



甘肅銀行股份有限公司*

BANK OF GANSU CO., LTD.*

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

Stock Code: 2139

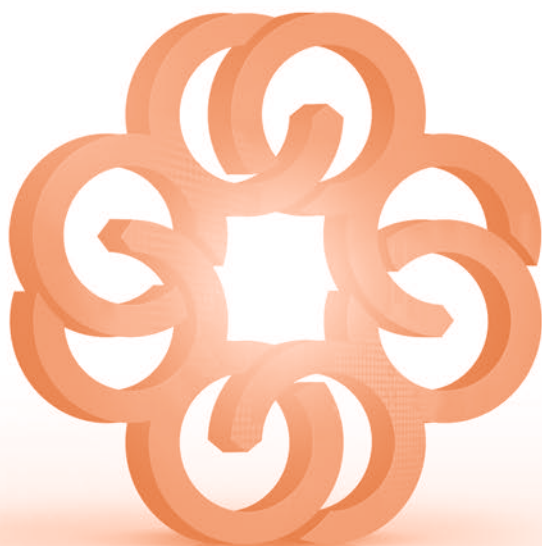


2019 INTERIM REPORT

* Bank of Gansu Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.

Contents

Chapter 1	Definitions	2
Chapter 2	Company Profile	8
Chapter 3	Financial Highlights	11
Chapter 4	Management Discussion and Analysis	14
Chapter 5	Changes in Share Capital and Particulars of Shareholders	57
Chapter 6	Directors, Supervisors, Senior Management, Employees and Organizations	62
Chapter 7	Important Events	76
Chapter 8	Report on Review of Condensed Consolidated Financial Statements	81
Chapter 9	Notes to the Condensed Consolidated Financial Statements	91
Chapter 10	Unaudited Supplementary Financial Information	150



Chapter 1 Definitions

In this interim report, unless the context otherwise requires, the following terms shall have the meanings set out below:

“Articles of Association” or “Articles”	the articles of association of the Bank
“Baiyin City Commercial Bank”	the former Baiyin City Commercial Bank Co., Ltd. (白銀市商業銀行股份有限公司). In May 2011, 25 legal entities, all shareholders of Baiyin City Commercial Bank and all shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“Bank” or “our Bank”	Bank of Gansu Co., Ltd. (甘肅銀行股份有限公司), a joint stock company incorporated in Gansu province, the PRC on November 18, 2011 with limited liability in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Banking Ordinance”	Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Board of Directors” or “Board”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“business day”	any day (other than Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
“CAGR”	compound annual growth rate
“Capital Adequacy Ratio Measures”	the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks (《商業銀行資本充足率管理辦法》) promulgated by the CBIRC on February 23, 2004 and effective on March 1, 2004 and amended on July 3, 2007, which were later abolished by the Capital Administrative Measures on January 1, 2013
“Capital Administrative Measures”	the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) promulgated by the CBIRC on June 7, 2012 and effective on January 1, 2013
“CBRC”	the former China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CBIRC Gansu Office”	the China Banking and Insurance Regulatory Commission Gansu Office (中國銀行保險監督管理委員會甘肅監管局)

Chapter 1 Definitions

“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed to it under Chapter 14A of the Hong Kong Listing Rules
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules
“Core Indicators (Provisional)”	the Core Indicators for Risk Supervision of Commercial Banks (Provisional) (《商業銀行風險監管核心指標(試行)》) promulgated by the CBIRC on December 31, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
“Corporate Governance Guidelines”	the Guidelines on Corporate Governance of Commercial Banks (《商業銀行公司治理指引》) promulgated by the CBIRC on July 19, 2013 and effective on the same date, as amended, supplemented or otherwise modified from time to time
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for in Renminbi or credited as paid up
“Gansu Electric Power Investment”	Gansu Province Electric Power Investment Group Co., Ltd. (甘肅省電力投資集團有限公司), a company incorporated in the PRC on July 15, 1990, and a wholly-owned subsidiary of Gansu State-owned Assets Investment. As of the Latest Practicable Date, Gansu Electric Power Investment held approximately 6.30% of the Shares
“Gansu Highway Aviation Tourism”	Gansu Province Highway Aviation Tourism Investment Group Co., Ltd (甘肅省公路航空旅遊投資集團有限公司), a company incorporated in the PRC on December 24, 1999, which is wholly-owned by the Department of Transportation of Gansu Province (甘肅省交通運輸廳). As of the Latest Practicable Date, Gansu Highway Aviation Tourism held approximately 12.49% of the Shares. It is a substantial Shareholder and connected person of the Bank
“GDP”	gross domestic product
“GRC system”	Governance, Risk and Compliance management system
“green finance”	economic activities supporting environmental improvements, climate change, conservation and high efficiency utilization of resources, including financial services for project investment, financing, operation and risk management in environmental protection, energy conservation, clean energy, green transportation and green architecture

Chapter 1 Definitions

“H Share(s)”	ordinary shares issued by the Bank in Hong Kong pursuant to the Global Offering, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed and traded on the Hong Kong Stock Exchange
“HK\$, “HKD” or “HK dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“HKMA”	the Hong Kong Monetary Authority
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, International Accounting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“independent third party”	a person or entity not considered a connected person or associate of a connected person of the Bank under the Hong Kong Listing Rules
“Gansu SASAC”	the State-owned Assets Supervision and Administration Commission of the Gansu Provincial Government (甘肅省人民政府國有資產監督管理委員會)
“Gansu State-owned Assets Investment”	Gansu Province State-owned Assets Investment Group Co., Ltd. (甘肅省國有資產投資集團有限公司), a company incorporated in the PRC on November 23, 2007, and 83.54% of its equity interest owned by Gansu SASAC and 16.46% of its equity interest owned by Jiuquan Iron & Steel. As of the Latest Practicable Date, it directly held approximately 3.57% of the Shares, and indirectly held approximately 12.59% of the Shares through its subsidiaries, including Gansu Electric Power Investment and Jinchuan Group. It is a substantial Shareholder and connected person of the Bank
“Jinchuan Group”	Jinchuan Group Co., Ltd. (金川集團股份有限公司), a company incorporated in the PRC on September 28, 2001, of which Gansu State-owned Assets Investment is its largest shareholder, holding 48.67% of its equity interests. As of the Latest Practicable Date, Jinchuan Group held approximately 6.30% of the Shares
“Jingning Chengji Rural Bank”	Pingliang Jingning Chengji Rural Bank Co., Ltd., a joint stock company with limited liability incorporated in the PRC on September 18, 2008 and a subsidiary of the Bank
“Jiuquan Iron & Steel”	Jiuquan Iron & Steel (Group) Co., Ltd. (酒泉鋼鐵(集團)有限責任公司), a company incorporated in the PRC on May 26, 1998, and 68.09% of its equity interest owned by Gansu SASAC and 31.91% of its equity interest owned by Gansu State-owned Assets Investment. As of the Latest Practicable Date, Jiuquan Iron & Steel held approximately 6.30% of the Shares
“Latest Practicable Date”	August 28, 2019, the latest practicable date for ascertaining certain information in this interim report before its publication

Chapter 1 Definitions

“Listing”	the listing of our H Shares on the Hong Kong Stock Exchange
“Listing Date”	January 18, 2018, being the date on which dealing in the H Shares of the Bank firstly commenced on the Hong Kong Stock Exchange
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (《香港聯合交易所有限公司證券上市規則》), as amended, supplemented or otherwise modified from time to time
“NAFMII”	the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會)
“non-standard credit assets”	credit assets that are not traded on the interbank markets or stock exchanges, which for the purpose of this interim report represents our investments in trust plans, asset management plans and wealth management products issued by other financial institutions
“NPL ratio” or “non-performing loan ratio”	the percentage ratio calculated by dividing non-performing loans by total loans
“NPLs” or “non-performing loans”	loans classified as substandard, doubtful and loss according to the five-category loan classification system of the Bank
“PBoC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pingliang City Commercial Bank”	the former Pingliang City Commercial Bank Co., Ltd. (平涼市商業銀行股份有限公司). In May 2011, 25 legal entities, all shareholders of Baiyin City Commercial Bank and all shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“PRC” or “China”	the People’s Republic of China, but for the purpose of this interim report only, excluding Hong Kong, Macau and Taiwan, unless otherwise specified in the context
“PRC Banking Supervision and Regulatory Law”	the Banking Supervision and Regulatory Law of the PRC (《中華人民共和國銀行業監督管理法》), which was promulgated by the 6th meeting of the Standing Committee of the 10th National People’s Congress on December 27, 2003 and became effective on February 1, 2004, as amended, supplemented or otherwise modified from time to time
“PRC Commercial Banking Law”	the Commercial Banking Law of the PRC (《中華人民共和國商業銀行法》), which was promulgated by the 13th meeting of the Standing Committee of the 8th National People’s Congress on May 10, 1995 and became effective on July 1, 1995, as amended, supplemented or otherwise modified from time to time
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as amended and adopted by the Standing Committee of the 10th National People’s Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time

Chapter 1 Definitions

“PRC GAAP”	the PRC Accounting Standards for Business Enterprises (中國企業會計準則) promulgated by MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
“PRC PBoC Law”	the Law of the People’s Bank of China of the PRC (《中華人民共和國中國人民銀行法》), as enacted by the 3rd meeting of the Standing Committee of the 8th National People’s Congress on March 18, 1995, became effective on the same date, as amended, supplemented or otherwise modified from time to time
“provincial city commercial bank(s)”	local city commercial bank(s), whose establishment was promoted by the provincial government
“related party(ies)”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》) promulgated by the CBIRC, the PRC GAAP and/or IFRS
“related party transaction(s)”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders promulgated by the CBIRC, the PRC GAAP and/or IFRS
“Reporting Period”	the six months ended June 30, 2019 (namely from January 1, 2019 to June 30, 2019)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each
“SOE(s)”	state-owned enterprise(s)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Supervisor(s)”	the supervisor(s) of the Bank

“three rurals”	rural areas, agriculture and farmers
“U.N.”	United Nations
“United States” or “U.S.”	the United States of America
“US\$”, “USD” or “U.S. dollar(s)”	U.S. dollars, the lawful currency of the United States of America
“we”, “us”, “our”, “Group” or “our Group”	the Bank and its subsidiary on a consolidated basis

In this interim report:

- *Certain amounts and percentage figures included in this interim report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*
- *Unless the context otherwise requires, the terms “associate(s)”, “close associate(s)”, “connected person(s)”, “connected transaction(s)”, “core connected person(s)” and “substantial shareholder(s)” have the meanings given to such terms in the Hong Kong Listing Rules.*
- *For the ease of reference, in this interim report, unless otherwise indicated, the terms “gross loans and advances to customers”, “loans” and “grant of loans” are used synonymously.*
- *If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.*

Chapter 2 Company Profile

I. BASIC INFORMATION OF THE COMPANY

Legal Name of the Company in Chinese	:	甘肅銀行股份有限公司
Legal Name of the Company in English	:	Bank of Gansu Co., Ltd.
Legal Representative	:	Liu Qing
Authorized Representatives	:	Liu Qing, Fok Po Yi
Secretary to the Board of Directors	:	Hao Jumei
Company Secretary	:	Fok Po Yi
Registered Address	:	No. 122, Gannan Road, Chengguan District, Lanzhou City, Gansu Province, the PRC
Principal Office Address	:	Gansu Bank Building, 525 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC
Customer Service Hotline	:	+86 400-86 96666
Telephone	:	+86 931 877 0491
Facsimile	:	+86 931 877 1877
Website of the Bank	:	www.gsbankchina.com
Principal Place of Business in Hong Kong	:	40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong
H Share Information Disclosure Website	:	www.hkexnews.hk
Stock Listing Place, Stock Short Name and Stock Code	:	The Stock Exchange of Hong Kong Limited, BANK OF GANSU, 2139
H Share Registrar	:	Computershare Hong Kong Investor Services Limited
PRC Legal Adviser	:	Grandall Law Firm (Shanghai)
Hong Kong Legal Adviser	:	Latham & Watkins LLP
Domestic Auditor	:	Shinewing Certified Public Accountants LLP

International Auditor	:	SHINEWING (HK) CPA Limited
Compliance Advisor	:	Guotai Junan Capital Limited
Place of Inspection of the Interim Report	:	Office of the Board of the Bank

II. HISTORY OF THE BANK

In light of the lack of provincial city commercial banks in Gansu province and in order to promote the economic development of Gansu province, the People's Government of Gansu Province decided to establish a provincial city commercial bank by building on the foundations of Baiyin City Commercial Bank and Pingliang City Commercial Bank. Therefore, on May 30, 2011, 25 legal entities (including large and medium-sized SOEs in Gansu province and private enterprises in and outside Gansu province) and representatives of all shareholders of both Baiyin City Commercial Bank and Pingliang City Commercial Bank jointly entered into a promoters agreement in respect of Dunhuang Bank Co., Ltd. (敦煌銀行股份有限公司). Pursuant to the agreement, the 25 legal entities contributed cash and all shareholders of both Baiyin City Commercial Bank and Pingliang City Commercial Bank contributed the appraised net assets of Baiyin City Commercial Bank and Pingliang City Commercial Bank, respectively, to jointly incorporate Dunhuang Bank Co., Ltd.. On August 24, 2011, the General Office of the People's Government of Gansu Province approved the change to the name of the Bank to be incorporated from the former "Dunhuang Bank Co., Ltd." to "Bank of Gansu Co., Ltd.". On September 27, 2011, the CBIRC approved the establishment of the Bank. On November 18, 2011, the CBRC Gansu Office approved the commencement of business of the Bank and the conversion of Baiyin City Commercial Bank, Pingliang City Commercial Bank and their branches and sub-branches into Baiyin Branch, Pingliang Branch and its sub-branches. On the same day, the Bank was granted the enterprise business license by the Administration for Industry and Commerce of Gansu Province and was formally incorporated under the PRC Company Law. The Bank is the only provincial city commercial bank in Gansu province.

The registered address of the Bank is No. 122, Gannan Road, Chengguan District, Lanzhou City, Gansu Province, the PRC. The Bank has established a principal place of business in Hong Kong at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong and was registered as a non-Hong Kong company on June 28, 2017 under Part XVI of the Companies Ordinance. The Bank appointed Ms. Fok Po Yi as the Bank's authorized representative for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Bank in Hong Kong is the same as the Bank's principal place of business in Hong Kong.

As the Bank was established in the PRC, the Bank's corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. The Bank carries on banking business in the PRC under the supervision and regulation of the CBIRC and the PBoC. The Bank is not an authorized institution within the meaning of the Banking Ordinance, and is not subject to the supervision of the HKMA, nor authorized to carry on banking and/or deposit-taking business in Hong Kong.

The Bank's H Shares were listed on the Main Board of the Hong Kong Stock Exchange on January 18, 2018.

Chapter 2 Company Profile

III. AWARDS OF THE BANK IN THE FIRST HALF YEAR OF 2019

Awards and Honors	Awarding Parties/Media
Ranked 321st among Top 1,000 World Banks in 2019 (49th among Chinese banks)	The Banker Magazine
Ranked 330th among Top 500 Banking Brands in 2019 (39th among domestic banks)	The Banker Magazine, Brand Finance
An overall ranking of No. 9th among city commercial banks with assets over RMB200 billion based on the "GYROSCOPE" evaluation by China Banking Association in 2018	China Banking Association
Ranked 31st among the Top 50 New Prominent Companies in the 2019 Brand Value List of Chinese Listed Companies	China Business Research Center, School of Economics and Management, Tsinghua University
Ranked 628th by assets scale and 1,387th by profit and an overall ranking of 1,430th on the list of 2019 Forbes Global 2000	Forbes
2019 China Financial Market Award-Best Corporate Governance Award (2019年中國融資大獎最佳企業管治獎)	China Financial Market
2019 China Financial Market Award-Best Sustainability Report Award (2019年中國融資大獎最佳可持續發展報告獎)	China Financial Market
2018 Top 300 Dealers in the Interbank RMB Market	National Interbank Funding Centre

Chapter 3 Financial Highlights

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)	Year ended December 31, 2018
	2019	2018		
Results of operations				
Interest income	7,278.3	7,546.8	(3.6)	15,327.1
Interest expense	(4,406.1)	(3,889.2)	13.3	(8,199.3)
Net interest income	2,872.2	3,657.6	(21.5)	7,127.8
Fee and commission income	158.7	193.2	(17.9)	362.7
Fee and commission expenses	(45.4)	(65.4)	(30.6)	(196.6)
Net fee and commission income	113.3	127.8	(11.3)	166.1
Net trading gains	852.6	434.7	96.1	1,089.2
Net gains arising from investment securities	15.5	2.5	520.0	42.7
Net exchange gains	8.5	168.9	(95.0)	388.2
Other operating (expense)/income, net	(4.2)	11.5	(136.5)	58.2
Operating income	3,857.9	4,403.0	(12.4)	8,872.2
Operating expenses	(941.6)	(987.3)	(4.6)	(2,271.0)
Impairment losses on assets, net of reversals	(2,289.7)	(472.6)	384.5	(1,962.4)
Operating profit	626.6	2,943.1	(78.7)	4,638.8
Share of (loss)/profit of an associate	(2.3)	0.8	(387.5)	(1.0)
Profit before tax	624.3	2,943.9	(78.8)	4,637.8
Income tax expense	(106.0)	(733.5)	(85.5)	(1,198.2)
Profit for the period/year	518.3	2,210.4	(76.6)	3,439.6
Profit for the period/year attributable to:				
– Owners of the Bank	513.7	2,211.4	(76.8)	3,435.3
– Non-controlling interests	4.6	(1.0)	(560.0)	4.3
Profit for the period/year	518.3	2,210.4	(76.6)	3,439.6
Basic earnings per share (RMB)	0.05	0.22	(77.3)	0.35
Diluted earnings per share (RMB)	0.05	0.22	(77.3)	0.35

* The interim financial data of the Bank have not been audited.

Chapter 3 Financial Highlights

(Expressed in millions of RMB, unless otherwise stated)	As at June 30, 2019	As at December 31, 2018	Percentage change (%)	
Major indicators of assets/liabilities				
Total assets	342,791.3	328,622.4	4.3	
Of which: total loans and advances to customers	170,826.1	160,885.3	6.2	
Total liabilities	318,082.6	303,374.8	4.8	
Of which: deposits from customers	235,622.9	210,723.3	11.8	
Total equity	24,708.7	25,247.6	(2.1)	
Profitability indicators				
	2019 (%)	2018 (%)	Percentage change (%)	
Return on assets ⁽¹⁾⁽¹⁴⁾	0.31	1.51	(79.5)	
Return on equity ⁽²⁾⁽¹⁴⁾	4.15	21.87	(81.0)	
Net interest spread ⁽³⁾⁽¹⁴⁾	2.02	2.27	(11.0)	
Net interest margin ⁽⁴⁾⁽¹⁴⁾	2.10	2.50	(16.0)	
Net fee and commission income to operating income ratio ⁽⁵⁾	2.90	2.90	0.0	
Cost-to-income ratio ⁽⁶⁾	23.40	21.61	8.3	
Capital adequacy indicators				
	As at June 30, 2019 (%)	As at December 31, 2018 (%)	Percentage Change (%)	As at June 30, 2018 (%)
Core tier-one capital adequacy ratio ⁽⁷⁾	10.27	11.01	(6.7)	10.93
Tier-one capital adequacy ratio ⁽⁸⁾	10.27	11.01	(6.7)	10.93
Capital adequacy ratio ⁽⁹⁾	12.24	13.55	(9.7)	13.55
Shareholders' equity to total assets ratio	7.21	7.68	(6.1)	7.60
Assets quality indicators				
Non-performing loan ratio	2.97	2.29	29.69	1.74
Provision coverage ratio ⁽¹⁰⁾	129.60	169.47	(23.53)	194.13
Provision to total loan ratio ⁽¹¹⁾⁽¹²⁾	3.84	3.89	(2.31)	3.38
Other indicators				
Loan to deposit ratio ⁽¹³⁾	72.50	76.35	(5.04)	75.73

Notes:

- ⁽¹⁾ Calculated by dividing the net profit for a period by the average balance of total assets at the beginning and the end of that period.
- ⁽²⁾ Calculated by dividing the net profit for a period by the average balance of total equity at the beginning and the end of that period.
- ⁽³⁾ Represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- ⁽⁴⁾ Calculated by dividing net interest income by average interest-earning assets.
- ⁽⁵⁾ Calculated by dividing net fee and commission income by operating income.
- ⁽⁶⁾ Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.
- ⁽⁷⁾ Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions)/risk-weighted assets.
- ⁽⁸⁾ Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions)/risk-weighted assets.
- ⁽⁹⁾ Capital adequacy ratio = (total capital – corresponding capital deductions)/risk-weighted assets.
- ⁽¹⁰⁾ Provision coverage ratio = provision for impairment losses on loans/total non-performing loans and advances.
- ⁽¹¹⁾ Provision to total loan ratio = provision for impairment losses on loans/total loans and advances to customers.
- ⁽¹²⁾ In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank is required to maintain a minimum provision to total loan ratio of 2.5% by December 31, 2018.
- ⁽¹³⁾ Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for PRC commercial banks under the amended PRC Commercial Banking Law, which became effective on October 1, 2015.
- ⁽¹⁴⁾ The ratio for the six months ended June 30, 2018 and 2019, respectively, is calculated on an annual basis.

Chapter 4 Management Discussion and Analysis

1. ENVIRONMENT AND PROSPECT

Since this year, China's economy has been under increasing downward pressure amid an international context marked by sluggish recovery of the global economy, ongoing economic and trade tensions, and increased spillover effects of the policies adopted by developed economies. In the first half of 2019, China's economic operation remained generally stable, but showed weakening signs. Under the impacts of the prolonged trade war between China and the United States and the continuity of China's economic downward cycle, the deviation of finance from economy has become normal, with risks of a real economy continuously emerging. In the first half of the year, China's GDP amounted to RMB45,093.3 billion, representing a year-on-year increase of 6.3%. By industries, the primary industry increased by RMB2,320.7 billion or 3.0% year on year; the secondary industry increased by RMB17,998.4 billion or 5.8% year on year; and the tertiary industry increased by RMB24,774.3 billion or 7.0% year on year. The nationwide per capita disposable income of residents was RMB15,294, up by 6.5% year on year in real terms; the total retail sales of consumer goods reached RMB19,521 billion, up by 6.7% year on year in real terms; and investment in fixed assets across the country (excluding rural households) amounted to RMB29,910 billion, up by 5.8% year on year.

In the first half of 2019, Gansu's government adhered to the underlying principle of seeking progress while maintaining stability and remained committed to the new development philosophy, steadfastly pursuing high-quality development and making all-out efforts to maintain stable growth, advance reform, make structural adjustments, improve living standards, guard against risks, and ensure stability. In the first half of the year, Gansu's GDP amounted to RMB377.18 billion, representing a year-on-year increase of 6.0%. By industries, the primary industry increased by RMB24.38 billion or 5.6% year on year; the secondary industry increased by RMB125.13 billion or 5.2% year on year; and the tertiary industry increased by RMB227.67 billion or 6.5% year on year. As at the end of June 2019, the balances of RMB-denominated and foreign currency-denominated deposits and RMB-denominated and foreign currency-denominated loans of financial institutions across the province were RMB1,996.36 billion and RMB2,038.40 billion, respectively, representing a year-on-year increase of 7.6% and 8.0%, respectively.

Since 2019, the banking industry has advanced ahead steadily amid the complicated economic and financial environments at home and abroad, achieving favorable results. However, with intensifying dislocation of global economic policies, increasing geopolitics and rising trade protectionism, the insufficient demand in the domestic economy emerged, and risks continued to increase. The market environment faced by commercial banks has been undergoing profound changes and adjustments. Due to the increase in leverage ratio of real enterprises, the risk exposure of small and medium-sized banks increased, making it more difficult to prevent and resolve systemic risks.

