233,089
Total	**127,987,277**	**19,161,193**	**147,148,470**

	Within 1 year	1-5 years	Total
31 December 2018			
Letters of credit issued	28,139,120	-	28,139,120
Irrevocable loan commitment	96,233,915	34,640,570	130,874,485
Operating lease commitments	8,076,970	3,433,642	11,510,612
Total	**132,450,005**	**38,074,212**	**170,524,217**

(5) Fair Value of financial assets and financial liabilities

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.

Level 3: Unobservable inputs for the asset or liability.

(a) Assets measured at fair value on a recurring basis

As at 31 December 2019, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets				
- National bonds	-	293,743,430	-	293,743,430
Financial liabilities				
Customer deposits				
- Structured deposits measured by fair value	-	3,083,703,802	-	3,083,703,802

9 FINANCIAL RISK MANAGEMENT (Continued)

(5) Fair Value of financial assets and financial liabilities(Continued)

(a) Assets measured at fair value on a recurring basis(Continued)

As at 31 December 2018, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
- Structural deposit	-	32,814,416	-	32,814,416
Available-for-sale financial assets				
- National bonds	-	150,450,120	-	150,450,120
Total	**-**	**183,264,536**	**-**	**183,264,536**

The Bank takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There is no transfer between Level 1 and Level 2 for the current year.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Bank using valuation technique. 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, liquidity discount and etc.

(b) Assets and liabilities not measured at fair value

(i) Cash and deposits with the central bank, deposits with other banks, placements with other banks, interest receivable, deposits from other banks, interest payable, other assets

Given that maturities of these financial assets and liabilities are either short-term or re-priced more than once every year; the carrying amount approximates the fair value.

(ii) Loans and advances

Interest rates for loans are generally floating rates, fair value of loans is close to carrying value.

(iii) Customer deposits

The fair value of current, savings and money market accounts is the amount payable on demand at the reporting date. The carrying value of fixed interest-bearing deposits and placements approximates to its fair value because the maturity dates of all term deposits are within 1 year.

(All amounts expressed in RMB unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management

The Bank's capital management focuses on monitoring of the capital adequacy ratio ("CAR"), aiming to comply with the regulatory requirements and support the business expansion.

(i)To ensure the Bank's continuous compliance with the regulatory CAR requirements and have sufficient capital to support the internally assessed capital demand;

(ii)To ensure the Bank's capital is adequate to support the business strategy and growth;

(iii)To optimize the return to shareholders while maintaining a prudent level of capital in relation to the underlying risks of the business.

The Bank calculates and discloses Capital Adequacy Ratio in accordance with "Capital Rules for Commercial Banks (Provisional)" and other regulatory requirements issued by the CBRC. As requested, the Bank uses Regulatory Weighting Approach for credit risk, the standardized measurement method for market risk, and the Basic Indicator Approach for operational risk in the reporting period.

The table below provides the analysis of regulatory capital and the ratios of the Bank.

	31 December 2019	31 December 2018
Core Tier 1 capital adequacy ratio	13.67%	17.94%
Tier 1 capital adequacy ratio	13.67%	17.94%
Capital adequacy ratio	14.23%	18.98%
Core Tier 1 capital	1,030,426,059	1,042,774,305
Less: Regulatory Deductions for Core Tier 1 capital	38,968,229	21,890,113
Net core Tier 1 capital	991,457,830	1,020,884,192
Other Tier 1 capital	-	-
Net Tier 1 capital	991,457,830	1,020,884,192
Tier 2 capital	40,664,008	59,226,033
Total regulatory capital	1,032,121,838	1,080,110,225
Total risk-weighted assets	7,252,513,943	5,689,992,736