In 2019, focusing on the seven themes of "development, risk elimination, characteristics, reform, compliance, implementation and learning", the Bank adhered to the general work principle of "solving problems through promoting development and achieving better development by solving problems", and made coordinated efforts to stabilize growth, cut non-performing assets, adjust structure, promote reform, solidify foundation and strengthen Party building in pursuit of high-quality development, thus achieving steady business expansion. In the second half of the year, the Bank will, with refreshed morale, make concerted efforts and take the initiative to implement the overall requirements of pursuing stable operations, compliance management and high-quality development. It will continue to consolidate its business foundation and adjust its asset structure, strive to reduce non-performing assets, intensify deposit-taking services marketing, increase income and reduce expenses and improve efficiency, so as to ensure the completion of the objectives set for the year.

2. DEVELOPMENT STRATEGY

Our vision is committed to building ourselves into a first class listed city commercial bank. To this end, the Bank will adhere to the principle of a customer-oriented business operation based on sustainable development, guarantee business safety with risk prevention, drive business growth through capability enhancement and consider serving the real economy as our mission. We will make steady progress while prioritising economic benefits and set off on a path that leads to “differentiated, comprehensive, refined and international” development.

To achieve the aforesaid goals, the Bank plans to: (i) advance internal reforms to optimize organizational structure and enhance the corporate governance standards and fundamental management capability of the Bank; (ii) develop mega retail business system to ensure the implementation of the retail transformation strategy; (iii) fully leverage domestic and overseas capital markets to expand capital replenishment channels and secure continuous capital replenishment; (iv) quicken its pace of integrated operation by actively applying for various business licenses in order to enhance its ability to provide comprehensive services; (v) promote the application of Fintech and cross-sector cooperation to expand its service coverage; (vi) optimize its business and management process and improve refined management standards towards the direction of building a refined management system; (vii) adapt to new norms for regulation, hold onto the bottom line of risks and effectively strengthen quality control of assets; (viii) explore new business growth models by leveraging the larger international platform available to the Bank after the listing of its H Shares; and (ix) adhere to talent cultivation with continuous promotion in team cohesion.

3. OVERALL BUSINESS REVIEW

The Bank’s total operating income was RMB3,857.9 million for the six months ended June 30, 2019, representing a decrease of 12.4% as compared with RMB4,403.0 million for the six months ended June 30, 2018. The Bank’s net profit decreased by 76.6% from RMB2,210.4 million for the six months ended June 30, 2018 to RMB518.3 million for the six months ended June 30, 2019. The year-on-year decrease in the Bank’s operating income was mainly attributable to the intensive market competitiveness and the rise of capital cost; the year-on-year decrease in net profit was mainly attributable to the decline of assets quality and the increased provisions for credit impairment loss.

As at June 30, 2019, the Bank’s total assets amounted to RMB342,791.3 million, representing an increase of 4.3% as compared with the end of 2018; total loans and advances to customers amounted to RMB170,826.1 million, representing an increase of 6.2% as compared with the end of 2018; the non-performing loan ratio was 2.97%, representing an increase as compared with the beginning of 2019, mainly due to loans and advances more than 90 days past due included in non-performing loans; total deposits from customers amounted to RMB235,622.9 million, representing an increase of 11.8% as compared with the corresponding period of 2018.

Chapter 4 Management Discussion and Analysis

(a) Analysis of the Consolidated Statements of Profit or Loss

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019	2018	Increase or decrease	Percentage change (%)
Interest income	7,278.3	7,546.8	(268.5)	(3.6)
Interest expense	(4,406.1)	(3,889.2)	(516.9)	13.3
Net interest income	2,872.2	3,657.6	(785.4)	(21.5)
Fee and commission income	158.7	193.2	(34.5)	(17.9)
Fee and commission expenses	(45.4)	(65.4)	20.0	(30.6)
Net fee and commission income	113.3	127.8	(14.5)	(11.3)
Net trading gains	852.6	434.7	417.9	96.1
Net gains arising from investment securities	15.5	2.5	13.0	520.0
Net exchange gains	8.5	168.9	(160.4)	(95.0)
Other operating (expense)/income, net	(4.2)	11.5	(15.7)	(136.5)
Operating income	3,857.9	4,403.0	(545.1)	(12.4)
Operating expenses	(941.6)	(987.3)	45.7	(4.6)
Impairment losses on assets, net of reversals	(2,289.7)	(472.6)	(1,817.1)	384.5
Operating profit	626.6	2,943.1	(2,316.5)	(78.7)
Share of (loss)/profit of an associate	(2.3)	0.8	(3.1)	(387.5)
Profit before tax	624.3	2,943.9	(2,319.6)	(78.8)
Income tax expense	(106.0)	(733.5)	627.5	(85.5)
Profit for the period	518.3	2,210.4	(1,692.1)	(76.6)
Profit for the period attributable to:				
– Owners of the Bank	513.7	2,211.4	(1,697.7)	(76.8)
– Non-controlling interests	4.6	(1.0)	5.6	(560.0)
	518.3	2,210.4	(1,692.1)	(76.6)

For the first half of 2019, the Bank's profit before tax was RMB624.3 million, representing a year-on-year decrease of 78.8%; profit for the period was RMB518.3 million, representing a year-on-year decrease of 76.6%, mainly attributable to the increased provisions for credit impairment loss resulting from the decline of assets quality and the rise of capital cost caused by the intensive market competitiveness.

Chapter 4 Management Discussion and Analysis

(i) Net interest income

The net interest income was the largest component of the Bank's operating revenue, accounting for 83.1% and 74.4% of the operating income for the six months ended June 30, 2018 and 2019 respectively. The table below sets forth the Bank's interest income, interest expenses and net interest income for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			Percentage change (%)
	2019	2018	Increase or decrease	
Interest income	7,278.3	7,546.8	(268.5)	(3.6)
Interest expenses	(4,406.1)	(3,889.2)	(516.9)	13.3
Net interest income	2,872.2	3,657.6	(785.4)	(21.5)

The table below sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expenses and the average yield of related assets or average cost of related liabilities of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)
Interest-earning assets						
Loans and advances to customers	165,709.5	5,059.8	6.11	137,175.1	4,698.9	6.85
Investment securities and other financial assets ⁽³⁾	86,478.9	1,970.2	4.56	84,955.4	1,892.5	4.46
Deposits with banks	9,606.9	167.0	3.48	30,270.8	534.2	3.53
Financial assets held under resale agreements and placements with banks and other financial institutions	18,975.8	234.2	2.47	11,515.9	206.3	3.58
Deposits with the central bank ⁽⁴⁾	25,585.4	196.0	1.53	28,276.9	214.9	1.52
Total interest-earning assets	306,356.5	7,627.2	4.98	292,194.1	7,546.8	5.17
Interest-bearing liabilities						
Deposits from customers	221,963.2	3,109.8	2.80	187,177.4	1,978.9	2.11
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	14,150.8	160.4	2.27	11,492.1	230.1	4.00
Debt securities issued ⁽⁵⁾	42,045.1	822.2	3.91	30,301.7	754.6	4.98
Deposits from banks and other financial institutions	12,157.9	176.8	2.91	32,273.1	804.7	4.99
Borrowings from the central bank	7,585.0	136.9	3.61	6,643.4	120.9	3.64
Total interest-bearing liabilities	297,902.0	4,406.1	2.96	267,887.7	3,889.2	2.90

Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)
Net interest income	-	3,221.1	-	-	3,657.6	-
Net interest spread ⁽⁶⁾	-	-	2.02	-	-	2.27
Net interest margin ⁽⁷⁾	-	-	2.10	-	-	2.50

Notes:

- (1) The average balances of interest-earning assets and interest-bearing liabilities are derived from the unaudited management accounts of the Bank.
- (2) Calculated by dividing interest income/expense by average balance.
- (3) Primarily includes financial assets at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss. Interest income includes the interest income calculated in net trading gains of financial assets at fair value through profit or loss.
- (4) Primarily includes statutory deposit reserves, surplus deposit reserves and fiscal deposits reserves.
- (5) Primarily includes interbank certificates and tier-two capital bonds.
- (6) Represents the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.
- (7) Calculated by dividing net interest income by the average balance of interest-earning assets.

The table below sets forth the changes in interest income and interest expense attributable to changes in amount and interest rate for the periods indicated. Changes in amount are measured by changes in average balances, and changes in rate are measured by changes in average interest rates. Changes caused by both amount and interest rate have been allocated to changes in amount.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2019 vs 2018		
	Amount ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-earning assets			
Loans and advances to customers	871.7	(507.5)	360.9
Investment securities and other financial assets	34.7	42.5	77.7
Deposits with banks	(359.6)	(7.6)	(367.2)
Financial assets held under resale agreements and placements with banks and other financial institutions	92.1	(63.9)	27.9
Deposits with the central bank	(20.6)	1.4	(18.9)
Change in interest income	352.6	(277.6)	80.4

Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2019 vs 2018 Increase/(decrease) due to		
	Amount ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-bearing liabilities			
Deposits from customers	487.0	645.8	1,130.9
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	30.2	(99.4)	(69.7)
Debt securities issued	229.6	(162.1)	67.6
Deposits from banks and other financial institutions	(292.7)	(335.6)	(627.9)
Borrowings from the central bank	17.0	(1.0)	16.0
Change in interest expense	444.2	80.4	516.9
Change in net interest income	(91.6)	(358.0)	(436.5)

Notes:

- ⁽¹⁾ Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for the period.
- ⁽²⁾ Represents the average yield/cost for the period minus the average yield/cost for the previous period, multiplied by the average balance for the previous period.
- ⁽³⁾ Represents interest income/expense for the period minus interest income/expense for the previous period.

(ii) **Interest income**

The table below sets forth the principal components of interest income of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Loans and advances to customers	5,059.8	66.3	4,698.9	62.3
Investment securities and other financial assets ⁽¹⁾	1,970.2	25.8	1,892.5	25.1
Deposits with banks	167.0	2.2	534.2	7.1
Financial assets held under resale agreements and placements with banks and other financial institutions	234.2	3.1	206.3	2.7
Deposits with the central bank	196.0	2.6	214.9	2.8
Total	7,627.2	100.0	7,546.8	100.0

Chapter 4 Management Discussion and Analysis

Note:

⁽¹⁾ Interest income included the interest income calculated in net trading gains of financial assets at fair value through profit or loss.

Interest income increased by 1.1% from RMB7,546.8 million for the six months ended June 30, 2018 to RMB7,627.2 million for the six months ended June 30, 2019, primarily in line with the growth of our business. The increase in the average balance of interest-earning assets was in line with the growth of our business. The decrease in the average yield of interest-earning assets was primarily due to the fall of the interest rate of loans and advances to customers as a result of the intensive market competitiveness.

(A) Interest income from loans and advances to customers

Interest income from loans and advances to customers represented 62.3% and 66.3% of total interest income for the six months ended June 30, 2018 and 2019, respectively. The table below sets forth the average balance, interest income and average yield of loans and advances to customers of the Bank by product for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,					
	Average balance ⁽¹⁾	2019 Interest income	Average yield (%)	Average balance ⁽¹⁾	2018 Interest income	Average yield (%)
Corporate loans	111,578.4	3,583.8	6.42	100,181.0	3,417.4	6.82
Retail loans	29,770.4	942.0	6.33	19,073.0	743.3	7.79
Discounted bills	24,360.7	534.0	4.38	17,921.1	538.2	6.01
Total loans and advances to customers	165,709.5	5,059.8	6.11	137,175.1	4,698.9	6.85

Note:

⁽¹⁾ Represents the average of daily balances based on the unaudited management accounts of the Bank.

(B) Interest income from investment securities and other financial assets

Interest income from investment securities and other financial assets increased by 4.1% from RMB1,892.5 million for the six months ended June 30, 2018 to RMB1,970.2 million for the six months ended June 30, 2019, primarily due to a 1.8% increase in the average balance of investment securities and other financial assets, from RMB84,955.4 million for the six months ended June 30, 2018 to RMB86,478.9 million for the six months ended June 30, 2019, as well as an increase in the average yield of investment securities and other financial assets, from 4.46% for the six months ended June 30, 2018 to 4.56% for the six months ended June 30, 2019. The increase in average balance mainly reflected the Bank's increased investment in financial assets to diversify investment portfolio of the Bank. The average yield is relatively stable.

Chapter 4 Management Discussion and Analysis

(C) Interest income from deposits with banks

Interest income from deposits with banks decreased by 68.7% from RMB534.2 million for the six months ended June 30, 2018 to RMB167.0 million for the six months ended June 30, 2019, primarily due to a 68.3% decrease in the average balance of deposits with banks, from RMB30,270.8 million for the six months ended June 30, 2018 to RMB9,606.9 million for the six months ended June 30, 2019, and a decrease in the average yield of deposits with banks, from 3.53% for the six months ended June 30, 2018 to 3.48% for the six months ended June 30, 2019. The decrease in average balance was due to the decreased investments of the Bank in deposits with banks based on changes in interbank money market interest rates. The decrease in average yield was primarily due to lower market interest rates, which in turn resulted in a decrease in returns from deposits with banks.

(D) Interest income from financial assets held under resale agreements and placements with banks and other financial institutions

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 13.5% from RMB206.3 million for the six months ended June 30, 2018 to RMB234.2 million for the six months ended June 30, 2019, primarily due to a 64.8% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB11,515.9 million for the six months ended June 30, 2018 to RMB18,975.8 million for the six months ended June 30, 2019, and a decrease in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 3.58% for the six months ended June 30, 2018 to 2.47% for the six months ended June 30, 2019. The increase in average balance was primarily due to our increased investment in financial assets held under resale agreements and placements with banks and other financial institutions based on the changes in market interest rates and liquidity factors. The decrease in average yield was primarily due to lower market interest rates, which in turn resulted in a decrease of gain from financial assets held under resale agreements and placements with banks and other financial institutions.

(E) Interest income from deposits with the central bank

Interest income from deposits with the central bank decreased by 8.8% from RMB214.9 million for the six months ended June 30, 2018 to RMB196.0 million for the six months ended June 30, 2019, primarily due to a 9.5% decrease in the average balance of deposits with the central bank, from RMB28,276.9 million for the six months ended June 30, 2018 to RMB25,585.4 million for the six months ended June 30, 2019. The decrease in average balance was primarily due to the decrease of required deposit reserve ratio.

Chapter 4 Management Discussion and Analysis

(iii) Interest expense

The table below sets forth the principal components of interest expense of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	3,109.8	70.6	1,978.9	50.9
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	160.4	3.6	230.1	5.9
Debt securities issued	822.2	18.7	754.6	19.4
Deposits from banks and other financial institutions	176.8	4.0	804.7	20.7
Borrowings from the central bank	136.9	3.1	120.9	3.1
Total	4,406.1	100.0	3,889.2	100.0

Interest expense increased by 13.3% from RMB3,889.2 million for the six months ended June 30, 2018 to RMB4,406.1 million for the six months ended June 30, 2019, primarily due to a 11.2% increase in the average balance of interest-bearing liabilities, from RMB267,887.7 million for the six months ended June 30, 2018 to RMB297,902.0 million for the six months ended June 30, 2019, and an increase in the average cost of interest-bearing liabilities, from 2.90% for the six months ended June 30, 2018 to 2.96% for the six months ended June 30, 2019. The increase in the average balance of interest-bearing liabilities was primarily due to the increase of deposits from customers, debt securities issued and reverse repurchase transactions. The increase in the average cost of interest-bearing liabilities was primarily due to the increase of market interest rates.

(A) Interest expense on deposits from customers

Interest expense on deposits from customers increased by 57.1% from RMB1,978.9 million for the six months ended June 30, 2018 to RMB3,109.8 million for the six months ended June 30, 2019, primarily due to a 18.6% increase in the average balance of deposits from customers, from RMB187,177.4 million for the six months ended June 30, 2018 to RMB221,963.2 million for the six months ended June 30, 2019, as well as an increase in the average cost of deposits from customers, from 2.11% for the six months ended June 30, 2018 to 2.80% for the six months ended June 30, 2019. The increase in the average cost of deposits from customers was primarily due to the rise of market interest rates.

Chapter 4 Management Discussion and Analysis

(B) Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions decreased by 30.3% from RMB230.1 million for the six months ended June 30, 2018 to RMB160.4 million for the six months ended June 30, 2019, primarily due to a 23.1% increase in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB11,492.1 million for the six months ended June 30, 2018 to RMB14,150.8 million for the six months ended June 30, 2019, and a decrease in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 4.00% for the six months ended June 30, 2018 to 2.27% for the six months ended June 30, 2019. The increase in average balance was primarily because the Bank entered into more reverse repurchase transactions, which diversified financing channels of the Bank. The decrease in average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to the decrease of interest rates of financial assets sold under repurchase agreements and placements from banks and other financial institutions in the market.

(C) Interest expense on debt securities issued

Interest expense on debt securities issued increased by 9.0% from RMB754.6 million for the six months ended June 30, 2018 to RMB822.2 million for the six months ended June 30, 2019, primarily due to a 38.8% increase in the average balance of debt securities issued, from RMB30,301.7 million for the six months ended June 30, 2018 to RMB42,045.1 million for the six months ended June 30, 2019 and a decrease in the average cost of debt securities issued, from 4.98% for the six months ended June 30, 2018 to 3.91% for the six months ended June 30, 2019. The increase in average balance was primarily due to the issuance of interbank certificates. The decrease in average cost of debt securities issued was primarily due to the lower interest rates of interbank certificates newly issued, which pulled down the overall average cost of debt securities issued.

(D) Interest expense on deposits from banks and other financial institutions

Interest expense on deposits from banks and other financial institutions decreased by 78.0% from RMB804.7 million for the six months ended June 30, 2018 to RMB176.8 million for the six months ended June 30, 2019, primarily due to a 62.3% decrease in the average balance of deposits from banks and other financial institutions, from RMB32,273.1 million for the six months ended June 30, 2018 to RMB12,157.9 million for the six months ended June 30, 2019, primarily because fund raising through deposits from banks and other financial institutions was reduced as a result of increased deposits from customers and our issuance of interbank certificates. For the six months ended June 30, 2018 and 2019, due to the decrease of interest rates of deposits from banks and other financial institutions, the average cost of deposits from banks and other financial institutions decreased from 4.99% to 2.91%.

(E) Interest expense on borrowings from the central bank

Interest expense on borrowings from the central bank increased by 13.2% from RMB120.9 million for the six months ended June 30, 2018 to RMB136.9 million for the six months ended June 30, 2019, primarily due to a 14.2% increase in the average balance of borrowings from the central bank, from RMB6,643.4 million for the six months ended June 30, 2018 to RMB7,585.0 million for the six months ended June 30, 2019, primarily due to the additional borrowings from the central bank applied by the Bank. The average cost of borrowings from the central bank decreased from 3.64% to 3.61% for the six months ended June 30, 2018 and 2019, remaining at a stable level.

Chapter 4 Management Discussion and Analysis

(iv) Net interest spread and net interest margin

Net interest spread decreased from 2.27% for the six months ended June 30, 2018 to 2.02% for the six months ended June 30, 2019, primarily due to a decrease in average yield of total interest-earning assets, from 5.17% to 4.98%, primarily due to the decrease of interest rates of loans and advances. The average cost of total interest-bearing liabilities increased from 2.90% to 2.96%, primarily due to the higher market interest rates of deposits from customers.

Net interest margin decreased from 2.50% for the six months ended June 30, 2018 to 2.10% for the six months ended June 30, 2019, primarily attributable to the growth in the daily average balance of interest-earning assets, and the growth outpaced that of the net interest income.

(v) Non-interest income

(A) Net fee and commission income

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019	2018	Increase or decrease	Percentage change (%)
Fee and commission income				
Wealth management service fees	17.7	26.3	(8.6)	(32.7)
Agency service fees	83.6	95.9	(12.3)	(12.8)
Settlement and clearing fees	36.1	45.2	(9.1)	(20.1)
Bank acceptance bill service fees	10.3	12.2	(1.9)	(15.6)
Letters of guarantee fees	0.3	0.1	0.2	200.0
Others ⁽¹⁾	10.7	13.5	(2.8)	(20.7)
Subtotal	158.7	193.2	(34.5)	(17.9)
Fee and commission expenses	(45.4)	(65.4)	20.0	(30.6)
Net fee and commission income	113.3	127.8	(14.5)	(11.3)

Note:

⁽¹⁾ Primarily include guarantee fees and advisory service income.

Chapter 4 Management Discussion and Analysis

Net fee and commission income decreased by 11.3% from RMB127.8 million for the six months ended June 30, 2018 to RMB113.3 million for the six months ended June 30, 2019, primarily due to the decrease of agency and settlement services fees as a result of the decreased agency and settlement services provided by the Bank as affected by the economic downturn.

Fee and commission expenses mainly included settlement and clearing fees paid to third parties and debit card service fees. Fee and commission expenses decreased by 30.6% from RMB65.4 million for the six months ended June 30, 2018 to RMB45.4 million for the six months ended June 30, 2019, primarily due to the decrease of fee and commission expenses as a result of the decreased intermediary business provided as affected by the economic downturn.

(B) Net trading gains

Net trading gains primarily included gains from selling, and the fair value changes of, financial assets held for trading. The Bank had net gains of RMB434.7 million for the six months ended June 30, 2018 and net gains of RMB852.6 million for the six months ended June 30, 2019. The increase was primarily due to the increase in trading volume of financial assets held for trading during the period, which made the gains increase as compared with the same period of last year.

(C) Net gains arising from investment securities

The net gains arising from investment securities and other financial assets included net gains arising from selling investment securities and other financial assets and revaluation gains arising from the reclassification of other comprehensive income to gains or losses upon the disposal of assets. The Bank had net gains arising from investment securities and other financial assets of RMB2.5 million for the six months ended June 30, 2018, and RMB15.5 million for the six months ended June 30, 2019.

(D) Net exchange gains

Net exchange gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. The Bank had net exchange gains of RMB168.9 million for the six months ended June 30, 2018 and net exchange gains of RMB8.5 million for the six months ended June 30, 2019. The decrease was primarily due to the year-on-year decrease in assets denominated in foreign currencies, which affected the net exchange gains or losses.

(E) Other operating (expense)/income

Other operating (expense)/income mainly included net amount of government subsidies and the short-term leasing and disposal income from fixed assets and mortgaged assets after deducting non-operating expenses. For the six months ended June 30, 2018, other operating income of the Bank amounted to RMB11.5 million. For the six months ended June 30, 2019, the Bank recorded other operating expense of RMB4.2 million. The decrease was mainly due to the larger operating expenses, which led to the other operating loss for the period.

(vi) Operating expenses

Operating expenses decreased by 4.6% from RMB987.3 million for the six months ended June 30, 2018 to RMB941.6 million for the six months ended June 30, 2019. The decrease was mainly due to the decrease of performance-linked remuneration resulting from the decline of assets quality. The table below sets forth the principal components of operating expense of the Bank for the periods indicated.

Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019	2018	Increase or decrease	Percentage change (%)
Staff costs	480.5	565.9	(85.4)	(15.1)
Property and equipment expenses	266.1	243.7	22.4	9.2
General management and administrative expenses	157.4	141.7	15.7	11.1
Business tax and surcharge	37.6	36.0	1.6	4.4
Total	941.6	987.3	(45.7)	(4.6)
Cost-to-income ratio⁽¹⁾(%)	23.43	21.61	1.79	8.28

Note:

⁽¹⁾ Calculated by dividing total operating expenses (net of business tax and surcharge) by total operating income.

(A) Staff costs

The table below sets forth the components of staff cost for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019	2018	Increase or decrease	Percentage change (%)
Salaries and bonuses	346.3	449.8	(103.5)	(23.0)
Social insurance	79.3	70.6	8.7	12.3
Housing allowances	32.0	27.3	4.7	17.2
Labour union and staff education expenses	10.0	8.8	1.2	13.6
Staff welfares	11.9	9.0	2.9	32.2
Others	1.0	0.4	0.6	150.0
Total staff costs	480.5	565.9	(85.4)	(15.1)

Staff costs decreased by 15.1% from RMB565.9 million for the six months ended June 30, 2018 to RMB480.5 million for the six months ended June 30, 2019. The decrease in staff costs primarily reflected the decline of assets quality and the decrease of performance-linked remuneration.

Chapter 4 Management Discussion and Analysis

(B) Property and equipment expenses

Property and equipment expenses increased by 9.2% from RMB243.7 million for the six months ended June 30, 2018 to RMB266.1 million for the six months ended June 30, 2019. The increase in property and equipment expenses mainly reflected the addition of property and equipment and the increase of depreciation and amortisation expenses.

(C) General management and administrative expenses

General management and administrative expenses primarily included business promotion fees, administrative fees, transportation fee and repair expenses. General management and administrative expenses increased by 11.1% from RMB141.7 million for the six months ended June 30, 2018 to RMB157.4 million for the six months ended June 30, 2019. The increase in the general management and administrative expenses mainly reflected the increases in businesses and expenses.

(D) Business tax and surcharges

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges of the Bank remained relatively stable, which were RMB36.0 million and RMB37.6 million for the six months ended June 30, 2018 and 2019, respectively.

(vii) Impairment losses on assets/credit

The table below sets forth the principal components of impairment losses on assets/credit for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019	2018	Increase or decrease	Percentage change (%)
Loans and advances to customers	2,165.4	492.0	1,673.4	340.1
Investment assets	130.5	(36.7)	167.2	(455.6)
Other assets	7.0	2.4	4.6	191.7
Impairment losses of acceptance bill & letter of guarantee	(13.2)	14.9	(28.1)	(188.6)
Total impairment losses on assets	2,289.7	472.6	1,817.1	384.5

Impairment losses on assets increased by 384.5% from RMB472.6 million for the six months ended June 30, 2018 to RMB2,289.7 million for the six months ended June 30, 2019 mainly due to increases in provisions for impairment of loans and advances to customers resulting from the decline of assets quality.

Credit impairment losses on loans and advances to customers increased by 340.1% from RMB492.0 million for the six months ended June 30, 2018 to RMB2,165.4 million for the six months ended June 30, 2019, mainly due to increase in provisions for impairment of loans and advances to customers resulting from the decline of assets quality.

Chapter 4 Management Discussion and Analysis

Credit impairment losses of investment assets decreased by 455.6% from reversal of RMB36.7 million for the six months ended June 30, 2018 to RMB130.5 million for the six months ended June 30, 2019, which was mainly due to provisions made by the Bank for impairment losses on the newly acquired investment assets for the period.

(viii) Income tax expense

Income tax expense decreased by 85.5% from RMB733.5 million for the six months ended June 30, 2018 to RMB106.0 million for the six months ended June 30, 2019. The decrease in income tax expense was mainly due to the decreases in the Bank's operating income and profit. Effective tax rates were 24.9% and 17.0% for the six months ended June 30, 2018 and 2019, respectively.

(b) Analysis of the Consolidated Statement of Financial Position

(i) Assets

As of June 30, 2019 and December 31, 2018, the total assets of the Bank were RMB342,791.3 million and RMB328,622.4 million, respectively. Major components of total assets include (i) loans and advances to customers; (ii) investment securities and other financial assets; (iii) deposits with banks; (iv) cash and deposits with the central bank; and (v) financial assets held under resale agreements. The table below sets forth the components of total assets as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Assets				
Loans and advances to customers, gross	170,826.1	49.8	160,885.3	49.0
Provision for impairment losses	(6,565.9)	(1.9)	(6,251.5)	(1.9)
Loans and advances to customers, net	164,260.2	47.9	154,633.9	47.1
Investment securities and other financial assets ⁽¹⁾	112,347.3	32.8	102,876.4	31.3
Deposits with banks	6,714.2	2.0	12,927.7	3.9
Cash and deposits with the central bank	30,028.8	8.8	31,536.9	9.6
Financial assets held under resale agreements	18,244.6	5.3	19,523.8	5.9
Other assets ⁽²⁾	11,196.2	3.2	7,123.7	2.2
Total assets	342,791.3	100.0	328,622.4	100.0

Notes:

⁽¹⁾ Include financial assets at amortized costs, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss.

⁽²⁾ Primarily consist of property and equipment, other assets, deferred tax assets, interest receivable, interests in an associate and right-of-use assets.

Chapter 4 Management Discussion and Analysis

(A) Loans and advances to customers

As of June 30, 2019, the total loans and advances to customers of the Bank were RMB170,826.1 million, representing an increase of 6.2% as compared with December 31, 2018. Net loans and advances to customers accounted for 47.9% of the total assets of the Bank, which has little change as compared with the same period of last year.

The table below sets forth loans and advances to customers by product as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate loans	113,224.3	66.3	113,204.1	70.4
Retail loans	32,421.0	19.0	28,025.2	17.4
Discounted bills	25,180.8	14.7	19,656.0	12.2
Total loans and advances to customers	170,826.1	100.0	160,885.3	100.0

Loans and advances to customers are the largest component of total assets. The Bank offers a variety of loan products, substantially all of which are denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 47.9% and 47.1% of total assets as of June 30, 2019 and December 31, 2018, respectively.

The Bank's corporate loans increased from RMB113,204.1 million as of December 31, 2018 to RMB113,224.3 million as of June 30, 2019, basically maintaining a comparable level as compared with last year.

The Bank's retail loans mainly comprise of personal business loans, personal consumption loans and residential and commercial mortgage loans. The Bank's retail loans increased by 15.7% from RMB28,025.2 million as of December 31, 2018 to RMB32,421.0 million as of June 30, 2019, primarily due to (i) the Bank's efforts to support the financing needs of small and medium-sized enterprises (including sole proprietors); and (ii) the increased personal housing mortgage loans.

Loans and advances to customers by type of collateral

The table below sets forth loans and advances to customers by type of collateral as of the dates indicated. If a loan is secured by multiple forms of collateral, the classification is based on the primary form of collateral.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Collateralized loans	81,102.8	47.5	77,917.8	48.4
Pledged loans	12,766.5	7.5	10,310.4	6.4
Guaranteed loans	59,670.0	34.9	54,814.5	34.1
Unsecured loans	17,286.8	10.1	17,842.6	11.1
Total loans and advances to customers	170,826.1	100.0	160,885.3	100.0

Chapter 4 Management Discussion and Analysis

As of June 30, 2019 and December 31, 2018, collateralized loans, pledged loans and guaranteed loans in the aggregate represented 89.9% and 88.9% of total loans and advances to customers, respectively. Collateralized loans and pledged loans are subject to loan-to-value ratio limits based on the type of collateral. The Bank usually only accepts guarantees provided by listed companies, guarantee companies or guarantor with strong guarantee capacity and in compliance with guarantee conditions. The Bank evaluates a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

Unsecured loans decreased by 3.1% from RMB17,842.6 million as of December 31, 2018 to RMB17,286.8 million as of June 30, 2019. The balance of unsecured loans were relatively stable.

Change to the provisions for impairment losses on loans and advances to customers

The table below sets forth the change to the provision for impairment losses on loans and advances to customers as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019	As of December 31, 2018
As at the beginning of the reporting period	6,251.5	5,029.0
Implement new standard adjustment	–	52.2
Charge for the period/year	2,165.3	1,994.4
Write-off and others for the period/year	(1,851.9)	(824.8)
Reversal of write-offs for the previous years	1.0	0.7
As of June 30/December 31	6,565.9	6,251.5

Provisions for impairment losses on loans and advances to customers increased by 5.0% from RMB6,251.5 million as of December 31, 2018 to RMB6,565.9 million as of June 30, 2019, primarily due the increase in the Bank's provision for impairment losses to counter against macroeconomic operation.

Chapter 4 Management Discussion and Analysis

(B) Investment securities and other financial assets

As of June 30, 2019 and December 31, 2018, the Bank's investment securities and other financial assets (original value without deducting provisions for impairment) were RMB115,206.8 million and RMB105,605.8 million, representing 33.6% and 32.1% of total assets, respectively.

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products. Investment securities and other financial assets increased by RMB9,601.0 million from RMB105,605.8 million as of December 31, 2018 to RMB115,206.8 million as of June 30, 2019. This increase primarily reflected the adjustment of our investment portfolio based on market conditions and other factors.

(ii) Liabilities

As of June 30, 2019 and December 31, 2018, the total liabilities of the Bank were RMB318,082.6 million and RMB303,374.8 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) debt securities issued; (iii) financial assets sold under repurchase agreements; and (iv) deposits from banks and other financial institutions. The table below sets forth the components of total liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	235,622.9	74.1	210,723.3	69.5
Deposits from banks and other financial institutions	13,925.7	4.4	15,513.8	5.1
Financial assets sold under repurchase agreements	5,135.5	1.6	11,717.0	3.9
Debt securities issued	43,436.9	13.7	41,576.8	13.7
Borrowings from the central bank	6,183.8	1.9	11,650.9	3.8
Placements from banks and other financial institutions	3,010.0	0.9	3,300.0	1.1
Other liabilities ⁽¹⁾	10,767.8	3.4	8,893.0	2.9
Total liabilities	318,082.6	100.0	303,374.8	100.0

Note:

⁽¹⁾ Primarily include interest payable, taxes payable, staff costs, deferred tax liabilities, lease liabilities and other liabilities.

Chapter 4 Management Discussion and Analysis

(A) Deposits from customers

Deposits from customers are the largest component of total liabilities. As of December 31, 2018 and June 30, 2019, deposits from customers represented 69.5% and 74.1% of the total liabilities, respectively.

The Bank offers RMB-denominated demand and time deposit products to corporate and retail customers. The table below sets forth deposits from customers by product and customer type as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate deposits				
Demand deposits	56,783.5	24.1	54,381.4	25.8
Time deposits	21,721.2	9.2	18,058.5	8.6
Subtotal	78,504.7	33.3	72,439.9	34.4
Retail deposits				
Demand deposits	23,871.0	10.1	24,114.6	11.4
Time deposits	103,848.9	44.2	83,018.5	39.4
Subtotal	127,719.9	54.3	107,133.1	50.8
Pledged deposits	15,851.2	6.7	16,500.1	7.8
Others⁽¹⁾	13,547.1	5.7	14,650.2	7.0
Total deposits from customers	235,622.9	100.0	210,723.3	100.0

Note:

⁽¹⁾ Deposits raised from other investment vehicles.

Total deposits from customers increased by 11.8% from RMB210,723.3 million as of December 31, 2018 to RMB235,622.9 million as of June 30, 2019. The increases in deposits from customers were primarily attributable to the Bank's enhanced marketing efforts, which grew retail deposits.

Chapter 4 Management Discussion and Analysis

(B) Debts securities issued

In December 2015, the Bank issued tier-two capital bonds in an aggregate principal amount of RMB3,200.0 million. The bonds have a term of 10 years and bear an interest rate of 5.10% per annum. The Bank has an option to redeem the bonds on December 11, 2020 at par.

In March 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.67% per annum.

In April 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of five years and bear an interest rate of 5.00% per annum.

In May 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.90% per annum.

In August 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.85% per annum.

In May 2018, the Bank issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.87% per annum.

From January 1, 2019 to June 30, 2019, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB20,350.0 million. These interbank certificates have terms of six months to one year and bear effective interest rates between 3.35% and 5.35% per annum.

(iii) Shareholders' equity

The table below sets forth the change in shareholders' equity of the Bank as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Share capital	10,069.8	40.8	10,069.8	39.9
Capital reserve	4,659.4	18.9	4,658.3	18.5
Defined benefit scheme reserve	(2.8)	0.0	(4.2)	–
Investment revaluation reserve	231.2	0.9	261.4	1.0
Surplus reserve	1,510.1	6.1	1,510.1	6.0
General reserve	4,423.1	17.9	4,423.1	17.5
Retained earnings	3,782.1	15.3	4,297.8	17.0
Non-controlling interests	35.8	0.1	31.3	0.1
Total equity	24,708.7	100.0	25,247.6	100.0

Chapter 4 Management Discussion and Analysis

(c) Asset quality analysis

(i) Breakdown of loans by the five-category classification

For the Bank, the non-performing loans are classified into loans and advances to customers of substandard, doubtful and loss. As of June 30, 2019, the Bank's non-performing loans amounted to RMB5,066.2 million. The table below sets forth loans and advances to customers by loan classification as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Normal	154,488.8	90.5	147,789.2	91.9
Special mention	11,271.1	6.6	9,407.3	5.8
Sub-standard	3,959.2	2.3	1,330.2	0.8
Doubtful	880.5	0.5	1,773.2	1.1
Loss	226.5	0.1	585.4	0.4
Total loans and advances to customers	170,826.1	100.0	160,885.3	100.0
Non-performing loans and non-performing loan ratio⁽¹⁾	5,066.2	2.97	3,688.8	2.29

Note:

⁽¹⁾ Calculated by dividing non-performing loans by total loans and advances to customers.

As of June 30, 2019 and December 31, 2018, the non-performing loan ratios of the Bank were 2.97% and 2.29%, respectively. The increase in non-performing loans was primarily due to the decline of loans and advances quality as a result of the environment of economic downturn.

Chapter 4 Management Discussion and Analysis

(ii) Concentration of loans

(A) Concentration by industry and structure of non-performing loans

The table below sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019				As of December 31, 2018			
	Loan amount	% of total (%)	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total (%)	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans								
Wholesale and retail	20,168.9	11.8	269.4	1.34	24,169.5	15.0	1,468.5	6.08
Manufacturing	23,555.9	13.8	1,909.9	8.11	20,197.2	12.6	583.3	2.89
Agriculture, forestry, animal husbandry and fishing	7,479.8	4.4	182.8	2.44	8,204.6	5.1	524.0	6.39
Construction	9,601.8	5.6	60.2	0.63	9,129.2	5.7	369.8	4.05
Real estate	15,358.0	9.0	–	–	13,124.8	8.2	–	–
Mining	8,155.6	4.8	12.2	0.15	8,534.1	5.3	88.2	1.03
Water, environment and public facility management	3,586.7	2.1	6.7	0.19	6,051.4	3.7	–	–
Culture, sports and entertainment	2,738.9	1.6	19.5	0.71	2,898.1	1.8	19.3	0.67
Leasing and business services	7,656.3	4.5	1.8	0.02	7,157.6	4.4	16.4	0.23
Electricity, heating power, gas and water production and supply	3,416.3	2.0	–	–	2,509.8	1.6	4.5	0.18
Transportation, storage and postal services	2,570.9	1.5	5.0	0.19	2,328.9	1.4	47.7	2.05
Education	1,655.0	1.0	–	–	1,634.6	1.0	6.0	0.37
Accommodation and catering	2,619.7	1.5	17.3	0.66	2,689.4	1.7	32.0	1.19
Financial	1,000.0	0.6	–	–	1,000.0	0.6	–	–
Health and social services	1,845.2	1.1	–	–	1,846.2	1.2	–	–
Residents and other services	740.5	0.4	1.1	0.15	622.6	0.4	16.1	2.59
Scientific research, technical service and geological prospecting	923.4	0.5	1.5	0.16	927.1	0.6	–	–
Information transmission, computer service and software	131.4	0.1	3.0	2.28	159.0	0.1	28.0	17.61
Public administration, social security and social organizations	20.0	–	–	–	20.0	–	–	–
Retail loans	32,421.0	19.0	975.8	3.01	28,025.2	17.4	485.0	1.73
Discounted bills	25,180.8	14.7	1,600.0	6.35	19,656.0	12.2	–	–
Total amount	170,826.1	100.0	5,066.2	2.97	160,885.3	100.0	3,688.8	2.29

Note: Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

Chapter 4 Management Discussion and Analysis

Loans to borrowers in the manufacturing, wholesale and retail, real estate, construction and mining industries represented the largest components of the Bank's corporate loan portfolio. Loans to these industries accounted for 66.4% and 67.87% of total corporate loans as of December 31, 2018 and June 30, 2019, respectively.

As of June 30, 2019, non-performing loans of the Bank's corporate loans were mainly concentrated in the manufacturing industry with a non-performing loan ratio of 8.11%.

(B) Borrower concentration

Indicators of concentration

Major regulatory indicators	Regulatory standard	As of June 30, 2019	As of December 31, 2018
Loan concentration ratio for the largest single customer (%)	≤ 10	7.20	4.22
Loan concentration ratio for the top ten customers (%)	≤ 50	39.20	31.00

Note: The data above are calculated in accordance with the formula promulgated by the CBIRC.

Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of June 30, 2019 and the balances of loans to these borrowers. All of these loans were classified as normal, except those granted to two borrowers which were classified as below normal.

(Expressed in millions of RMB, unless otherwise stated)		As of June 30, 2019		
Customers	Industries involved	Amount	% of total loans (%)	% of regulatory capital (%)
Borrower A	Manufacturing	2,100.0	1.2	7.2
Borrower B	Manufacturing	1,594.8	0.9	5.5
Borrower C	Financial	1,000.0	0.6	3.4
Borrower D	Leasing and business services	1,000.0	0.6	3.4
Borrower E	Manufacturing	996.5	0.6	3.4
Borrower F	Real estate	980.0	0.6	3.4
Borrower G	Manufacturing	970.0	0.6	3.3
Borrower H	Mining	950.0	0.6	3.3
Borrower I	Real estate	925.5	0.5	3.2
Borrower J	Electricity, heating power, gas and water production and supply	920.0	0.5	3.2
Total		11,436.8	6.7	39.2

Chapter 4 Management Discussion and Analysis

(C) Non-performing loans by product

The table below sets forth the Bank's loans and non-performing loans by product type as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019			As of December 31, 2018		
	Loan amount	Non- performing loan amount	Non- performing loan ratio ⁽¹⁾ (%)	Loan amount	Non- performing loan amount	Non- performing loan ratio ⁽¹⁾ (%)
Corporate loans						
Fixed asset loans	39,925.5	–	–	38,615.8	45.0	0.12
Working capital loans	69,985.2	609.5	0.87	72,527.7	3,117.9	4.30
Others ⁽²⁾	3,313.6	1,880.9	56.76	2,060.6	40.9	1.98
Sub-total	113,224.3	2,490.4	2.20	113,204.1	3,203.8	2.83
Retail loans						
Personal business loans	7,646.2	756.6	9.90	7,580.1	361.4	4.77
Personal consumption loans	9,075.8	116.7	1.29	7,647.7	68.5	0.90
Residential and commercial mortgage loans	15,699.0	102.5	0.65	12,797.4	55.1	0.43
Sub-total	32,421.0	975.8	3.01	28,025.2	485.0	1.73
Discounted bills	25,180.8	1,600.0	6.35	19,656.0	–	–
Total non-performing loans	170,826.1	5,066.2	2.97	160,885.3	3,688.8	2.29

Notes:

⁽¹⁾ Calculated by dividing non-performing loans by loans and advances to customers of each product category.

⁽²⁾ Primarily consist of advances for bank acceptance bill.

The non-performing loan ratio of corporate loans decreased from 2.83% as of December 31, 2018 to 2.2% as of June 30, 2019, representing a decrease of 0.63 percentage point.

The non-performing loan ratio of retail loans increased from 1.73% as of December 31, 2018 to 3.01% as of June 30, 2019, representing an increase of 1.28 percentage points.

Chapter 4 Management Discussion and Analysis

(D) Loan aging schedule

The table below sets forth the loan aging of loans and advances to customers as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Loans not overdue	156,465.1	91.6	149,847.3	93.2
Loans past due for:				
1 to 90 days	9,294.9	5.4	6,013.6	3.7
91 days to 1 year	4,354.1	2.6	3,800.7	2.4
1 to 3 years	597.8	0.3	1,018.1	0.6
3 years or more	114.2	0.1	205.6	0.1
Subtotal	14,361.0	8.4	11,038.0	6.8
Total loans and advances to customers	170,826.1	100.0	160,885.3	100.0

(d) Segments information

(i) Summary of business segment

We operate three principal lines of business: corporate banking, retail banking and financial market operations. The table below sets forth the operating income for each of our principal business segments for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking	2,039.6	52.9	2,183.6	49.6
Retail banking	757.2	19.6	487.5	11.1
Financial market operations	1,047.1	27.1	1,548.6	35.1
Others ⁽¹⁾	14.0	0.4	183.3	4.2
Total operating income	3,857.9	100.0	4,403.0	100.0

Note:

⁽¹⁾ Primarily represent assets, liabilities, income and expenses which cannot be directly attributable or cannot be allocated to a segment on a reasonable basis.

Chapter 4 Management Discussion and Analysis

(ii) Summary of geographical segment information

No geographical information is presented as most of the Group's operations are conducted and all non-current assets are located in Gansu Province of the PRC and therefore revenue is derived from activities in Gansu province of the PRC.

(e) Off-balance sheet commitments

Off-balance sheet commitments primarily consist of loan commitments, bank acceptances, letters of guarantee, operating lease commitments and capital commitments. The table below sets forth our contractual amounts of off-balance sheet commitments as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019	As of December 31, 2018
Credit commitments:		
Bank acceptances ⁽¹⁾	26,374.9	26,418.1
Letters of guarantee ⁽²⁾	1,153.0	721.5
Unused credit card commitments	381.7	359.2
Subtotal	27,909.6	27,498.8
Operating lease commitments	34.3	320.1
Capital commitments	9.4	38.7
Total	27,953.3	27,857.6

Notes:

⁽¹⁾ Bank acceptances refer to undertakings of the Bank to pay bank bills drawn on its customers.

⁽²⁾ The Bank issues letters of credit and guarantee to third parties to guarantee its customers' contractual obligations.

Off-balance sheet commitments increase by 0.3% from RMB27,857.6 million as of December 31, 2018 to RMB27,953.3 million as of June 30, 2019. The off-balance sheet commitments remained relatively stable.

Chapter 4 Management Discussion and Analysis

4. BUSINESS REVIEW

(a) Corporate banking

The Bank offers corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fees and commission-based products and services. The Bank's corporate customers primarily include government agencies, public organizations, SOEs, private enterprises and foreign-invested enterprises. The Bank is committed to serving local customers with a focus on small and micro enterprises.

In addition, the Bank commits to seeking to develop long-term relationships with customers by closely monitoring their financial needs and offering tailored financial solutions. As of June 30, 2019, the Bank had 4,122 corporate borrowers with total loans of RMB113,224.3 million, and 72,454 corporate deposit customers with total deposits of RMB78,504.7 million. For the six months ended June 30, 2018 and 2019, operating income from the Bank's corporate banking business accounted for 49.6% and 52.9% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's corporate banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2019	2018	
External interest income, net ⁽¹⁾	2,549.8	2,744.3	(7.1)
Inter-segment interest expenses, net ⁽²⁾	(585.8)	(615.4)	(4.8)
Net interest income	1,964.0	2,128.9	(7.7)
Net fees and commission income	75.6	54.7	38.2
Operating income	2,039.6	2,183.6	(6.6)
Operating expenses	(496.9)	(423.3)	17.4
Impairment losses on assets	(1,848.6)	(319.8)	478.0
Operating (loss)/profit	(305.9)	1,440.5	(121.2)
(Loss)/profit before tax	(305.9)	1,440.5	(121.2)

Notes:

⁽¹⁾ Represents net income and expenses from third parties.

⁽²⁾ Represents inter-segment expenses and consideration of transfer.

(i) Corporate loans

Corporate loans constituted the largest component of the Bank's loan portfolio. As of June 30, 2019 and December 31, 2018, corporate loans amounted to RMB113,224.3 million and RMB113,204.1 million, accounting for 66.3% and 70.4% of the Bank's total loans and advances to customers, respectively.

Chapter 4 Management Discussion and Analysis

(ii) Discounted bills

The Bank purchases bank and commercial acceptance bills with remaining maturities of up to one year at discounted prices to satisfy the short-term funding needs of banks and corporate customers. As of June 30, 2019 and December 31, 2018, discounted bills totaled RMB25,180.8 million and RMB19,656 million, accounting for 14.7% and 12.2% of the Bank's total loans and advances to customers, respectively.

(iii) Corporate deposits

The Bank accepts demand and time deposits denominated in Renminbi and major foreign currencies (including USD, HKD and EUR) from corporate customers. As of June 30, 2019 and December 31, 2018, corporate deposits totaled RMB78,504.7 million and RMB72,439.9 million, accounting for 33.3% and 34.4% of the Bank's total customer deposits, respectively.

(iv) Fees and commission-based products and services

The Bank offers corporate customers a broad range of fees and commission-based products and services, primarily including wealth management services, entrusted loans, settlement services and consultation and financial advisory services.

(A) *Wealth management services*

The Bank offers corporate customers a broad range of wealth management products based on their risk and return preferences. The Bank invests funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products portfolio.

For the six months ended June 30, 2019 and 2018, wealth management products sold to corporate customers totaled RMB595.7 million and RMB586.1 million, respectively.

(B) *Entrusted loans*

The Bank provides loans to borrowers designated by corporate customers, who determine the use of loans, principal amount and interest rates for these loans. The Bank monitors the use of entrusted loans by borrowers and assists corporate customers in recovering these loans.

The Bank charges agency fees based on the principal amount of entrusted loans. The Bank's corporate customers bear the risk of default associated with these loans. For the six months ended June 30, 2019 and 2018, service fees charged to corporate customers for entrusted loans totaled RMB8.09 million and RMB63.3 million, respectively.

(C) *Settlement services*

The Bank offers corporate customers domestic and international settlement services.

Domestic Settlement Services: The Bank provides domestic settlement services in the form of bank acceptance bills, collections and telegraphic transfers. As of June 30, 2019 and December 31, 2018, the Bank's total domestic settlement transaction volumes were approximately RMB6,184.3 billion and RMB8,429.3 billion, respectively.

International Settlement Services: The Bank obtained approval to provide international settlement services in January 2014. The Bank's international settlement services primarily include remittance, collection, letters of credit and letters of guarantee. As of June 30, 2019 and December 31, 2018, the Bank's international settlement transaction volumes were US\$61.7 million and US\$1,085 million, respectively.

Chapter 4 Management Discussion and Analysis

(D) Consultation and financial advisory services

The Bank structures financial solutions and offers advisory services with respect to the economy, financial markets and industry trends for corporate customers.

(E) Other fees and commission-based products and services

The Bank offers other fees and commission-based products and services to corporate customers, such as guarantee and foreign exchange services.

(b) Retail banking

The Bank offers retail customers a wide range of financial products and services, including loans, deposits, bank card services and fees and commission-based products and services. The Bank has a large retail customer base.

As of June 30, 2019, the Bank had 141,176 retail borrowers with total loans of RMB32,421.0 million and over 6 million retail deposit customers with total deposits of RMB127,719.9 million. For the six months ended June 30, 2019 and 2018, operating income from the Bank's retail banking business accounted for 19.6% and 11.1% of its total operating income, respectively.

The Bank categorizes retail banking customers into regular customers (with average financial asset balances of under RMB50,000), wealth management customers (with average financial asset balances of RMB50,000 or above but less than RMB200,000), wealthy customers (with average financial asset balances of RMB200,000 or above but less than RMB3.0 million) and private banking customers (with average financial asset balances of RMB3.0 million or above).

As of June 30, 2019, the Bank had 183,604 wealthy customers and 1,697 private banking customers. The Bank continues to grow its wealthy customer and private banking customer base by expanding its product and service portfolio. The table below sets forth the financial performance of its retail banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2019	2018	
External interest expenses, net ⁽¹⁾	(1,133.7)	(562.5)	101.5
Inter-segment interest income, net ⁽²⁾	1,873.2	1,038.2	80.4
Net interest income	739.5	475.7	55.5
Net fee and commission income	17.7	11.8	50.0
Operating income	757.2	487.5	55.3
Operating expenses	(184.5)	(90.7)	103.4
Impairment losses on assets	(113.5)	(172.2)	(34.1)
Operating profit	459.2	224.6	104.5
Profit before tax	459.2	224.6	104.5

Chapter 4 Management Discussion and Analysis

Notes:

⁽¹⁾ Represents net income and expenses from third parties.

⁽²⁾ Represents inter-segment expenses and consideration of transfer.

(i) Retail loans

The Bank offers retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of June 30, 2019 and December 31, 2018, total retail loans were RMB32,421.0 million and RMB28,025.2 million, accounting for 19.0% and 17.4% of the Bank's total loans and advances to customers, respectively.

(ii) Retail deposits

The Bank accepts demand and time deposits denominated in Renminbi and major foreign currencies from retail customers. As of June 30, 2019 and December 31, 2018, retail deposits totaled RMB127,719.9 million and RMB107,133.1 million, accounting for 54.3% and 50.8% of the Bank's total customer deposits, respectively.

(iii) Bank card services

(A) Debit cards

The Bank issues debit cards denominated in Renminbi to retail customers holding deposit accounts with it. Customers may use debit cards for a variety of purposes, such as cash deposits and withdrawals, transfers, payments, settlements, consumption, bill payments, financing and wealth management. The Bank provides cardholders with differentiated services by classifying debit cards into basic cards, gold cards, platinum cards and diamond cards based on a bank cardholder's deposit balances.

To expand its customer base and service scope, the Bank issues the following debit cards in cooperation with government agencies and public organizations:

- Social Security Card (社會保障卡): The Bank works with the Department of Human Resources and Social Security of Gansu Province (甘肅省人力資源和社會保障廳) to issue debit cards, which can be used for making social security contributions and social security information inquiries.
- Housing Provident Fund Co-branded Cards (公積金聯名卡): The Bank works with the local housing provident fund management center to issue debit cards, which can be used for withdrawal and transfer of housing provident funds, loan distribution and account inquiries.
- Longyuan Transportation Cards (隴原交通卡): The Bank works with the Gansu Provincial Expressway Administration to issue IC financial cards, which can be used for paying expressway tolls electronically.

In addition, to enhance its brand recognition, the Bank cooperates with local governments to issue theme cards based on regional characteristics of Gansu Province, such as the Golden Tower Golden Poplar Card (金塔金胡楊卡), Xiongguan Card (雄關卡), the Journey of Xuanzang Card (玄奘之路卡) and Long Nan Landscape Card (隴南山水卡). The Bank also cooperates with various institutions in issuing co-branded cards, including the Gansu Police Vocational College Co-branded Card (甘肅警察職業學校聯名卡), Tianshui High School Student Aid Card (天水高中生資助卡) and Qingyang Traffic Police Co-branded Card (慶陽交警聯名卡).

Chapter 4 Management Discussion and Analysis

As of June 30, 2019, the Bank had issued approximately 7.27 million debit cards. As of June 30, 2019 and December 31, 2018, holders of these debit cards conducted transactions of approximately RMB901.2 million and RMB17,026.6 million, respectively.

(B) Credit cards

In August 2013, the Bank obtained approval to issue the Official Financial and Business Card (財政公務卡) to employees that work in budgetary institutions in Gansu Province, mainly to cover their daily official expenses, reimbursements and personal consumption needs.

The Bank obtained approval to issue credit cards in June 2016.

(C) POS settlement services

As a payment settlement service provider, the Bank provides selected merchants with transaction fund settlement services. As of June 30, 2019, the Bank had 10,134 selected merchant customers for POS settlement services and 11,977 POS terminals.

(iv) Fees and commission-based products and services

The Bank offers retail customers a wide range of fees and commission-based products and services, primarily including wealth management services, agency services and payroll and payment agency services.

(A) Wealth management services

The Bank offers retail customers wealth management products under its Huifu (匯福) series based on their risk and return preferences. The Bank invests funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products.

For the six months ended June 30, 2019 and 2018, wealth management products sold to retail customers totaled RMB17,300.5 million and RMB17,862.5 million, respectively. As of June 30, 2019, the Bank had 270,317 retail wealth management clients and the return rate of its retail wealth management products was between 4.10% and 5.05% for the six months ended June 30, 2019.

(B) Agency services

The Bank sells insurance and precious metal products to retail customers as an agent.

Insurance Products: as of June 30, 2019, the Bank had entered into agency agreements with 6 nationwide insurance companies to promote and distribute their insurance products.

Precious Metal Products: the Bank received approval to distribute precious metals in China in August 2015. For the six months ended June 30, 2019 and 2018, the Bank sold an aggregate of RMB52.66 million and RMB191.5 million of precious metal products, respectively.

In October 2016, Dunhuang Research Academy granted the Bank an exclusive license to jointly develop and sell precious metal products featuring Mogao Grottoes. In addition, the Bank has completed the development of a fund agent system and fund qualification training for its employees.

Chapter 4 Management Discussion and Analysis

(C) Payroll and payment agency services

Payroll Services: the Bank provides payroll services to governmental agencies, public organizations and enterprises customers. As of June 30, 2019, the Bank had over 8,448 payroll customers. For the six months ended June 30, 2019 and 2018, the Bank paid, in the role of paying agent, average monthly salaries of approximately RMB1,621.2 million and RMB1,983.8 million, respectively.

Payment Agency Services: the Bank offers customers payment agency services related to daily living expenses (such as utilities costs) through its broad distribution network.

(D) Other fees and commission-based products and services

The Bank offers other fees and commission-based products and services to retail customers, such as fund transfer, remittance and acceptance services.

(c) Financial market operations

The Bank's financial market operations primarily include money market transactions, investment business and wealth management business, and are one of its most important revenue sources. For the six months ended June 30, 2019 and 2018, operating income from financial market operations accounted for 27.1% and 35.1% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's financial market operations for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2019	2018	
External interest income, net ⁽¹⁾	1,456.1	1,475.8	(1.3)
Inter-segment interest expenses, net ⁽²⁾	(1,287.3)	(422.8)	204.5
Net interest income	168.8	1,053.0	(84.0)
Net fee and commission income	10.2	58.4	(82.5)
Net trading gains	852.6	434.7	96.1
Net gains arising from investment securities	15.5	2.5	520.0
Operating income	1,047.1	1,548.6	(32.4)
Operating expenses	(255.0)	(451.4)	(43.5)
Impairment (losses)/reversed on assets	(333.9)	36.7	(1,009.8)
Operating profit	458.2	1,133.9	(59.6)
Profit before tax	458.2	1,133.9	(59.6)

Chapter 4 Management Discussion and Analysis

Notes:

⁽¹⁾ Represents net income and expenses from third parties.

⁽²⁾ Represents inter-segment expenses and consideration of transfer.

(i) Money market transactions

The Bank adjusts its liquidity using various monetary market instruments and earns interest income from money market transactions. Money market transactions primarily include (i) interbank deposits; (ii) interbank placements; and (iii) repurchase and reverse repurchase transactions.

(A) Interbank deposits

The Bank deposits and withdraws funds from banks and other financial institutions to manage its assets and liabilities. The Bank accepts deposits from banks and other financial institutions and deposit money in banks and other financial institutions, and also engages in other interbank transactions with certain of these banks and financial institutions.

As of June 30, 2019 and December 31, 2018, deposits from banks and other financial institutions totaled RMB13,925.7 million and RMB15,513.8 million, and deposits of the Bank at banks and other financial institutions (original value without deducting provisions for impairment) totaled RMB6,718.9 million and RMB12,932.4 million, respectively.

(B) Interbank placements

As of June 30, 2019 and December 31, 2018, the Bank did not make any placements with banks and other financial institutions. As of the same dates, placements from banks and other financial institutions totaled RMB3,010.0 million and RMB3,300 million, respectively.

(C) Repurchase and reverse repurchase transactions

The securities underlying the Bank's repurchase and reverse repurchase transactions are mainly RMB-denominated PRC government bonds and policy financial bonds. As of June 30, 2019 and December 31, 2018, financial assets held under resale agreements totaled RMB18,244.6 million and RMB19,523.8 million, and financial assets sold under repurchase agreements totaled RMB5,135.5 million and RMB11,717.0 million, respectively.

(ii) Investment securities and other financial assets

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products.

Chapter 4 Management Discussion and Analysis

(A) Security investment by holding purpose

The table below sets forth investment securities and other financial assets by investment intention as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Financial assets at fair value through profit or loss	41,190.5	36.7	42,561.0	41.4
Financial assets at amortised costs	54,988.7	48.9	45,066.3	43.8
Financial assets at fair value through other comprehensive income	16,168.1	14.4	15,249.1	14.8
Total amount of investment securities and other financial assets	112,347.3	100.0	102,876.4	100.0

Total amount of investment securities and other financial assets increased from RMB102,876.4 million as of December 31, 2018 to RMB112,347.3 million as of June 30, 2019, representing an increase of 9.2%.

(B) Maturity profile of the Bank's investment portfolio

The table below sets forth investment securities and other financial assets by remaining maturity as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Repayable on demand	–	–	–	–
Due in three months or less	34,828.3	31.0	32,149.1	31.2
Due between three months and one year	18,564.5	16.5	29,749.3	28.9
Due between one year and five years	48,742.0	43.4	38,537.5	37.5
Due over five years	10,212.5	9.1	2,440.5	2.4
Indefinite ⁽¹⁾	–	–	–	–
Total	112,347.3	100.0	102,876.4	100.0

Note:

⁽¹⁾ Refers to impaired investments, investments overdue for more than one month and equity investments.

The Bank's securities investment with a remaining maturity between one year and five years represent the largest portion of the Bank's investment securities.

Chapter 4 Management Discussion and Analysis

(C) Holding of government bonds

As of June 30, 2019, the balance of face value of government bonds held by the Bank amounted to RMB13,976.30 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of June 30, 2019.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum (%)	Maturity date
18 Gansu bond 01 (18甘肅債01)	1,040	3.3900	2023/4/24
16 Interest-bearing treasury bond 22 (16付息國債22)	1,000	2.2900	2019/10/27
19 Discounting treasury bond 10 (19貼現國債10)	700	2.2600	2019/9/9
18 Gansu 02 (18甘肅02)	700	3.7900	2023/6/15
16 Gansu Targeted 02 (16甘肅定向02)	677.6	3.2600	2023/4/21
19 Interest-bearing treasury bond 03 (19付息國債03)	650	2.6900	2022/3/7
19 Gansu bond 01 (19甘肅債01)	610	3.3200	2026/1/31
19 Gansu bond 07 (19甘肅債07)	580	3.4300	2024/4/15
16 Interest-bearing treasury bond 07 (16付息國債07)	560	2.5800	2021/4/14
17 Interest-bearing treasury bond 16 (17付息國債16)	500	3.4600	2020/7/27

(D) Holding of financial bonds

As of June 30, 2019, the balance of face value of the financial bonds (mainly the financial bonds issued by policy banks, commercial banks and other financial institutions) held by the Bank amounted to RMB30,200.00 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of June 30, 2019.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum (%)	Maturity date
18 ADBC bond 06 (18農發06)	1,480	4.6500	2028/5/11
17 CDB bond 09 (17國開09)	1,470	4.1400	2020/9/11
18 ADBC bond 05 (18農發05)	1,200	4.1300	2020/4/11
18 ADBC bond 01 (18農發01)	1,110	4.9800	2025/1/12
18 CDB bond 08 (18國開08)	1,100	4.0700	2021/4/27
18 ADBC bond 08 (18農發08)	1,080	4.3700	2023/5/25
18 ADBC bond 09 (18農發09)	1,080	4.2400	2021/6/1
15 ADBC bond 15 (15農發15)	1,000	3.7300	2020/5/22
15 CDB bond 16 (15國開16)	750	3.9400	2022/7/10
17 ADBC bond 02 (17農發02)	700	3.5400	2020/1/6

Chapter 4 Management Discussion and Analysis

(d) Distribution network

(i) Physical outlets

As of June 30, 2019, the Bank had 1 head office operational department, 12 branches, 189 sub-branches, 5 micro-to-small sub-branches, 3 community sub-branches. The Bank's branch network covered all of Gansu's cities and prefectures and approximately 86% of its counties and districts.

(ii) Electronic banking business

(A) Internet banking

Through the Internet, the Bank offers customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of June 30, 2019, the Bank had over 1,056,000 Internet banking customers, consisting of 46,535 corporate customers and over 1,009,000 retail customers. As of June 30, 2019, the Bank's corporate customers conducted over 6.9 million online transactions with a total transaction amount of approximately RMB1,369,840.1 million, while retail customers conducted approximately 6.7 million online transactions with a total transaction amount of approximately RMB236,208.5 million.

(B) Direct banking platform

The Bank launched its direct banking platform in August 2016. Through the platform, its customers can achieve electronic account management, smart saving, investment and financing, and purchases of financial products and services. As of June 30, 2019, the Bank's direct banking platform had over 1,108,000 registered users with total transaction amounts of RMB15,369.0 million. The sales volume of direct banking platform products exceeded RMB4,040.0 million.

(C) Mobile phone banking

The Bank provides customers with various financial services, such as account inquiries and management, transfers, payments and loan management. As of June 30, 2019, the Bank had approximately 2,048,000 mobile phone banking customers that had conducted approximately 19.4 million transactions through mobile phones, with total transaction amounts of approximately RMB237,959.6 million.

(D) Telephone banking

The Bank provides customers with loan and deposit account inquiries, personal debit card account transfers, bill inquiries, lost declarations and business inquiry services through an interactive self-service voice system and live customer service. As of June 30, 2019, the Bank had 351,983 telephone banking customers, including 351,968 individual customers and 15 corporate customers.

(E) Self-service banking

The Bank provides convenient banking services to customers at lower operating costs through self-service facilities. The Bank's self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of June 30, 2019, the Bank had 210 outlets, 161 off-bank self-service zones and 810 self-service facilities.

Chapter 4 Management Discussion and Analysis

(F) WeChat banking

WeChat has become an important channel that provides value-added services to retail customers. Through WeChat banking, customers can access the Bank's products and services; manage accounts, transaction inquires, payment and convenience services; and search for the Bank's outlet locations. As of June 30, 2019, the Bank had over 476,817 WeChat banking customers.

(G) E-commerce platform

In April 2017, the Bank formally launched its e-commerce platform "Longyin Commerce", which provides merchants with comprehensive services. These services include purchasing, sales and inventory management, and online B2B and B2C transactions. As of June 30, 2019, the platform had 845 merchants and 197,219 users.

(e) Information on the subsidiary

Jingning Chengji Rural Bank

In September 2008, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with other 4 legal entities and 7 individuals. As of June 30, 2019, the Bank held an approximately 62.73% equity interest in Jingning Chengji Rural Bank.

Jingning Chengji Rural Bank offers financial products and services, including loans, deposits and fees and commission-based products and services to local corporate and retail customers.

As of June 30, 2019, Jingning Chengji Rural Bank had 24 corporate loan customers, 590 corporate deposit customers, 4,110 retail loan customers and 66,167 retail deposit customers. As of June 30, 2019, Jingning Chengji Rural Bank had 12 outlets and 108 employees.

As of June 30, 2019, Jingning Chengji Rural Bank had total assets of RMB1,311.5 million, total deposits of RMB1,170.7 million and total loans of RMB708.91 million. For the six months ended June 30, 2018 and 2019, the Bank didn't receive any operating income from Jingning Chengji Rural Bank.

The Bank assists Jingning Chengji Rural Bank by providing strategic guidance and employee training. The Bank also dispatches professional staff to improve its employees' business skills, and share experience to innovate its products and services to diversify its business.

(f) Operation and safety of IT systems

The Bank regularly optimizes and upgrades its IT system and increases its investment in IT each year to support the operation and management of its businesses. For the six months ended June 30, 2018 and 2019, investments in its IT system totaled RMB53.5 million and RMB69.5 million, respectively.

The Bank's new core banking system based on the SOA-framework was formally put into operation in October 2017. Constructed according to the five-layer application framework of the "four horizontal layers and one vertical layer", the system is able to achieve rapid and flexible product innovation, centralized management of customer information, separation of transaction and accounting, refined management and decision making, transformation of a process-oriented bank and dynamic management of system resources.

The Bank was granted the Certification of ISO20000 – Information Technology Service Management System Standard in June 2018, signaling that it has built an IT service management system applicable to the circumstance of the Bank.

Chapter 4 Management Discussion and Analysis

The Bank places a high priority on business continuity and information security. It has established disaster recovery centres in Lanzhou and Xi'an and conducted periodic security drills to provide reasonable assurance of business continuity and information security in the event of disruptions at critical facilities. Its new data center, new local disaster recovery center and new core banking system have been put into use synchronously. With a gross floor area of about 5,400 square meters, the new data center is constructed in strict accordance with the standards of class-A machine room of the state, with partial kernel module reaching T4, the highest international standard (TIA-942). The new local disaster recovery center adopts an active-active architecture. With these two centres supporting business operation simultaneously, the Bank has made important application systems both active locally, which has greatly improved its business continuity.

The Bank has also implemented safeguards to maintain the confidentiality, integrity and availability of information. These safeguards include firewalls, anti-virus measures, data encryption, user authentication and authorization, desktop security, intrusion prevention and detection, filing and evaluation of the classified protection of important information systems, key information infrastructure protection and information system security assessment. During the Reporting Period, the Bank did not suffer any material IT system failures.

5. RISK MANAGEMENT

(a) Risk management of the Bank

The Bank is primarily exposed to credit risk, market risk, operational risk and liquidity risk in its business. It is also exposed to other risks such as reputational risk, information technology risk, money-laundering risk and legal and compliance risk.

Since its inception, the Bank has implemented comprehensive risk management strategies to enhance its risk management systems.

(i) Credit risk management

Credit risk is the risk of loss due to (i) failure by a debtor or counterparty to meet its contractual obligations or (ii) a decrease in credit ratings or repayment ability. The Bank's credit risks arise mainly from loans, investments, guarantees, commitments and other on- or off-balance-sheet credit risks exposures.

The Bank determines the direction and amount of credit extended each year based on national and regional economic development plans, market conditions and macroeconomic control measures. It also considers its asset and liability structure and trends in deposit and loan growth. It formulates annual credit policy guidelines to provide detailed guidance for extending credit to different industries, customer types and geographic regions.

In accordance with these guidelines, extension of credit in areas more susceptible to changes in macroeconomic conditions and regulatory policies (such as local government financing platforms, as well as borrowers in the real estate sector or industries involving high-pollution, high-power consumption and over-capacity) must comply with all regulatory requirements. It also encourages the extension of credit to emerging sectors, such as modern services, new urbanization construction and Internet commerce, in accordance with national policy directives. In addition, it may issue notices of adjustments to credit policy guidelines in a timely manner in response to changes in government policies, the economic environment and risk preferences of the Bank.

The Bank categorizes the industries in which a loan applicant operates into the following four categories and adopt a different credit policy for each industry category.

Chapter 4 Management Discussion and Analysis

Industries	Credit Policies
Modern agriculture, tourism, education and health care industries (“active support” industries)	<ul style="list-style-type: none">• prioritize credit allocation and increase credit exposure to borrowers in these industries.
IT, utilities, warehouse and logistics, culture-related and pharmaceutical industries (“moderate support” industries)	<ul style="list-style-type: none">• selectively distribute credit to borrowers in these industries.
Real estate, construction, metal ores mining, iron and steel, and wholesale and retail industries (“caution” industries)	<ul style="list-style-type: none">• focus on preventing risks by granting loans to high-quality customers and adjusting the proportion of loans to borrowers in these industries.
Steel trading, coal trading, over-capacity and bulk commodity trading industries (“exit” industries)	<ul style="list-style-type: none">• focus on minimizing risks by moderately reducing the amount of new loans to borrowers in these industries by no less than 20%, and enhancing the implementation of post-lending management measures.

The Bank has also adopted detailed credit policies for small and micro enterprise loans and retail loans based on the type of product, customer group and investment field. It generally updates these policies on an annual basis.

(ii) Market risk management

Market risk is the risk of loss in on-balance sheet and off-balance sheet positions arising from fluctuations in market prices. It is exposed to market risks primarily through its banking book and trading book.

(A) Interest rate risk management

Interest rate risk is the exposure of the Bank’s financial condition to adverse movements in interest rates. Its primary source of interest rate risk is the repricing of on- and off-balance sheet assets and liabilities due to mismatches in maturities.

Maturity or repricing date mismatches may cause changes in net interest income due to fluctuations in prevailing interest rates. The Bank is exposed to interest rate risk through its day-to-day lending and deposit-taking activities and its financial market operations.

The Bank places great emphasis on analyzing the general economic situation and policies, particularly the changes in currency policies. It formulates and adjusts interest rates based on studies and forecasts of interest rate trends in financial markets, in order to better control interest rate risks and reduce losses arising from interest rate fluctuations.

The Bank manages the interest rate risk exposure of its RMB-denominated assets and liabilities on its balance sheet primarily by adjusting interest rates and optimizing the maturity profile of its assets and liabilities. The Bank seeks to reduce maturity mismatches by adjusting repricing frequency and establishing a pricing structure for corporate deposits.

The Bank uses various measures to evaluate interest rate risks arising from its banking book, including but not limited to techniques and measures such as duration analysis, sensitivity analysis, scenario analysis and stress tests, to measure its interest rate risk. For example, it regularly conducts sensitivity analysis and duration analysis on its bond business under different circumstances, to measure the potential effects on its profitability. Under unfavorable external conditions, it will also conduct special stress tests analyses on the interest rate benchmark on loans and deposits. Based on such analyses, it may adjust its terms on repricing to control interest rate risk.

Chapter 4 Management Discussion and Analysis

(B) Exchange rate risk management

The Bank is exposed to exchange rate risks primarily derived from mismatches in the currency denominations of on- and off-balance sheet assets and liabilities and in the trading positions of foreign exchange transactions. It manages exchange rate risks by matching the sources and uses of funds.

The Bank seeks to keep the adverse impact of exchange rate fluctuations within an acceptable range by managing risk exposure limits and the currency structure of its assets and liabilities. In addition, it endeavors to limit transactions involving high exchange rate risks, monitor major indicators, and inspect the positions of major foreign currencies on a daily basis.

(iii) Operational risk management

Operational risk refers to the risk of loss caused by incomplete internal control procedures, failures of employees and IT systems or external events. Operational risk events include internal and external fraud, safety accidents in the workplace, damage to tangible assets, risk or implementation, settlement and procedure management failures relating to customers, products and operations, as well as errors or malfunctions in IT systems.

The Board of Directors is ultimately responsible for monitoring the effectiveness of the Bank's operational risk management. It determines the Bank's operational risk appetite based on its overall business strategies, and reviews and oversees the implementation of operational risk management strategies and policies.

The senior management of the Bank is responsible for coordinating operational risk management through its risk management and internal control committee.

The risk and credit management department of the Bank formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of the Board and senior management. The audit department supervises and evaluates the management of operational risks and is responsible for independently examining and evaluating the appropriateness, effectiveness and efficiency of operational risk management policies, systems and procedures.

The Bank has established a GRC system for managing internal control and operational risks. Through the system, it utilizes operational risk management tools to identify, measure and monitor operational risks.

(iv) Liquidity risk

(A) Liquidity risk management

Liquidity risk refers to the risk of failing to liquidate a position in a timely manner or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations. Factors affecting the liquidity of the Bank include the term structure of its assets and liabilities and changes to financial market policies, such as changes in the requirements relating to its statutory deposit reserve ratio. The Bank is exposed to liquidity risk primarily in its lending, trading and investment activities, as well as in the management its cash flow positions.

The organizational framework of the liquidity risk management of the Bank focuses on formulating, implementing and supervising the separation of duties in relation to liquidity risk management policies and procedures. As the ultimate decision-making institution for the liquidity risk management, the Board of Directors assumes ultimate responsibility for the liquidity risk management of the Bank.

Chapter 4 Management Discussion and Analysis

Senior management is responsible for liquidity management, and the assets and liabilities management committee is responsible for implementing liquidity management policies and procedures. The supervisory committee is responsible for supervising and evaluating the implementation of liquidity risk management by the Board of Directors and senior management. The financial planning department is responsible for the daily liquidity risk management of the Bank.

The objective of the liquidity risk management of the Bank is, by establishing timely, reasonable and effective liquidity risk management mechanisms, to identify, measure, monitor and control liquidity risks, meet the liquidity needs of its assets, liabilities and off-balance businesses on a timely basis, and control liquidity risks at an acceptable level to maintain sustained and healthy operations.

According to the Measures for the Management of Liquidity Risks of Commercial Banks (effective as from July 1, 2018) issued by the CBIRC, the Bank continually improves liquidity risk management, strictly implements regulatory rules, closely monitors liquidity indicators, enhances maturity management of its cash flows, formulates emergency plans and enhances liquidity risk management and stress tests.

The Bank manages liquidity risks with instruments such as position provisioning and monitoring, cash flow analysis, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

(B) Liquidity risk analysis

The Bank's liquidity coverage ratio

	June 30, 2019	December 31, 2018
Liquidity coverage ratio (%)	185.82	198.28

The Bank's net stable funding ratio

(Expressed in millions of RMB, unless otherwise stated)	June 30, 2019	March 31, 2019	December 31, 2018
Closing amount of available stable funding	224,177.9	230,553.6	209,292.6
Closing amount of required stable funding	177,007.4	176,446.9	161,072.4
Net stable funding ratio (%)	126.6	130.7	129.9

Chapter 4 Management Discussion and Analysis

(v) Reputation risk management

Reputational risk represents the risk of negative publicity caused by the Bank's operations, management or other activities or external events. The general office of the Bank's head office is primarily responsible for reputational risk management, and the Board bears the ultimate responsibility for reputational risk management.

(vi) Legal compliance risk management

Legal and compliance risk refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational harm resulting from the failure to comply with laws and regulations. The Bank has a three-tier legal and compliance risk management structure at its head office, branches and sub-branches.

(vii) IT risk management

IT risk refers to operational, reputational, legal and other risks arising from information technology application due to natural factors, human factors, technical constraints, management defects and other factors. The IT risk management of the Bank aims to identify, measure, monitor and control IT risks through the development of effective systems.

The IT management committee supervises and guides IT activities of the Bank. The risk and credit management department formulates IT risk management procedures under the supervision of the Board and senior management. The audit department audits IT risks. The IT department and relevant business departments are responsible for the implementation of specific risk management measures, plans and proposals.

(viii) Anti-money laundering management

The Bank has formulated comprehensive anti-money laundering rules and procedures in accordance with the Anti-Money Laundering Law of the PRC and the regulations of the PBoC.

The Board of Directors oversees bank-wide implementation of anti-money laundering policies, supervises senior management with respect to the formulation and implementation of anti-money laundering rules and procedures, reviews reports from senior management on any major anti-money laundering matters and the overall money-laundering risk profile, and adjusts anti-money laundering policies of the Bank on a timely basis.

The Bank has established anti-money laundering steering groups at its head office, branches and sub-branches.

(ix) Internal audits

The Bank believes internal audits are essential to its stable operations and achievement of business objectives. It conducts internal audits to monitor the compliance with laws and regulations and the implementation of its internal policies and procedures, with the objective of controlling risks at an acceptable level.

The Bank also aims to conduct effective risk management as well as optimizes internal control compliance and its corporate governance structure, in an effort to improve its operations. It adheres to the principles of independence, importance, prudence, objectiveness and relevance for internal audits.

The Bank has adopted an independent and vertical internal audit management system, consisting of the audit committee of the Board of Directors, the audit committee of the Board of Supervisors and the audit department of the head office.

Chapter 4 Management Discussion and Analysis

6. ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank is required to comply with the CBIRC's capital adequacy ratio requirements. It has calculated and disclosed capital adequacy ratios in accordance with the Capital Administrative Measures for Commercial Banks (Trial) (China Banking Regulatory Commission Order [2012] No.1).

The table below sets forth certain information relating to its capital adequacy ratio as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	June 30, 2019	December 31, 2018
Core capital		
Paid-up capital	10,069.8	10,069.8
Qualifying portion of capital reserve	4,659.4	4,658.3
Defined benefit plan reserve	(2.8)	(4.2)
Investment revaluation reserve	231.2	261.4
Surplus reserve	1,510.1	1,510.1
General risk reserve	4,423.1	4,423.1
Retained earnings	3,782.1	4,297.8
Qualifying portion of non-controlling interest	17.6	17.2
Core tier-one capital deductions ⁽¹⁾	(216.8)	(225.0)
Net core tier-one capital	24,473.7	25,008.5
Other tier-one capital ⁽²⁾	2.3	2.3
Net tier-one capital	24,476.0	25,010.8
Tier-two capital		
Instruments issued and share premium	3,195.8	3,194.4
Surplus reserve for loan impairment	1,499.7	2,562.7
Eligible portion of non-controlling interest	4.7	4.7
Net capital base	29,176.2	30,772.6
Total risk-weighted assets	238,308.6	227,144.1
Core tier-one capital adequacy ratio	10.27	11.01
Tier-one capital adequacy ratio	10.27	11.01
Capital adequacy ratio	12.24	13.55

Notes:

⁽¹⁾ Primarily include other intangible assets excluding land use rights, goodwill and deferred tax recognized as tax losses.

⁽²⁾ Primarily includes tier-one capital instruments such as preference shares and their premiums.

Chapter 5 Changes in Share Capital and Particulars of Shareholders

I. CHANGES IN SHARE CAPITAL OF THE BANK

As of December 31, 2018, the share capital of the Bank was as follows:

Description of Shares	Number of Shares	Approximate Percentage of Issued Share Capital (%)
Domestic Shares	7,525,991,330	74.74
H Shares	2,543,800,000	25.26
Total	10,069,791,330	100.00

As of June 30, 2019 and the date of this interim report, the share capital of the Bank is as follows:

Description of Shares	Number of Shares	Approximate Percentage of Issued Share Capital (%)
Domestic Shares	7,525,991,330	74.74
H Shares	2,543,800,000	25.26
Total	10,069,791,330	100.00

Chapter 5 Changes in Share Capital and Particulars of Shareholders

II. PARTICULARS OF SHAREHOLDERS

(I) Particulars of Shareholdings of the Top Ten Shareholders of the Domestic Shares of the Bank

As of June 30, 2019, Top Ten Shareholders of the Domestic Shares of the Bank are set out as follows:

No.	Name of Shareholder	Class of Shares	Number of Shares Held	Shareholding Percentage	Number of Shares Pledged
1	Gansu Highway Aviation Tourism ⁽¹⁾	Domestic Shares	1,257,696,100	12.4898%	0
2	Baoshang Bank Co., Ltd.	Domestic Shares	845,296,403	8.3944%	0
3	Jiuquan Iron & Steel	Domestic Shares	633,972,303	6.2958%	0
4	Gansu Electric Power Investment	Domestic Shares	633,972,303	6.2958%	0
5	Jinchuan Group	Domestic Shares	633,972,303	6.2958%	0
6	Gansu State-owned Assets Investment	Domestic Shares	359,250,972	3.5676%	0
7	Jingyuan Coal Industry Group Limited	Domestic Shares	239,326,800	2.3767%	0
8	Yong Xin Hua Holdings Co., Ltd.	Domestic Shares	239,326,800	2.3767%	239,326,800 ⁽²⁾
9	Duzhe Publishing Group Limited	Domestic Shares	211,324,101	2.0986%	0
10	Ningxia Tianyuan Manganese Limited Company (寧夏天元錳業有限公司)	Domestic Shares	201,083,333	1.9969%	0
	Hebei Jingye Group Co., Ltd. (河北敬業集團有限責任公司)	Domestic Shares	201,083,333	1.9969%	0

Note:

⁽¹⁾ Gansu Highway Aviation Tourism held 1,157,154,433 shares of the Bank, representing a shareholding of 11.49%; and its subsidiary Gansu Financial Capital Management Co., Ltd. (甘肅金融資本管理有限公司) held 100,541,667 shares of the Bank, representing a shareholding of 1%. The shareholding percentage of Gansu Highway Aviation Tourism set out in the table is on an aggregated basis.

⁽²⁾ As at the end of the Reporting Period, as far as the Bank was aware, the Bank's 814,380,920 Shares, representing 8.09% of the Shares issued, were pledged.

Chapter 5 Changes in Share Capital and Particulars of Shareholders

(II) Interests and Short Positions of Substantial Shareholders and Other Persons

To the best knowledge of the Bank, as of June 30, 2019, the following persons (other than the Bank's Directors, Supervisors and chief executive) had or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares as recorded in the register of interests required to be kept by the Bank pursuant to section 336 of Part XV of the SFO and which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, were interested in 5% or more of the nominal value of any class of the Bank's share capital carrying rights to vote in all circumstances at the shareholders' general meetings of any other member of the Bank:

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held ⁽³⁾	Approximate Percentage of the Bank's Total Issued Share Capital (%)	Approximate Percentage of the Bank's Relevant Class of Shares (%)
Gansu State-owned Assets Investment	Beneficial owner	Domestic Shares	359,250,972(L) ⁽¹⁾	3.57	4.77
	Interest in controlled corporation ⁽⁴⁾	Domestic Shares	1,267,944,606(L) ⁽¹⁾	12.59	16.85
Gansu Highway Aviation Tourism	Beneficial owner	Domestic Shares	1,257,696,100(L) ⁽¹⁾	12.49	16.71
Baoshang Bank Co., Ltd.	Beneficial owner	Domestic Shares	845,296,403(L) ⁽¹⁾	8.39	11.23
Jiuquan Iron & Steel	Beneficial owner	Domestic Shares	633,972,303(L) ⁽¹⁾	6.30	8.42
Gansu Electric Power Investment	Beneficial owner ⁽⁴⁾	Domestic Shares	633,972,303(L) ⁽¹⁾	6.30	8.42
Jinchuan Group	Beneficial owner ⁽⁴⁾	Domestic Shares	633,972,303(L) ⁽¹⁾	6.30	8.42
Huaxun International Group Limited	Beneficial owner	H Shares	422,763,000(L) ⁽¹⁾	4.20	16.62
China Foreign Economy and Trade Trust Co., Ltd.	Trustee ⁽⁵⁾	H Shares	360,577,000(L) ⁽¹⁾	3.58	14.17
Harvest Ahead International Holdings Limited	Beneficial owner	H Shares	358,405,115(L) ⁽¹⁾	3.56	14.09
Anar Real Estate Group Co., Ltd. (石榴置業集團股份有限公司)	Founder of a discretionary trust, who can affect the trustee how to exercise discretionary trust ⁽⁶⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
Beijing Kadapu Investment Co., Ltd. (北京卡塔爾普投資有限公司)	Interest in controlled corporation ⁽⁶⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
Beijing Annatuoliya Investment Co., Ltd. (北京安納托利亞投資有限公司)	Interest in controlled corporation ⁽⁶⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
Cui Wei	Interest in controlled corporation ⁽⁶⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09

Chapter 5 Changes in Share Capital and Particulars of Shareholders

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held ⁽³⁾	Approximate Percentage of the Bank's Total Issued Share Capital (%)	Approximate Percentage of the Bank's Relevant Class of Shares (%)
Sang Chunhua	Interest in controlled corporation ⁽⁶⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
Guotai Junan International Holdings Limited	Interest in controlled corporation ⁽⁷⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
	Interest in controlled corporation ⁽⁷⁾	H Shares	282,064,000(S) ⁽²⁾	2.80	11.09
Guotai Junan Securities Co., Ltd.	Interest in controlled corporation ⁽⁷⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
	Interest in controlled corporation ⁽⁷⁾	H Shares	282,064,000(S) ⁽²⁾	2.80	11.09
CITIC Securities Company Limited	Interest in controlled corporation ⁽⁸⁾	H Shares	203,551,000(L) ⁽¹⁾	2.02	8.00
China Create Capital Limited	Beneficial owner	H Shares	190,788,000(L) ⁽¹⁾	1.89	7.50
H.K. RUIJIA TRADING COMPANY LIMITED	Beneficial owner	H Shares	147,718,000(L) ⁽¹⁾	1.47	5.81
Huarong Rongde (Hong Kong) Investment Management Company Limited	Beneficial owner	H Shares	145,394,000(L) ⁽¹⁾	1.44	5.72
Huarong Rongde Asset Management Company Limited	Interest in controlled corporation ⁽⁹⁾	H Shares	145,394,000(L) ⁽¹⁾	1.44	5.72
China Huarong Asset Management Co., Ltd.	Interest in controlled corporation ⁽⁹⁾	H Shares	145,394,000(L) ⁽¹⁾	1.44	5.72
Deutsche Bank Aktiengesellschaft	Interest in controlled corporation ⁽⁹⁾	H Shares	145,394,000(L) ⁽¹⁾	1.44	5.72

Notes:

⁽¹⁾ L represents long position.

⁽²⁾ S represents short position.

⁽³⁾ Pursuant to Part XV of the SFO, shareholders of a company are required to file disclosure of interests forms when certain criteria are fulfilled. When the shareholdings of the shareholders in the company change, it is not necessary for the shareholders to notify the company and the Hong Kong Stock Exchange unless certain criteria are fulfilled. Therefore, the latest shareholdings of the substantial shareholders in the company may be different from the shareholdings filed with the Hong Kong Stock Exchange.

⁽⁴⁾ Gansu State-owned Assets Investment directly held 359,250,972 Domestic Shares of the Bank, representing approximately 3.57% of the total issued capital of the Bank. Gansu SASAC and Jiuquan Iron & Steel hold 83.54% and 16.46% equity interest in Gansu State-owned Assets Investment, respectively, while Gansu State-owned Assets Investment in turn holds 31.91% equity interest in Jiuquan Iron & Steel. Gansu State-owned Assets Investment also holds 100% of the equity interest in Gansu Electric Power Investment and 48.67% of the equity interest in Jinchuan Group. Therefore, Gansu Electric Power Investment and Jinchuan Group are controlled corporations of Gansu State-owned Assets Investment. Pursuant to the SFO, Gansu State-owned Assets Investment is deemed to be interested in the Shares held by Gansu Electric Power Investment and Jinchuan Group.

⁽⁵⁾ China Foreign Economy and Trade Trust Co., Ltd. holds 360,577,000 H Shares of the Bank as a trustee, among which, "FOTIC – Wuxingbaichuan No. 26 Special Unitrust of Anar Group" (外貿信託一五行百川26號石榴集團專項單一資金信託) holds 282,064,000 H Shares of the Bank, "FOTIC – Wuxingbaichuan No. 25 Unitrust" (外貿信託一五行百川25號單一資金信託) holds 78,513,000 H Shares of the Bank.

Chapter 5 Changes in Share Capital and Particulars of Shareholders

- ⁽⁶⁾ Anar Real Estate Group Co., Ltd. (石榴置業集團股份有限公司) holds 282,064,000 H Shares of the Bank as founder of a discretionary trust who can influence the trustee how to exercise its discretion. Beijing Kadapu Investment Co., Ltd. (北京卡塔爾普投資有限公司) holds 87.41% equity interest in Anar Real Estate Group Co., Ltd.. Beijing Kadapu Investment Co., Ltd. is a wholly-owned subsidiary of Beijing Annatuoliya Investment Co., Ltd. (北京安納托利亞投資有限公司). Cui Wei holds 58.0% equity interest in Beijing Annatuoliya Investment Co., Ltd.. Sang Chunhua holds 42.0% equity interest in Beijing Annatuoliya Investment Co., Ltd.. According to the SFO, Beijing Kadapu Investment Co., Ltd., Beijing Annatuoliya Investment Co., Ltd., Cui Wei and Sang Chunhua are deemed to be interested in the Shares of the Bank held by Anar Real Estate Group Co., Ltd..
- ⁽⁷⁾ Guotai Junan Financial Products Limited is a wholly-owned subsidiary of Guotai Junan (Hong Kong) Limited, which in turn is a wholly-owned subsidiary of Guotai Junan International Holdings Limited. Guotai Junan Holdings Limited holds 68.10% equity interest in Guotai Junan International Holdings Limited. Guotai Junan Holdings Limited is a wholly-owned subsidiary of Guotai Junan Financial Holdings Limited, which in turn is a wholly-owned subsidiary of Guotai Junan Securities Co., Ltd. Guotai Junan Securities Co., Ltd. is deemed to be interested in the Bank's shares held by Guotai Junan Financial Products Limited under the SFO.
- ⁽⁸⁾ CSI Capital Management Limited is a wholly-owned subsidiary of CITIC CLSA Global Markets Holdings Limited, which in turn is a wholly-owned subsidiary of CLSA B.V. CLSA B.V. is a wholly-owned subsidiary of CITIC Securities International Company Limited, which in turn is a wholly-owned subsidiary of CITIC Securities Company Limited. CITIC Securities Company Limited is deemed to be interested in the Bank's shares held by CSI Capital Management Limited under the SFO.
- ⁽⁹⁾ Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. China Huarong Asset Management Co., Ltd. holds 59.3% of the registered share capital in Huarong Rongde Asset Management Company Limited. Cathay Capital Company (No.2) Limited holds 40.7% of the registered share capital in Huarong Rongde Asset Management Company Limited. Deutsche Bank Aktiengesellschaft holds 67.57% equity interest in Cathay Capital Company (No.2) Limited. According to the SFO, Huarong Rongde Asset Management Company Limited, China Huarong Asset Management Co., Ltd., Cathay Capital Company (No.2) Limited and Deutsche Bank Aktiengesellschaft are deemed to be interested in the Shares of the Bank held by Huarong Rongde (Hong Kong) Investment Management Company Limited.

Save as disclosed above, as of June 30, 2019, the Bank is not aware of any other person, other than the Directors, Supervisors and chief executive of the Bank, who had interests or short positions in the Shares and underlying Shares of the Bank, which were required to be recorded in the register of interests maintained by the Bank pursuant to section 336 of Part XV of the SFO, and which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(III) Particulars of Controlling Shareholders and Actual Controller

The Bank does not have a controlling Shareholder or de facto controller.

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

I. INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

As of June 30, 2019 and the date of this interim report, the information of the Directors, Supervisors and senior management members of the Bank is as follows:

Directors

Name	Age	Date of joining the Bank	Date of appointment as Director ⁽¹⁾	Position held as of the Latest Practicable Date	Responsibilities
Mr. Liu Qing (劉青)	53	May 2011 ⁽²⁾	December 3, 2018	Chairman, executive Director	Presiding over the overall operations of the Bank, and primarily responsible for matters concerning Party building, implementation of major responsibilities for fostering a clean and honest Party, the ideological and political work, as well as work concerning the Board of Directors, human resources, and strategic development; in charge of the Office of the Board of Directors (the Strategy and Development Department) and the Human Resources Department (the Organization Department under the Party Committee)
Mr. Wang Wenyong (王文永)	53	December 2018	December 3, 2018	Executive Director	As the president of the Bank, primarily responsible for the overall operation and management of the Bank, and comprehensively coordinating and supervising the operation and management work of the management team; in charge of the Planning and Financial Department and the Corporate Business Department
Ms. Wu Changhong (吳長虹)	55	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member
Ms. Zhang Hongxia (張紅霞)	40	October 2011	October 15, 2011	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

Name	Age	Date of joining the Bank	Date of appointment as Director ⁽¹⁾	Position held as of the Latest Practicable Date	Responsibilities
Mr. Guo Jirong (郭繼榮)	48	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member
Mr. Zhang Youda (張有達)	46	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member
Mr. Liu Wanxiang (劉萬祥)	51	December 2018	December 3, 2018 ⁽³⁾	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member
Ms. Tang Xiuli (唐岫立)	50	August 2017	August 12, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing regulatory and compliance-related advice to the Bank based on her extensive experience in banking regulation in the PRC, and performing her duties as a Director through the Board of Directors, audit committee, nomination and remuneration committee and related party transactions and risk management committee

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

Name	Age	Date of joining the Bank	Date of appointment as Director ⁽¹⁾	Position held as of the Latest Practicable Date	Responsibilities
Ms. Luo Mei (羅玫)	43	August 2017	August 12, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice on finance and accounting to the Bank based on her extensive experience in finance and accounting, and performing her duties as a Director through the Board of Directors, audit committee, nomination and remuneration committee and related party transactions and risk management committee
Mr. Wong Sincere (黃誠思)	54	August 2017	August 12, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank in relation to compliance with Hong Kong laws and the Hong Kong Listing Rules based on his extensive experience in legal and compliance work, and performing his duties as a Director through the Board of Directors, audit committee and related party transactions and risk management committee
Mr. Dong Ximiao (董希淼)	42	December 2018	December 3, 2018	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank based on his extensive experience in finance, and performing his duties as a Director through the Board of Directors, nomination and remuneration committee and related party transactions and risk management committee

Note:

- (1) The date of appointment as a Director stated here represents the date on which the relevant person was first elected as a Director at the general meetings of the Bank.
- (2) Mr. Liu Qing was appointed as deputy secretary to the Party committee and vice president of Dunhuang Bank Co., Ltd. (the former name of the Bank used during the Bank's incorporation process) in May 2011, and had served as an executive director of the Bank from October 2011 to November 2017. He resigned from all his positions in the Bank on November 9, 2017 due to work reallocation and was appointed as chairman and an executive Director of the Bank at the general meeting held on December 3, 2018.
- (3) Mr. Liu Wanxiang was appointed as a non-executive Director at the first extraordinary general meeting of the Bank dated December 3, 2018, but his appointment shall take effect upon obtaining the approval of his directorship qualification by the regulatory authority.

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

Supervisors

Name	Age	Date of joining the Bank	Date of appointment as Supervisor ⁽¹⁾	Position held as of the Latest Practicable Date	Responsibilities
Ms. Tang Lan (湯瀾)	56	November 2018	November 12, 2018	Chairman of the Board of Supervisors, employee representative Supervisor	Responsible for overall work of the Board of Supervisors, primarily responsible for supervising the work of the Board of Directors and management to ensure compliance with laws and regulations, and responsible for auditing, security and institutional construction. In charge of the Office of the Board of Supervisors, Audit Department, Institutional Management Department and Security Department
Mr. Xu Yongfeng (許勇鋒)	54	October 2011	October 15, 2011	Employee representative Supervisor	Supervising the Board of Directors and the senior management on behalf of the employees of the Bank
Mr. Luo Zhenxia (羅振夏)	54	October 2011	October 15, 2011	Employee representative Supervisor	Supervising the Board of Directors and the senior management on behalf of the employees of the Bank
Mr. Liu Yongchong (劉永翀)	52	November 2016	November 20, 2016	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Li Yongjun (李永軍)	50	October 2011	October 15, 2011	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Yang Zhenjun (楊振軍)	49	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Dong Ying (董英)	55	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Luo Yi (羅藝)	38	June 2018	June 1, 2018	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Zeng Lehu (曾樂虎)	48	June 2019	June 3, 2019	Shareholder Supervisor	Supervising the Board of Directors and the senior management

Note:

⁽¹⁾ The date of appointment as a Supervisor stated here represents the date on which the relevant person was first elected as a Supervisor by the Shareholders' general meetings or the employee representatives' meetings (for employee representative Supervisors only) of the Bank.

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

Senior Management

Name	Age	Date of joining the Bank	Date of first appointment as senior management	Position held as of the Latest Practicable Date	Responsibilities
Mr. Wang Wenyong (王文永)	53	December 2018	December 3, 2018	Executive Director, president	As the president of the Bank, primarily responsible for the overall operation and management of the Bank, and comprehensively coordinating and supervising the operation and management work of the management team; in charge of the Planning and Financial Department and the Corporate Business Department
Mr. Qiu Jinhu (仇金虎)	55	January 2015	January 23, 2015	Vice president	Responsible for administrative work, inclusive finance, retail credit, logistical support as well as work relating to poverty alleviation; in charge of the General Office (Office of the Party Committee), Inclusive Finance Department, Administrative Affairs Department and work relating to poverty alleviation and support
Mr. Wang Zhiyuan (王志遠)	50	April 2012	November 1, 2017	Vice president	Responsible for information technology, operation and management, legal compliance related works; in charge of Accounting and Operation Department, Information Technology Department and Legal and Compliance Department

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

Name	Age	Date of joining the Bank	Date of first appointment as senior management	Position held as of the Latest Practicable Date	Responsibilities
Ms. Hao Jumei (郝菊梅)	50	February 2012	December 3, 2018	Vice president, secretary to the Board of Directors	Responsible for the daily work of the Board of Directors, risk management and the financial market, investment banking and bill businesses, as well as the coordination and liaison with the companies held or invested by the Bank (such as rural banks) and relevant coordination and establishment works. In charge of Risk and Credit Management Department, Financial Market Department, Bill Center and Investment Banking Department; and assisting the chairman to take charge of the Office of the Board of Directors
Mr. Wang Chunyun (王春雲)	47	October 2011	October 21, 2016	Senior executive officer for internal control and compliance	To assist in the disposal of risk assets and assist to manage Asset Preservation Department

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

1. Changes during the Reporting Period

(I) Changes in Directors

There was no change to the members of the Board of Directors of the Bank during the Reporting Period. Mr. Dong Ximiao's qualification took effect on March 5, 2019 after being approved by regulatory authorities.

Mr. Dong Ximiao's qualification took effect on March 5, 2019 after being approved by regulatory authorities, and the composition of the members of special committees under the Board was adjusted as follows:

Special Committees	Members
Strategy and Development Committee	Liu Qing (chairman), Wang Wenyong, Zhang Hongxia, Zhang Youda, Liu Wanxiang ^{Note}
Related Party Transaction and Risk Management Committee	Wong Sincere (chairman), Wang Wenyong, Tang Xiuli, Luo Mei, Dong Ximiao
Nomination and Remuneration Committee	Tang Xiuli (chairman), Liu Qing, Wang Wenyong, Luo Mei, Dong Ximiao
Audit Committee	Luo Mei (chairman), Wu Changhong, Guo Jirong, Tang Xiuli, Wong Sincere

Note: Mr. Liu Wanxiang shall only perform his duties from the date of approval of his qualifications of directorship by the CBIRC Gansu Office.

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

(II) Changes in Supervisors

- (1) Due to work adjustment, Mr. Liu Xiaoyu (“Mr. Liu”), a Shareholder Supervisor of the Bank, tendered his resignation to the Board of Supervisors on March 27, 2019 to resign as a Shareholder Supervisor and a member of the audit committee of the Board of Supervisors of the Bank, with effect from June 3, 2019.
- (2) As considered by the Board of Supervisors of the Bank, Mr. Zeng Lehu (“Mr. Zeng”) was proposed to be appointed as a Shareholder Supervisor of the Bank. At the 2018 annual general meeting of the Bank held on June 3, 2019, as the resolution on election of Mr. Zeng as a Supervisor of the Bank was considered and approved by the Shareholders of the Bank, Mr. Zeng formally commenced to perform his duties as a Supervisor of the Bank from the date when the relevant resolution was considered and approved thereby. For information on biographical details of Mr. Zeng and his appointment, please refer to the announcement and circular of the Bank dated March 27, 2019.

(III) Changes in Senior Management

The resolution on appointment of Mr. Hao Jumei as a vice president of the Bank was approved at the Board meeting of the Bank held on April 16, 2019, while her qualification was approved by the relevant regulatory authority on June 28, 2019.

(IV) Information disclosure required under Rule 13.51B(1) of the Hong Kong Listing Rules

Save as disclosed above, no information on changes in Directors, Supervisors and senior management has been disclosed in accordance with Rule 13.51B(1) of the Hong Kong Listing Rules for the six months ended June 30, 2019.

III. COMPANY SECRETARY

During the Reporting Period, Ms. Ng Wing Yan served as the company secretary of the Bank. On July 9, 2019, Ms. Fok Po Yi was appointed as the company secretary of the Bank, and the resignation of Ms. Ng Wing Yan came into effect on the same day. Ms. Fok is a President of SWCS Corporate Services Group (Hong Kong) Limited (“SWCS”) and is responsible for assisting listed companies in professional company secretarial work. Prior to joining SWCS, Ms. Fok worked at an international accounting firm and the Listing & Regulatory Affairs Division of the Hong Kong Stock Exchange for over thirteen years. She obtained a Bachelor of Business Administration with Honors majoring in Accounting in the Chinese University of Hong Kong and a Master of Laws in Corporate and Financial Law from the University of Hong Kong. Ms. Fok is a member of the Hong Kong Institute of Certified Public Accountants.

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

IV. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank endeavors to improve its performance evaluation system for Directors, Supervisors and senior management members. The remuneration system for the Directors, Supervisors and senior management members of the Bank adheres to the principle of unifying responsibilities, authorities and interests, combing incentives and restraints and focusing on both short-term and long-term incentives. The Bank insists on conducting remuneration system reform complementary with relevant reforms and promoting the marketization, monetization and standardization of the income allocation of the Bank's senior management.

The remuneration provided by the Bank for its executive Directors, employee representative Supervisors and senior management who are also the Bank's employees concurrently include salaries, discretionary bonus, social security plans, housing provident fund plans and other benefits. The remuneration provided by the Bank for its non-executive Directors, independent non-executive Directors and other Supervisors are determined by their responsibilities.

The Bank strictly adheres to relevant regulatory provisions when making remuneration payments. The Bank assesses senior management members and offers remuneration to them based on the results of the assessment.

V. SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank has adopted in respect of securities transactions by Directors, Supervisors and senior management, a code of conduct on terms no less exacting than the required standards set out in Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules. Having making specific enquiries to all Directors, Supervisors and members of the senior management of the Bank, the Bank confirmed that they had complied with the Model Code during the Reporting Period.

VI. POSITIONS HELD IN THE SHAREHOLDER COMPANY BY THE EXISTING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position held with the Bank	Name of the shareholder company	Position held in the shareholder company
Ms. Wu Changhong	Non-executive Director	Gansu Highway Aviation Tourism	Member of the Party committee, deputy general manager and chief financial officer
Ms. Zhang Hongxia	Non-executive Director	Baoshang Bank Co., Ltd.	Director of the office of the board of directors
Mr. Guo Jirong	Non-executive Director	Jiuquan Iron & Steel	Head of the asset operation and management department
Mr. Zhang Youda	Non-executive Director	Jinchuan Group	Member of the standing committee of the Party committee, deputy general manager and chief financial officer
Mr. Liu Wanxiang	Non-executive Director	Gansu Electric Power Investment	Deputy secretary to the Party committee, director and general manager
Mr. Liu Yongchong	Shareholder Supervisor	Jing Coal Group Co., Ltd.	Chief financial officer
Mr. Li Yongjun	Shareholder Supervisor	Yong Xin Hua Holdings Group Co., Ltd.	Chairman of the board of directors
Mr. Zeng Lehu	Shareholder Supervisor	DuZhe Publishing & Media Co., Ltd.	Head of financial department
Mr. Yang Zhenjun	External Supervisor	Dingxi Urban Construction and Investment Operation Management Office of Gansu Province	Secretary to the Party committee and director
Mr. Dong Ying	External Supervisor	Wuwei Economic Development and Investment (Group) Co., Ltd.	Deputy general manager

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

VII. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK AND ITS ASSOCIATED CORPORATIONS

As at June 30, 2019, the interests of the Directors, Supervisors and chief executive of the Bank in the Shares, underlying Shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code or in accordance with Divisions 7 and 8 of Part XV under the SFO are as follows:

Name	Position in the Bank	Class of Shares	Nature of Interest	Number of Shares	Percentage of Domestic Shares of the Bank (%)	Percentage of the Total Share Capital of the Bank (%)
Mr. Liu Qing	Chairman, Executive Director	Domestic Shares	Beneficial owner	301,714 (L) ⁽¹⁾	0.004	0.003
Mr. Xu Yongfeng	Supervisor	Domestic Shares	Beneficial owner	225,514 (L) ⁽¹⁾	0.003	0.002
Mr. Luo Zhenxia	Supervisor	Domestic Shares	Beneficial owner	205,711 (L) ⁽¹⁾	0.003	0.002
Mr. Li Yongjun	Supervisor	Domestic Shares	Interest in the controlled corporation ⁽²⁾	239,326,800 (L) ⁽¹⁾	3.180	2.377

Notes:

⁽¹⁾ L represents long position.

⁽²⁾ Mr. Li Yongjun, a Supervisor of the Bank, and his spouse together directly hold 2.0% equity interest in Yong Xin Hua Holdings Co., Ltd. (永新華控股有限公司), Gansu Yong Xin Construction and Installation Engineering Company Limited (甘肅永新建築安裝工程有限公司) and Gansu Huanghai Electronic and Mechanical Devices Engineering Company Limited (甘肅黃海電子機電設備工程有限公司) hold 33.0% and 65.0% equity interest in Yong Xin Hua Holdings Co., Ltd., respectively. Mr. Li Yongjun and his spouse collectively hold 100.0% equity interest in Gansu Yong Xin Construction and Installation Engineering Company Limited and Gansu Huanghai Electronic and Mechanical Devices Engineering Company Limited. Yong Xin Hua Holdings Co., Ltd. directly held 239,326,800 Domestic Shares as at the Latest Practicable Date. Pursuant to the SFO, Mr. Li Yongjun is deemed to be interested in the Shares of the Bank held by Yong Xin Hua Holdings Co., Ltd.

Save as disclosed above, none of the Directors, Supervisors and chief executives of the Bank held any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations as of June 30, 2019.

VIII.EMPLOYEE, EMPLOYEE COMPENSATION POLICY AND EMPLOYEE TRAINING PROGRAM

(I) Staff Composition

As of June 30, 2019, the Bank had 4,093 employees. The table below sets forth its number of full-time employees by function as of the same date:

	Number of employees	Percentage (%)
Corporate banking	587	14.3
Retail banking	421	10.3
Financial market operations	37	0.9
Finance and accounting	202	4.9
Risk management, internal audit and legal and compliance	237	5.8
Information technology	146	3.6
Management	140	3.4
Bank Teller	1,926	47.1
Others	397	9.7
Total	4,093	100.00

The following table sets forth the number of the employees of the Bank by age as of June 30, 2019.

	Number of employees	Percentage (%)
Under 30 (inclusive)	2,184	53.4
31 to 40 years old	1,191	29.1
41 to 50 years old	611	14.9
51 years old or above	107	2.6
Total	4,093	100.00

Chapter 6 Directors, Supervisors, Senior Management, Employees and Organizations

The following table sets forth the number of the employees of the Bank by education degree as of June 30, 2019.

	Number of employees	Percentage (%)
Master's degree or above	278	6.8
Bachelor's degree	3,363	82.2
Others	452	11.0
Total	4,093	100.00

(II) Employee Remuneration

The Bank's employees participate in employee benefit plans, such as pension insurance, corporate annuity funds, housing provident funds, work related injury insurance, medical insurance, unemployment insurance and maternity insurance.

The Bank conducts performance evaluations of employees on an annual basis to provide feedback based on the evaluations. Remuneration for full-time employees typically consists of a base salary and performance-based compensation.

(III) Employee Training Program

The Bank focuses on employee career development and provide training programs for employees in different business lines. It has built a team of internal training providers under its human resources department.

(IV) Labor Union

The Bank has established a labor union in accordance with PRC laws and regulations. It believes that it has maintained a good working relationship with its employees. As of the Latest Practicable Date, the Bank had not experienced any labor strikes or other labor disturbances that materially affected its operations or public image.

IX. THE SUBSIDIARY OF THE BANK

Jingning Chengji Rural Bank was the sole subsidiary of the Bank. The Bank holds 62.73% equity interest in Jingning Chengji Rural Bank, the financials of which have been consolidated into the Bank's financial statements. Jingning Chengji Rural Bank was established on September 18, 2008, which was originally a subsidiary of Pingliang City Commercial Bank. It offers local corporate and retail customers diversified financial products and services, including loans, deposits and fee-and commission-based products and services.

Chapter 7 Important Events

I. CORPORATE GOVERNANCE CODE

The Bank believes that maintaining high standards of corporate governance mechanisms and high quality of corporate governance is one of the key factors to improve its core competitiveness and to build a modern city commercial bank. Therefore, the Bank focuses on high quality of corporate governance, abides by the best domestic and international corporate governance practice, to ensure the rights and interests of Shareholders and improve the value of the Bank.

The Bank has established a modern corporate governance structure in line with the requirements of its Articles of Association, PRC laws and regulations and the Hong Kong Listing Rules. The Board of Directors is accountable to the Shareholders as a whole and is responsible for, among others, determining the Group's business development strategies, business plans and investment proposals, appointing or removing senior management, and deciding matters such as establishment of internal management departments. The Board of Directors has established committees to perform specified functions consisting of the strategy and development committee, audit committee, nomination and remuneration committee, related party transaction and risk management committee. The Board of Supervisors is accountable to the Shareholders as a whole and has the responsibility and power to supervise the Directors and senior management and oversee the Group's financial activities, risk management and internal control.

The Bank has incorporated the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by the CBRC (the "Guidelines") into the Bank's governance structure and policies. The Corporate Governance Code and Guidelines are well reflected in the Articles of Association and the Terms of Reference of the Shareholders' General Meeting, the Board of Directors and committees under the Board of Directors. The Bank's Shareholders' general meeting, the Board of Directors and the Board of Supervisors perform their respective duties, forming good corporate governance structure. The Bank closely monitors its operation to ensure it complies with the relevant requirements under applicable laws, regulations, codes, guidelines and the Bank's internal policies.

The Bank has established and improved the corporate governance structure and established a series of corporate government system according to Corporate Governance Code and Guidelines. The Directors believe that during the Reporting Period, the Bank has complied with all compulsory code provisions contained in the Corporate Governance Code. The Bank has also strictly complied with the provisions regarding management of inside information required by applicable laws and regulations and the Hong Kong Listing Rules.

The Bank will review its corporate governance and strengthen management constantly to ensure compliance with the Corporate Governance Code and the Guidelines and meet the higher expectations from its Shareholders and potential investors.

II. PROFITS AND DIVIDENDS

(1) 2018 final dividend

At the meeting of the Board of Directors of the Bank convened on March 27, 2019, the Board proposed the profit distribution plan as follows:

- To appropriate RMB343.1 million, being 10% of net profit realized this year to statutory surplus reserve.
- To appropriate RMB343.1 million, being 10% of net profit realized this year to surplus reserve fund.
- To appropriate RMB785.4 million, being 1.5% of the risk-bearing assets to the general risk reserve according to the Administrative Measures for the Provisioning for Reserves of Financial Institutions (2012) No. 20 (《金融企業準備金計提管理辦法》([2012] 20號)) promulgated by the Ministry of Finance of the People's Republic of China.
- To distribute cash dividends in an aggregate amount of RMB1,029,363,510.73 (tax inclusive), being 30% of the net profit of RMB3,431,211,702.42, representing a cash dividend of RMB0.1022 per share (tax inclusive) to be distributed.
- The remaining retained earnings of the parent company of RMB2,925.9 million to be carried forward to the following year.

The proposals were considered and approved at the 2018 annual general meeting convened on June 3, 2019. The Bank has distributed the final dividend for 2018 on Friday, August 2, 2019 to all Shareholders on register as at Saturday, June 15, 2019.

(2) 2019 interim dividend

The Bank's revenue for the six months ended June 30, 2019 and the Bank's financial position as of the same date are set out in the interim financial statements of this interim report.

The Board did not recommend the distribution of 2019 interim dividend and any capitalisation of capital reserve.

Chapter 7 Important Events

III. NON-PUBLIC ISSUANCE OF OFFSHORE PREFERENCE SHARES

The 2018 annual general meeting, the 2019 First Domestic Shareholders Class Meeting and the 2019 First H Shareholders Class Meeting were held on June 3, 2019 by the Bank, at which the resolution on non-public issuance of offshore preference shares was considered and approved. The Bank proposes to conduct a non-public issuance of not more than 100 million offshore preference shares to raise proceeds up to RMB10 billion or its equivalent to replenish the Bank's additional tier one capital. The Bank has disclosed relevant matters in relation to the proposed issuance of offshore preference shares by the Bank in the circular dated April 18, 2019 and the announcement dated March 27, 2019. The Bank is currently proceeding the relevant matters of the non-public issuance of offshore preference shares according to the plan.

IV. ISSUANCE OF DEBT SECURITIES

(1) Debt securities issued for the six months ended June 30, 2019

In December 2015, the Bank issued tier-two capital bonds in an aggregate principal amount of RMB3,200.0 million. The bonds have a term of 10 years and bear an interest rate of 5.10% per annum. The Bank has an option to redeem the bonds on December 11, 2020 at par.

In March 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.67% per annum.

In April 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of five years and bear an interest rate of 5.00% per annum.

In May 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.90% per annum.

In August 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.85% per annum. In May 2018, the Bank issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.87% per annum.

From January 1, 2019 to June 30, 2019, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB20,350.0 million. These interbank certificates have terms of six months to one year and bear effective interest rates between 3.35% and 5.35% per annum.

(2) Issuance of financial bonds

At the meeting of the Board of Directors of the Bank convened on March 27, 2019, the Board of Directors advised the Bank to issue capital bonds with non-fixed terms to the public in an aggregate amount of no more than RMB5 billion (inclusive). The proposal was considered and approved at the 2018 annual general meeting convened on June 3, 2019.

As of the Latest Practicable Date, the Bank has not issued any bonds as per the aforesaid authorization. The Bank will, according to relevant applicable laws and regulations and the Hong Kong Listing Rules, disclose concrete progress of issuing financial bonds to its Shareholders and potential investors in a prompt manner.

V. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

During the Reporting Period, neither the Bank nor its subsidiary had purchased, sold or redeemed any of the Bank's listed securities.

VI. RELATED PARTY TRANSACTIONS

During the Reporting Period, no material related party transaction had occurred which had adverse effects on the operating results and financial position of the Bank.

VII. MATERIAL LAWSUITS AND ARBITRATIONS

Legal disputes in which the Bank and its subsidiary were involved during daily businesses mainly included actions taken against the borrowers for the purpose of recovering loans. As of the Latest Practicable Date, neither the Bank nor its subsidiary had been involved in any major pending litigation as defendant.

VIII. PUNISHMENT IMPOSED ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

During the Reporting Period and as at the Latest Practicable Date, neither the Bank nor its Directors, Supervisors and senior management members had been subject to investigation, administrative sanction and criticism by CSRC, public censure by Hong Kong Stock Exchange, or punishment imposed by any other regulatory authorities and having material effect on the Bank's operations.

IX. PUBLIC FLOAT

When it applied for the listing of its H Shares, the Bank applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted the Bank a waiver that the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules be reduced and the minimum percentage of the H Shares from time to time held by the public to be the higher of (i) 22.72%, the percentage of H Shares to be held by the public immediately after the completion of the global offering (assuming the over-allotment option is not exercised); and (ii) such percentage of H Shares to be held by the public after the exercise of the over-allotment option, provided that the higher of (i) and (ii) above is below the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Hong Kong Listing Rules.

Based on the Bank's publicly available information and to the best of the Directors' knowledge, as of the Latest Practicable Date, the number of H Shares in public hands represents approximately 25.26% of the total issued share capital of the Bank, which satisfies the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules.

Chapter 7 Important Events

X. APPOINTMENT OF EXTERNAL AUDITORS

As deliberated and approved by Shareholders at the 2018 annual general meeting on June 3, 2019, the Bank reappointed Shinewing Certified Public Accountants LLP as its domestic external auditor for 2019, which is responsible for providing relevant domestic audit services in accordance with PRC GAAP; reappointed SHINEWING (HK) CPA Limited as its international external auditor for 2019, which is responsible for providing relevant overseas audit & review services in accordance with IFRS. The terms of the above two external auditors shall start from the date when the proposal on appointment of external auditors for 2019 was adopted at the 2018 annual general meeting of the Bank (namely on June 3, 2019) to the date when the 2019 annual general meeting of the Bank ended.

XI. ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES, ASSETS AND BUSINESS COMBINATIONS/MERGERS

The Bank did not carry out any acquisition and disposal of subsidiaries, associates, assets and business combinations/mergers during the Reporting Period and as at the Latest Practicable Date.

XII. REVIEW OF INTERIM REPORT

The financial statements disclosed in this interim report have not been audited. The interim financial statements of the Bank for the six months ended June 30, 2019 prepared in accordance with IFRS issued by the International Accounting Standards Board have been reviewed by SHINEWING (HK) CPA Limited according to Hong Kong Standard on Review Engagements 2410. The Board of Directors and its audit committee have reviewed and approved the Group's unaudited consolidated interim financial data for the six months ended June 30, 2019.

XIII. PUBLICATION OF THE 2019 INTERIM REPORT

The 2019 Interim Report of the Bank prepared in accordance with the Hong Kong Listing Rules and IFRS is available on the HKEXnews website (<http://www.hkexnews.hk>) and the Bank's website (<http://www.gsbankchina.com>).

In this interim report, the financial data for the six months ended June 30, 2019 have not been audited, and the financial data for the year ended December 31, 2018 have been audited.

Chapter 8 Report on Review of Condensed Consolidated Financial Statements



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE BOARD OF DIRECTORS OF BANK OF GANSU CO., LTD.

甘肅銀行股份有限公司

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Bank of Gansu Co., Ltd (the “Bank”) and its subsidiary (collectively referred to as the “Group”) set out on pages 83 to 149, which comprise the condensed consolidated statement of financial position as of June 30, 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Chapter 8 Report on Review of Condensed Consolidated Financial Statements

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong
August 28, 2019

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

For the six months ended June 30, 2019

	Notes	Six months ended June 30,	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Interest income		7,278,319	7,546,738
Interest expenses		(4,406,117)	(3,889,181)
Net interest income	5	2,872,202	3,657,557
Fee and commission income		158,742	193,193
Fee and commission expenses		(45,415)	(65,364)
Net fee and commission income	6	113,327	127,829
Net trading gains	7	852,617	434,740
Net gains arising from investment securities	8	15,457	2,442
Net exchange gains		8,467	168,943
Other operating (expense) income, net	9	(4,141)	11,521
Operating income		3,857,929	4,403,032
Operating expenses	10	(941,593)	(987,295)
Impairment losses on assets, net of reversals	11	(2,289,679)	(472,643)
Operating profit		626,657	2,943,094
Share of (loss)/profit of an associate	22	(2,314)	820
Profit before tax		624,343	2,943,914
Income tax expense	12	(106,001)	(733,487)
Profit for the period		518,342	2,210,427
Earnings per share			
– Basic and diluted (RMB cents)	13	5.10	22.49

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

For the six months ended June 30, 2019

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	518,342	2,210,427
Other comprehensive income/(expenses) for the period:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
– Remeasurement of defined benefit obligations	1,820	(1,280)
– Income tax relating to remeasurement of defined benefit obligations that will not be reclassified subsequently	(455)	320
	1,365	(960)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Debt instrument at fair value through other comprehensive income		
– Amounts reclassified to/(from) other comprehensive income in respect of impairment losses	402	(5,150)
– Change in fair value recognised in investment revaluation reserve	(40,231)	64,490
– Income tax relating to item that may be reclassified subsequently	9,555	(16,123)
	(30,274)	43,217
Other comprehensive (expenses) income for the period, net of income tax	(28,909)	42,257
Total comprehensive income for the period	489,433	2,252,684
Profit for the period attributable to:		
– Owners of the Bank	513,718	2,211,388
– Non-controlling interests	4,624	(961)
	518,342	2,210,427
Total comprehensive income for the period attributable to:		
– Owners of the Bank	484,809	2,253,645
– Non-controlling interests	4,624	(961)
	489,433	2,252,684

Condensed Consolidated Statement of Financial Position

At June 30, 2019

	Notes	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Assets			
Cash and deposits with the central bank	14	30,028,786	31,536,912
Deposits with banks	15	6,714,240	12,927,702
Financial assets held under resale agreements	16	18,244,627	19,523,812
Financial assets at amortised cost	17	54,988,698	45,066,288
Interests receivables	18	2,372,692	1,891,235
Loans and advances to customers	19	164,260,230	154,633,858
Financial assets at fair value through profit or loss	20	41,190,526	42,560,973
Debt instruments at fair value through other comprehensive income	21	16,168,068	15,249,097
Interest in an associate	22	6,656	8,970
Property and equipment	23(a)	2,793,826	3,006,860
Right-of-use assets	23(b)	308,169	–
Deferred tax assets	24	2,023,530	1,719,546
Tax recoverable		39,869	–
Other assets	25	3,651,414	497,118
Total assets		342,791,331	328,622,371
Liabilities and equity			
Liabilities			
Borrowings from the central bank	27	6,183,770	11,650,851
Deposits from banks and other financial institutions	28	13,925,658	15,513,772
Placements from banks and other financial institutions	29	3,010,000	3,300,000
Financial assets sold under repurchase agreements	30	5,135,453	11,716,985
Deposits from customers	31	235,622,916	210,723,317
Accrued staff costs	32	293,306	478,344
Taxes payable		–	491,170
Interests payable	33	7,020,730	6,418,933
Debts securities issued	34	43,436,871	41,576,773
Deferred tax liabilities	24	100,333	135,263
Other liabilities	35	3,353,577	1,369,372
Total liabilities		318,082,614	303,374,780

Condensed Consolidated Statement of Financial Position

At June 30, 2019

	Notes	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Equity			
Share capital	36	10,069,791	10,069,791
Capital reserve	37(a)	4,659,372	4,658,314
Defined benefit plan reserve		(2,791)	(4,156)
Investment revaluation reserve		231,153	261,427
Surplus reserve	37(b)	1,510,052	1,510,052
General reserve	37(c)	4,423,117	4,423,117
Retained earnings		3,782,133	4,297,780
Total equity attributable to owners of the Bank		24,672,827	25,216,325
Non-controlling interests		35,890	31,266
Total equity		24,708,717	25,247,591
Total liabilities and equity		342,791,331	328,622,371

The condensed consolidated financial statements on pages 83 to 149 were approved and authorised for issue by the board of directors of the Bank on August 28, 2019 and are signed on its behalf by:

Mr. Liu Qing
Director

Mr. Wang Wen Yong
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2019

	Attributable to owners of the Bank									
	Share Capital	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019	10,069,791	4,658,314	(4,156)	261,427	1,510,052	4,423,117	4,297,780	25,216,325	31,266	25,247,591
Profit for the period	-	-	-	-	-	-	513,718	513,718	4,624	518,342
Other comprehensive income/ (expenses) for the period	-	-	1,365	(30,274)	-	-	-	(28,909)	-	(28,909)
Total comprehensive income/ (expenses) for the period	-	-	1,365	(30,274)	-	-	513,718	484,809	4,624	489,433
Shareholders' injection (Note 37 (a))	-	1,058	-	-	-	-	-	1,058	-	1,058
Dividends declared	-	-	-	-	-	-	(1,029,365)	(1,029,365)	-	(1,029,365)
At June 30, 2019 (Unaudited)	10,069,791	4,659,372	(2,791)	231,153	1,510,052	4,423,117	3,782,133	24,672,827	35,890	24,708,717

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2019

	Attributable to owners of the Bank									
	Share Capital	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018	7,525,991	1,767,659	(744)	12,702	831,643	3,631,670	2,332,358	16,101,279	28,850	16,130,129
Profit for the period	-	-	-	-	-	-	2,211,388	2,211,388	(961)	2,210,427
Other comprehensive (expenses)/ income for the period	-	-	(960)	43,217	-	-	-	42,257	-	42,257
Total comprehensive (expenses)/income for the period	-	-	(960)	43,217	-	-	2,211,388	2,253,645	(961)	2,252,684
Change in share capital										
- Capital contributed by equity shareholders	2,543,800	3,058,642	-	-	-	-	-	5,602,442	-	5,602,442
- Share issue expenses	-	(168,487)	-	-	-	-	-	(168,487)	-	(168,487)
Appropriation of profits										
- Appropriation to surplus reserve	-	-	-	-	335,288	-	(335,288)	-	-	-
At June 30, 2018 (Unaudited)	10,069,791	4,657,814	(1,704)	55,919	1,166,931	3,631,670	4,208,458	23,788,879	27,889	23,816,768

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2019

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before tax	624,343	2,943,914
Adjustments for:		
Depreciation of property and equipment	180,821	147,027
Depreciation of right-of-use assets	45,381	–
Amortisation of long term deferred expenses, land use rights and intangible assets	2,189	8,120
Impairment losses on assets	2,289,679	472,643
Interest expense on lease liabilities	3,806	–
Interest expense on debts securities issued	822,227	754,577
Loss/(gain) on disposal of property and equipment	3,768	(108)
Net unrealised trading losses (gains)	99,489	(142,416)
Net gains arising from investment securities	(15,457)	(2,442)
Government grants	(4,854)	(15,847)
Interest income on financial investments	(1,621,307)	(1,892,463)
Share of loss/(profit) of an associate	2,314	(820)
	2,432,399	2,272,185
Changes in operating assets		
Net decrease/(increase) in deposits with the central bank	1,391,649	(35,886)
Net decrease in deposits with the banks	542,103	23,895,749
Net decrease/(increase) in financial assets at fair value through profit or loss	1,270,958	(20,656,788)
Net increase in loans and advances to customers	(11,791,685)	(20,342,290)
Net (increase)/decrease in other operating assets	(3,492,533)	371,513
	(12,079,508)	(16,767,702)
Changes in operating liabilities		
Net (decrease)/increase in borrowing from central bank	(5,467,081)	4,336,488
Net (decrease)/increase in deposits and placements from banks and other financial institutions	(1,878,114)	16,058,647
Net decrease in financial assets sold under repurchase agreements	(6,581,532)	(3,894,099)
Net increase in deposits from customers	24,899,599	6,018,070
Net increase in other operating liabilities	1,096,281	1,630,955
	12,069,153	24,150,061

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2019

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash generated from operations	2,422,044	9,654,544
Income tax paid	(966,854)	(983,461)
NET CASH FROM OPERATING ACTIVITIES	1,455,190	8,671,083
INVESTING ACTIVITIES		
Proceeds from disposal of investments	7,588,729	60,560,587
Interest income received from financial investments	1,441,666	1,922,426
Proceeds from disposal of property and equipment	76,100	475
Payments on acquisition of investments	(18,585,000)	(59,782,800)
Payments on acquisition of property and equipment and intangible assets	(48,077)	(1,161,772)
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(9,526,582)	1,538,916
FINANCING ACTIVITIES		
Government grants received	4,854	15,847
Proceeds from capital contribution by equity shareholder	1,058	5,602,442
Shares issue expense	–	(168,487)
Proceeds from issue of new debt securities	20,350,000	23,705,588
Repayment of debt securities issued	(18,500,000)	(13,480,000)
Repayment of lease liabilities	(46,969)	–
Interest paid on debts securities issued	(804,545)	(143,708)
Dividends paid	(27)	(75)
NET CASH FROM FINANCING ACTIVITIES	1,004,371	15,531,607
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(7,067,021)	25,741,606
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	35,147,129	17,220,882
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 41)	28,080,108	42,962,488
Interest received	6,796,862	7,111,028
Interest paid (excluding interest expense on debts securities issued)	(2,995,969)	(2,139,588)

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

1. GENERAL

The Bank was established in Lanzhou, Gansu Province, the People's Republic of China (the "PRC") on September 27, 2011 with the approval of China Banking Regulatory Commission (the "CBRC"). Prior to its establishment, the banking business was carried out by two city commercial banks (the "Predecessor Entities"), each being located in Gansu Province.

Pursuant to reorganisation initiated by the People's Government of Gansu Province, the Bank was established through the merger and reorganisation of the Predecessor Entities.

The Bank obtained its finance permit No. B1228H262010001 from the CBRC, and obtained its business license No. 91620000585910383X from the Gansu Administration of Industry and Commerce. The legal representative is Liu Qing and the address of the registered office is No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province.

As at June 30, 2019, the Bank has a head office, 12 branches, 189 sub-branches, 5 micro-to-small enterprise sub-branches, 3 community sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (collectively referred to as the "Group") are the provision of corporate and retail deposits, loans and advances, payment and settlement services, as well as other banking services as approved by the CBRC. The Group operates in Mainland China.

On January 18, 2018, the Bank's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock code: 2139).

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Bank and its subsidiary.

2. BASIS OF PREPARATION

The condensed consolidated financial statement of the Group for the six months ended June 30, 2019 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange, and with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), issued by the International Accounting Standards Board ("IASB").

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2019 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs, which include IFRSs, International Accounting Standards ("IAS(s)"), amendments and related Interpretations ("IFRICs"), issued by the International Accounting Standards Board (the "IASB") which are effective for the Group's financial year beginning January 1, 2019.

IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle

The adoption of IFRS 16 resulted in changes in the Group's accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. The new accounting policies are set out in note 4 below. The application of other new and amendments to IFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Impacts on adoption of IFRS 16 Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 4. The Group has applied IFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at January 1, 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 17 Leases.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and Int-4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

The major impacts of the adoption of IFRS 16 on the Group's condensed consolidated financial statements are described below.

The Group as lessee

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 2.85%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Impacts on adoption of IFRS 16 Leases (Continued)

The Group as Lessor

The Group leases some of the properties. The accounting policies applicable to the Group as lessor are not different from those under IAS17.

The following table summaries the impact of transition to IFRS 16 at January 1, 2019. Line items that were not affected by the adjustments have not been included.

	Notes	As at December 31, 2018 RMB'000 (Audited)	Impact on adoption of IFRS 16 RMB'000	As at January 1, 2019 RMB'000 (Unaudited)
Right-of-use assets	(a) (b)	–	277,820	277,820
Other liabilities	(a)	1,369,372	250,186	1,619,558
Other assets	(b)	497,118	(27,634)	469,484

(a) As at January 1, 2019, right-of-use assets were measured at an amount of approximately RMB277,820,000, included leased premises amount of approximately RMB250,186,000 which is equal to the lease liabilities included in "other liabilities" of approximately RMB250,186,000. There is no impact on retained earnings.

(b) Land use right included in "other assets" of approximately RMB27,634,000 as at December 31, 2018 were adjusted to right-of-use assets which represent the upfront payments for leasehold lands in the PRC as at January 1, 2019.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Impacts on adoption of IFRS 16 Leases (Continued)

Differences between operating lease commitment as at December 31, 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at January 1, 2019 are as follow:

	RMB'000
Operating lease commitment disclosed as at December 31, 2018	320,062
Less: Short-term leases and other leases with remaining lease term ending on or before December 31, 2019	(53,279)
	266,783
Discounted using the incremental borrowing rate at January 1, 2019	250,186
Lease liabilities recognised as at January 1, 2019	(250,186)

3.2 Practical expedients applied

On the date of initial application of IFRS 16, the Group has used the following practical expedients permitted by the standard:

- Not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Int-4 Determining whether an arrangement contains a Lease.
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics, and
- The accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

4. CHANGE IN ACCOUNTING POLICIES

Leases

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments).

The lease liability is presented as included in “other liabilities” on the condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

4. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as lessee (Continued)

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

4. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as lessee (Continued)

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the “Property and equipment” policy as stated in the Group’s annual consolidated financial statements for the year ended December 31, 2018.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

5. NET INTEREST INCOME

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income arising from		
– Deposits with the central bank	195,962	214,883
– Deposits with banks	166,952	534,152
– Placements with banks and other financial institutions	–	2,496
– Loans and advances to customers:		
Corporate loans and advances	3,583,824	3,417,438
Personal loans and advances	942,050	743,256
Discounted bills	534,004	538,248
– Financial assets held under resale agreements	234,220	203,802
– Investments	1,621,307	1,892,463
	7,278,319	7,546,738
Less: Interest expenses arising from		
– Borrowing from the central bank	(136,931)	(120,897)
– Deposits from banks and other financial institutions	(172,933)	(804,636)
– Placements from banks and other financial institutions	(48,456)	(109,595)
– Deposits from customers:		
Corporate customers	(1,034,082)	(673,156)
Individual customers	(2,075,722)	(1,305,783)
– Financial assets sold under repurchase agreements	(111,960)	(120,537)
– Debts securities issued	(822,227)	(754,577)
– Lease liabilities	(3,806)	–
	(4,406,117)	(3,889,181)
	2,872,202	3,657,557

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

6. NET FEE AND COMMISSION INCOME

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fee and commission income		
– Wealth management service fees	17,695	26,323
– Bank acceptance bills service fees	10,280	12,232
– Agency services fees	83,557	95,919
– Settlement and clearing fees	36,144	45,165
– Letter of guarantee service fees	274	142
– Others	10,792	13,412
	158,742	193,193
Fee and commission expense		
– Settlement and clearing fees	(9,311)	(2,485)
– Bank card service fees	(35,040)	(59,182)
– Others	(1,064)	(3,697)
	(45,415)	(65,364)
	113,327	127,829

7. NET TRADING GAINS

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Trading financial instruments		
– Realised gains from debt securities	952,106	280,567
– Unrealised (losses)/gains from debt securities	(99,489)	154,173
	852,617	434,740

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

8. NET GAINS ARISING FROM INVESTMENT SECURITIES

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net gains on disposal of debt instruments at fair value through other comprehensive income	15,457	2,442

9. OTHER OPERATING (EXPENSE)/INCOME, NET

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants (Note)	4,854	15,847
Rental income	1,371	1,487
(Loss) gain on disposal of property and equipment	(3,768)	108
Other operating expenses	(6,598)	(5,921)
	(4,141)	11,521

Note: Government grants recognised as other income are awarded to the Group by the PRC government as incentives primarily to encourage the development of the Group and the contribution to the local economic development. The government grants are one-off with no specific condition attached.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

10. OPERATING EXPENSES

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff costs (including directors' emoluments)		
– Salaries and bonuses	346,345	449,764
– Staff welfares	11,900	8,959
– Social insurance	79,286	70,651
– Housing allowances	31,998	27,338
– Labor union and staff education expenses	9,986	8,802
– Others	1,015	355
	480,530	565,869
Premises and equipment expenses		
– Depreciation of property and equipment	180,821	147,027
– Depreciation of right-of-use assets	45,381	–
– Amortisation of long term deferred expenses	–	7,234
– Amortisation of land use rights	–	656
– Amortisation of intangible assets	2,189	230
– Rental and property management expenses	37,736	88,537
	266,127	243,684
Business tax and surcharges	37,558	36,016
Other general and administrative expenses	157,378	141,726
	941,593	987,295

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

11. IMPAIRMENT LOSSES ON ASSETS, NET OF REVERSALS

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment losses on:		
Debt instruments at FVTOCI	402	(5,150)
Financial assets at amortised cost	130,116	(29,163)
Other receivables, prepayments and repossessed assets	7,020	2,412
Loans and advances to customers	2,165,313	492,009
Deposit with banks and other financial institutions	–	(2,307)
Financial assets held under resale agreements	–	(62)
Bank acceptances and letters of guarantees	(13,172)	14,904
	2,289,679	472,643

12. INCOME TAX EXPENSE

(a) Income tax:

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprise Income Tax	435,815	709,648
Deferred tax (Note 24)		
– Current year	(329,814)	23,839
	106,001	733,487

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%. Pingliang Jingning Chengji Rural Bank Co., Ltd. ("平涼市靜寧成紀村鎮銀行股份有限公司", "Jingning Chengji Rural Bank"), a subsidiary of the Bank, obtained approvals from tax authorities to adopt the preferential income tax rate of 15%.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

12. INCOME TAX EXPENSE (CONTINUED)

- (b) The tax charge for the period can be reconciled to the profit before tax per the condensed consolidated statements of profit or loss and other comprehensive income as follows:

	Six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Profit before tax	624,343	2,943,914
Tax at domestic income tax rate of 25%	156,086	735,979
Tax effect of share of (loss)/profit of an associate	579	(205)
Tax effect of expenses not deductible for tax purpose (Note (i))	2,688	2,965
Tax effect of income that are not taxable for tax purpose (Note (ii))	(51,929)	(4,040)
Income tax on concessionary rate	(1,423)	(1,212)
Income tax expense	106,001	733,487

Notes:

- (i) Expenses not deductible for tax purpose consists of a portion of expenditures, such as entertainment expenses and donations, which exceed the tax deduction limits in accordance with PRC tax regulation.
- (ii) Income not taxable for tax purpose consists of interest income from micro loans to farmers, which is exempted from income tax under the PRC tax regulation.

Details of the deferred taxation are set out in Note 24.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Bank is based on the following data:

	Six months ended June 30,	
	2019 (Unaudited)	2018 (Unaudited)
Profit for the period attributable to owners of the Bank (RMB'000)	513,718	2,211,388
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	10,069,791	9,830,871

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the period ended June 30, 2019 and 2018.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

14. CASH AND DEPOSITS WITH THE CENTRAL BANK

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Cash on hand	487,426	432,435
Deposits with the central bank		
– Statutory deposit reserve (Note (a))	23,305,835	24,682,677
– Surplus deposit reserve (Note (b))	6,216,003	6,387,471
– Fiscal deposits	19,522	34,329
	29,541,360	31,104,477
	30,028,786	31,536,912

Notes:

- (a) The Group places statutory deposit reserves with the PBOC (The People's Bank Of China) in accordance with relevant regulations. As at June 30, 2019 and December 31, 2018, the statutory deposit reserve ratios applicable to the Bank were as follows:

	At June 30, 2019 (Unaudited)	At December 31, 2018 (Audited)
Reserve ratio for RMB deposits	10%	12%

The statutory deposit reserves are restricted balances with central bank and are not available for the Group's daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of cash settlement and other kinds of unrestricted deposits.

15. DEPOSITS WITH BANKS

Analysed by type and location of counterparty

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Deposits in Mainland China		
– Banks	5,864,019	12,626,836
Deposits outside Mainland China		
– Banks	854,930	305,575
	6,718,949	12,932,411
Less: Provision for impairment loss	(4,709)	(4,709)
	6,714,240	12,927,702

As at June 30, 2019 and December 31, 2018, the Group classifies all deposits with banks in Stage 1, and measures the loss allowance equal to 12-month expected credit losses ("ECL").

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

16. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
In Mainland China		
– Banks	18,244,627	11,435,057
– Other financial institutions	–	8,088,755
	18,244,627	19,523,812

(b) Analysed by type of security held

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Debt securities		
– Government	5,216,700	4,705,553
– Banks and other financial institutions	11,218,523	14,818,259
	16,435,223	19,523,812
Discounted bills	1,809,404	–
	18,244,627	19,523,812

As at June 30, 2019 and December 31, 2018, the Group classifies all financial assets held under resale agreements in Stage 1, and measures the loss allowance equal to 12-month ECL.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

17. FINANCIAL ASSETS AT AMORTISED COST

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Financial asset measured at amortised cost		
Debt securities issued by the following institutions in Mainland China		
– Government	9,679,458	5,238,228
– Banks and other financial institutions	11,981,961	7,348,088
– Corporations	4,780,733	5,831,434
Trust plans	14,134,788	11,977,738
Asset management plans	17,126,274	17,020,474
Asset-backed securities issued by bank and other institutions	145,000	379,726
	57,848,214	47,795,688
Less: Provision for impairment losses	(2,859,516)	(2,729,400)
	54,988,698	45,066,288
Analysed as:		
Unlisted inside Hong Kong	3,076,023	–
Listed outside Hong Kong	23,268,739	18,321,494
Unlisted outside Hong Kong	28,643,936	26,744,794
	54,988,698	45,066,288
Fair value	55,052,264	45,163,984

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

18. INTERESTS RECEIVABLES

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Interests receivables arising from:		
– Investments	1,364,057	1,055,552
– Loans and advances to customers	901,988	779,388
– Financial assets held under resale agreements	5,430	17,177
– Deposits and placements with banks and other financial institutions	90,007	26,002
– Deposits with the central bank	11,210	13,116
	2,372,692	1,891,235

As at June 30, 2019 and December 31, 2018, the Group classifies all interest receivables in Stage 1, and measures the loss allowance equal to 12-month ECL.

19. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Gross loans and advances to customers		
Corporate loans and advances	113,224,261	113,204,179
Personal loans and advances		
– Personal business loans	7,646,240	7,580,060
– Personal consumption loans	9,075,828	7,647,686
– Residential and commercial mortgage loans	15,698,973	12,797,435
	32,421,041	28,025,181
Discounted bills	25,180,825	19,655,952
	170,826,127	160,885,312
Less: Provision for impairment losses	(6,565,897)	(6,251,454)
	164,260,230	154,633,858

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector

	At June 30, 2019		Loans and advances secured by collaterals RMB'000 (Unaudited)
	Amount RMB'000 (Unaudited)	Percentage (Unaudited)	
Gross loans and advances to customers			
Corporate loans and advances			
– Manufacturing	23,555,845	13.79%	10,407,981
– Wholesale and retail	20,168,848	11.81%	10,578,755
– Real estate	15,358,046	8.99%	15,293,166
– Construction	9,601,843	5.62%	5,604,948
– Mining	8,155,588	4.77%	3,218,314
– Leasing and business services	7,656,309	4.48%	5,212,958
– Agriculture, forestry, animal husbandry and fishery	7,479,818	4.38%	3,368,753
– Water, environment and public facility management	3,586,644	2.10%	2,301,699
– Electricity, gas and water production and supply	3,416,247	2.00%	748,660
– Cultural, sports and entertainment	2,738,934	1.60%	2,136,296
– Accommodation and catering	2,619,738	1.53%	2,114,920
– Transportation, storage and postal services	2,570,925	1.51%	1,174,762
– Health and social services	1,845,199	1.08%	722,250
– Education	1,654,994	0.97%	254,480
– Finance	1,000,000	0.59%	–
– Scientific research, technical services and geological prospecting	923,370	0.54%	886,270
– Resident and other services	740,511	0.43%	452,186
– Information transmission, computer services and software	131,402	0.08%	68,653
– Public administration, social security and social organisations	20,000	0.01%	–
	113,224,261	66.28%	64,545,051
Personal loans and advances	32,421,041	18.98%	16,557,798
Discounted bills	25,180,825	14.74%	–
	170,826,127	100%	81,102,849
Less: Provision for impairment losses	(6,565,897)		
	164,260,230		

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector (Continued)

	At December 31, 2018		
	Amount RMB'000 (Audited)	Percentage (Audited)	Loans and advances secured by collaterals RMB'000 (Audited)
Gross loans and advances to customers			
Corporate loans and advances			
– Wholesale and retail	24,169,490	15.02%	13,422,861
– Manufacturing	20,197,228	12.55%	9,192,653
– Real estate	13,124,822	8.16%	12,828,752
– Construction	9,129,223	5.67%	5,871,741
– Mining	8,534,067	5.30%	3,396,803
– Agriculture, forestry, animal husbandry and fishery	8,204,597	5.10%	3,953,977
– Leasing and business services	7,157,594	4.45%	4,739,050
– Water, environment and public facility management	6,051,454	3.76%	2,306,599
– Cultural, sports and entertainment	2,898,150	1.80%	2,281,009
– Accommodation and catering	2,689,370	1.67%	2,124,016
– Electricity, gas and water production and supply	2,509,760	1.56%	427,140
– Transportation, storage and postal services	2,328,873	1.45%	1,208,586
– Health and social services	1,846,173	1.15%	685,340
– Education	1,634,628	1.02%	254,350
– Finance	1,000,000	0.62%	–
– Scientific research, technical services and geological prospecting	927,125	0.58%	879,624
– Resident and other services	622,583	0.39%	318,699
– Information transmission, computer services and software	159,042	0.10%	86,948
– Public administration, social security and social organisations	20,000	0.01%	–
	113,204,179	70.36%	63,978,148
Personal loans and advances	28,025,181	17.42%	13,939,578
Discounted bills	19,655,952	12.22%	–
	160,885,312	100%	77,917,726
Less: Provision for impairment losses	(6,251,454)		
	154,633,858		

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Gross loans and advances to customers		
Unsecured loans	17,286,823	17,842,633
Guaranteed loans	59,669,946	54,814,533
Collateralised loans	81,102,849	77,917,726
Pledged loans	12,766,509	10,310,420
	170,826,127	160,885,312
Less: Provision for impairment losses	(6,565,897)	(6,251,454)
	164,260,230	154,633,858

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Loans and advances and provision for impairment losses

	At June 30, 2019			
	Loans and advances that are assessed for 12m ECL ("Stage 1") RMB'000 (Unaudited)	Not credit-impaired loans and advances that are assessed for lifetime ECL ("Stage 2") RMB'000 (Unaudited)	Credit-impaired loans and advances that are assessed for lifetime ECL ("Stage 3") RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Gross loans and advances to customers	154,488,781	9,752,290	6,585,056	170,826,127
Less: Provision for impairment losses	(1,709,612)	(2,226,786)	(2,629,499)	(6,565,897)
	152,779,169	7,525,504	3,955,557	164,260,230

	At December 31, 2018			
	Loans and advances that are assessed for 12m ECL ("Stage 1") RMB'000 (Audited)	Not credit-impaired loans and advances that are assessed for lifetime ECL ("Stage 2") RMB'000 (Audited)	Credit-impaired loans and advances that are assessed for lifetime ECL ("Stage 3") RMB'000 (Audited)	Total RMB'000 (Audited)
Gross loans and advances to customers	146,085,553	9,765,016	5,034,743	160,885,312
Less: Provision for impairment losses	(1,741,394)	(2,080,219)	(2,429,841)	(6,251,454)
	144,344,159	7,684,797	2,604,902	154,633,858

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) **Movements of provision for impairment losses**

The table below analyse the movement of the provision for impairment losses during the period per class of assets.

	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
At January 1, 2019	1,741,393	2,080,219	2,429,842	6,251,454
Change in the provision for impairment losses				
– Transfer to Stage 1	119,468	(115,997)	(3,471)	–
– Transfer to Stage 2	(71,103)	112,163	(41,060)	–
– Transfer to Stage 3	(17,183)	(659,894)	677,077	–
– Write-offs and others	–	–	(1,850,870)	(1,850,870)
– Charge to profit or loss	(62,963)	810,295	1,417,981	2,165,313
At June 30, 2019 (unaudited)	1,709,612	2,226,786	2,629,499	6,565,897

	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
At January 1, 2018	1,659,282	1,309,521	2,112,354	5,081,157
Change in the provision for impairment losses				
– Transfer to Stage 1	51,980	(51,972)	(8)	–
– Transfer to Stage 2	(40,413)	122,621	(82,208)	–
– Transfer to Stage 3	(29,910)	(149,194)	179,104	–
– Write-offs and others	–	(11,378)	(812,757)	(824,135)
– Charge to profit or loss	100,454	860,621	1,033,357	1,994,432
At December 31, 2018 (audited)	1,741,393	2,080,219	2,429,842	6,251,454

(f) **Analysed by geographical sector**

Geographically, the Group mainly conduct their businesses and most of their customers and assets are located in Gansu Province of the PRC.

(g) As at June 30, 2019, part of the discounted bills were pledged as security for repurchase agreement as set out in Note 30 (2018: nil).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Financial assets held for trading (Note (i))	6,987,091	8,811,736
Trust plans	802,010	263,294
Asset management plans	25,722,273	25,341,432
Investment funds	6,966,466	6,970,953
Other debt securities (Note (ii))	712,686	1,173,558
	41,190,526	42,560,973
Analysed as:		
Listed outside Hong Kong	6,987,091	8,811,736
Unlisted outside Hong Kong	34,203,435	33,749,237
	41,190,526	42,560,973

Notes:

(i) Financial assets held for trading:

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Debt securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	6,936,732	8,556,552
– Corporations	50,359	255,184
	6,987,091	8,811,736

As at June 30, 2019, no financial assets at FVTPL were subject to material restrictions on the realisation (2018: nil).

The above debt securities traded on the China Interbank Bond Market are included in "Listed outside Hong Kong".

(ii) Other debt securities

Other debt securities mainly represented investments, financed by the proceeds raised from principal-guaranteed wealth management products issued by the Group.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

21. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Debt instruments at FVTOCI		
Debt securities issued by the following institutions in Mainland China		
– Government	4,379,926	4,869,958
– Banks and other financial institutions	11,446,062	10,037,993
– Corporations	342,080	341,146
	16,168,068	15,249,097
Analysed as:		
Listed inside Hong Kong	343,593	–
Listed outside Hong Kong	15,824,475	15,249,097
	16,168,068	15,249,097

Movement of provision for impairment losses:

Provision for impairment losses – debt instruments at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total RMB'000
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL RMB'000	
Provision for impairment losses at January 1, 2019	1,612	–	–	1,612
– Charge to profit or loss	402	–	–	402
Provision for impairment losses at June 30, 2019	2,014	–	–	2,014

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

21. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Movement of provision for impairment losses: (Continued)

Provision for impairment losses – debt instruments at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total RMB'000
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL RMB'000	
Provision for impairment losses at January 1, 2018	46,810	–	–	46,810
– Reverse to profit or loss	(45,198)	–	–	(45,198)
Provision for impairment losses at December 31, 2018	1,612	–	–	1,612

22. INTEREST IN AN ASSOCIATE

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Cost of investment in an associate, unlisted	3,000	3,000
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,656	5,970
	6,656	8,970

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

22. INTEREST IN AN ASSOCIATE (CONTINUED)

As at June 30, 2019 and December 31, 2018, the Group had interests in the following associate:

Name of the bank	Form of entity	Country of establishment/operation	Class of shares held	Proportion of ownerships interests or participating shares held by the Group		Proportion of voting power held		Principal activity
				2018	2019	2018	2019	
Gansu Jingchuan	Established	PRC	Ordinary share	16.67%	16.67%	16.67%	16.67%	Corporate and retail bank

Note: This associate is directly held by the Bank. The Group is able to exercise significant influence in deciding the financial and operating policies over Gansu Jingchuan because it has the power to appoint a director of that company under the provisions stated in the Article of Association of Gansu Jingchuan.

The financial information and carrying amount, in aggregate, of the Group's interest in an associate that is not material and is accounted for using the equity method are set out below:

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The Group's share of profit and total comprehensive income for the period	(2,314)	820

	At June 30,	At December 31,
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount of the Group's interests in the immaterial associate	6,656	8,970

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

23. PROPERTY AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(a) Property and equipment

	Construction in progress RMB'000	Premises RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
Cost								
At January 1, 2018	320,438	1,064,410	482,655	48,411	243,997	73,608	78,688	2,312,207
Additions	1,223,859	27,446	52,671	814	57,937	197,318	27,479	1,587,524
Transfers in/(out) of construction in progress	(1,180,973)	1,180,973	-	-	-	-	-	-
Disposals	-	(5,043)	(12,941)	(842)	-	(1,626)	(915)	(21,367)
At December 31, 2018 and January 1, 2019	363,324	2,267,786	522,385	48,383	301,934	269,300	105,252	3,878,364
Additions	7,510	2,576	3,815	1,313	8,651	21,317	2,473	47,655
Transfers in/(out) of construction in progress	(11,360)	11,360	-	-	-	-	-	-
Disposals	-	(75,203)	(1,252)	-	-	-	(6,462)	(82,917)
At June 30, 2019 (Unaudited)	359,474	2,206,519	524,948	49,696	310,585	290,617	101,263	3,843,102

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

23. PROPERTY AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

(a) Property and equipment (Continued)

	Construction in progress RMB'000	Premises RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
Accumulated depreciation and impairment								
At January 1, 2018	-	147,905	201,547	36,408	85,467	42,708	45,332	559,367
Provided for the year	-	79,998	117,919	5,415	93,121	21,873	11,263	329,589
Eliminated on disposals	-	(2,100)	(12,411)	(817)	-	(1,246)	(878)	(17,452)
At December 31, 2018 and January 1, 2019	-	225,803	307,055	41,006	178,588	63,335	55,717	871,504
Provided for the period	-	51,799	56,545	2,236	34,906	27,736	7,599	180,821
Eliminated on disposals	-	(1,786)	(839)	-	-	-	(424)	(3,049)
At June 30, 2019 (Unaudited)	-	275,816	362,761	43,242	213,494	91,071	62,892	1,049,276
Carrying value								
At June 30, 2019 (Unaudited)	359,474	1,930,703	162,187	6,454	97,091	199,546	38,371	2,793,826
At December 31, 2018 (Audited)	363,324	2,041,983	215,330	7,377	123,346	205,965	49,535	3,006,860

At June 30, 2019, the carrying values of premises of which title deeds were not yet finalised by the Group were approximately RMB1,808,178,000 (2018: approximately RMB1,915,117,000). Among them, the carrying values of premises that the Group has obtained housing property title certificates issued by the authorities but no land use right certificates were approximately RMB122,526,000 (2018: approximately RMB53,482,000). The aforementioned premises are located in PRC with medium term leases (10–50 years).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

23. PROPERTY AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

(b) Right-of-use assets and lease liabilities

(i) Right-of use assets

Upon adoption of IFRS 16, on January 1, 2019, the Group recognised right-of-use assets of approximately RMB277,820,000, in respect of the leased premises of approximately RMB250,186,000 and prepaid leased land use right of approximately RMB27,634,000. As at June 30, 2019, the carrying amounts of right-of-use assets were approximately RMB308,169,000, in respect of the leased premises of approximately RMB281,191,000 and the prepaid leased land use right of approximately RMB26,978,000.

During the six months ended June 30, 2019, the Group entered into a number of lease agreements for premises. The leases contain minimum lease payment terms during the contract period. On lease commencement, the Group recognised right-of-use assets of approximately RMB75,730,000.

(ii) Lease liabilities

Upon adoption of IFRS 16, on January 1, 2019, the Group recognised lease liabilities of approximately RMB250,186,000 (note 3). As at June 30, 2019, the carrying amount of lease liabilities was approximately RMB282,753,000.

During the six months ended June 30, 2019, the Group entered into a number of new lease agreements for office premises and recognised lease liability of approximately RMB75,730,000.

(iii) Amount recognised in profit or loss

	For the six months ended June 30, 2019 RMB'000
Depreciation expense on right-of-use assets	45,381
Interest expense on lease liabilities	3,806
Expense relating to short-term leases	35,277

(iv) Others

At June 30, 2019, the Group is committed to approximately RMB34,301,000 for short-term leases.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

24. DEFERRED TAX ASSETS

The following is an analysis of the deferred tax balances for financial reporting purposes:

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Deferred tax assets	2,023,530	1,719,546
Deferred tax liabilities	(100,333)	(135,263)
	1,923,197	1,584,283

The following are the major deferred tax assets/(liabilities) recognised and movements thereon in the six months ended June 30, 2019 and the year ended December 31, 2018:

	Provision for impairment losses on assets RMB'000 Note (i)	Net losses/ (gains) from fair value changes of financial instruments RMB'000 Note (ii)	Salaries, bonuses and allowances payable RMB'000	Net balance of deferred tax assets RMB'000
At January 1, 2018	1,586,098	28,415	22,561	1,637,074
Credit/(charge) to profit or loss	107,804	(65,705)	1,947	44,046
Credit/(charge) to other comprehensive income	–	(97,975)	1,138	(96,837)
At December 31, 2018 and January 1, 2019	1,693,902	(135,265)	25,646	1,584,283
Credit to profit or loss	298,080	24,872	6,862	329,814
Credit to other comprehensive income	(502)	10,057	(455)	9,100
At June 30, 2019 (Unaudited)	1,991,480	(100,336)	32,053	1,923,197

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets as at June 30, 2019 and December 31, 2018. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets as at June 30, 2019 and December 31, 2018, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

25. OTHER ASSETS

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Other receivables and prepayments (Note (i))	3,428,702	250,189
Deposits paid for acquisitions of premises	200,087	200,087
Land use right (Note (ii))	–	27,634
Intangible assets (Note (iii))	17,241	19,008
Other	5,384	200
	3,651,414	497,118

Notes :

(i) Other receivables and prepayments:

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Other receivables and prepayments	3,460,153	274,620
Less: Provision for impairment losses	(31,451)	(24,431)
	3,428,702	250,189

Movements of allowance for impairment loss:

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
At the beginning of the period/year	24,431	16,924
Impairment losses recognised	7,020	7,507
At the end of the period/year	31,451	24,431

At June 30, 2019 and December 31, 2018, the Group classifies all other receivables in Stage 1, and measures the loss allowance equal to 12-month ECL.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

25. OTHER ASSETS (CONTINUED)

Notes : (Continued)

(ii) **Movements of land use rights:**

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Cost		
At the beginning of the period/year	34,415	34,415
Change in accounting policy	(34,415)	–
At the beginning and at the end of the period/year	–	34,415
Accumulated amortisation		
At the beginning of the period/year	6,781	5,469
Change in accounting policy	(6,781)	1,312
At the beginning and at the end of the period/year	–	6,781
Carrying amounts		
At the end of the period/year	–	27,634

These lands are located in the PRC with medium term leases (10–50 years).

(iii) **Movements of intangible assets:**

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Cost		
At the beginning of the period/year	23,669	5,002
Additions	422	18,667
At the end of the period/year	24,091	23,669
Accumulated amortisation		
At the beginning of the period/year	4,661	3,420
Amortisation for the period/year	2,189	1,241
At the end of the period/year	6,850	4,661
Carrying amounts		
At the end of the period/year	17,241	19,008

These intangible assets mainly included trademark which are amortised over 1–5 years.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

26. PLEDGED ASSETS

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities or contingent liabilities mainly include discounted bills and debt securities, which are for repurchase agreements. The carrying amounts of the financial assets pledged as collaterals as at June 30, 2019 are approximately RMB6,877,190,000 (2018: approximately RMB10,287,844,000).

(b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions.

27. BORROWINGS FROM THE CENTRAL BANK

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Borrowings	4,120,000	9,070,000
Re-discounted bills	2,063,770	2,580,851
	6,183,770	11,650,851

28. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Deposits from the following institutions operating in Mainland China		
– Banks	9,456,514	8,987,200
– Other financial institutions	3,706,853	5,566,589
	13,163,367	14,553,789
Deposits from the following institutions operating outside Mainland China		
– Banks	762,291	959,983
	13,925,658	15,513,772

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

29. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Placements from the following institutions operating in Mainland China – Banks	3,010,000	3,300,000

30. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
In Mainland China		
– Banks	4,945,733	10,873,965
– Other financial institutions	189,720	843,020
	5,135,453	11,716,985

(b) Analysed by collateral

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Debt securities	4,534,321	11,716,985
Discounted bills	601,132	–
	5,135,453	11,716,985

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

31. DEPOSITS FROM CUSTOMERS

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Demand deposits		
– Corporate customers	56,783,504	54,381,432
– Individual customers	23,870,964	24,114,642
	80,654,468	78,496,074
Time deposits		
– Corporate customers	21,721,219	18,058,452
– Individual customers	103,848,919	83,018,474
	125,570,138	101,076,926
Pledged deposits		
– Acceptances	12,050,596	12,936,171
– Guarantees and letters of guarantees	78,328	87,232
– Others	3,722,269	3,476,734
	15,851,193	16,500,137
Others	13,547,117	14,650,180
	235,622,916	210,723,317

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

32. ACCRUED STAFF COSTS

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Salary and bonus payable	195,732	397,749
Social pension schemes payable	14,608	18,615
Other social insurances payable	9,578	17,960
Supplementary retirement benefits payable	30,018	35,150
Other long-term staff welfare payable	43,370	8,870
	293,306	478,344

33. INTERESTS PAYABLE

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Deposits from customers	6,749,276	5,825,504
Deposits from banks and other financial institutions	59,641	374,091
Deposits from central bank	14,908	21,905
Debts securities issued	194,902	187,318
Others	2,003	10,115
	7,020,730	6,418,933

34. DEBT SECURITIES ISSUED

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Fixed rates financial bonds (Note (i))	5,997,223	5,996,352
Fixed rate tier-two capital bonds issued (Note (ii))	3,195,785	3,194,430
Interbank deposits (Note (iii))	34,243,863	32,385,991
	43,436,871	41,576,773

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

34. DEBT SECURITIES ISSUED (CONTINUED)

Notes:

(i) Fixed rates financial bonds

- (a) Fixed rates financial bonds for three tranche (the first tranche) at a face value of RMB1,000,000,000 with a term of three years were issued on March 10, 2017. The coupon rate is 4.67%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 4.71%. As at June 30, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,744,000 (2018: RMB999,327,000).
- (b) Fixed rate financial bonds at a face value of RMB1,000,000,000 with a term of five years were issued on April 19, 2017. The coupon rate is 5.00%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 5.02%. As at June 30, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,417,000(2018: RMB999,378,000).
- (c) Fixed rate green financial bonds at a face value of RMB1,000,000,000 with a term of three years were issued on May 23, 2017. The coupon rate is 4.90%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 4.94%. As at June 30, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,620,000 (2018: RMB999,604,000).
- (d) Fixed rate financial bonds for the "three rurals" (the second tranche) at a face value of RMB1,500,000,000 with a term of three years were issued on August 10, 2017. The coupon rate is 4.85%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 4.94%. As at June 30, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,499,017,000 (2018: RMB1,498,989,000).
- (e) Fixed rate financial bonds for the "three rurals" (the first tranche) at a face value of RMB1,500,000,000 with a term of three years were issued on May 25, 2018. The coupon rate is 4.87%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 4.88%. As at June 30, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,499,425,000. (2018: RMB1,499,054,000).

(ii) Fixed rate tier-two capital bonds issued

Fixed rate tier-two capital bonds at a face value of RMB3,200,000,000 with a term of ten years were issued on December 11, 2015. The coupon rate is 5.10%. The Group has an option to redeem the debts on December 11, 2020 at the nominal amount. The effective interest rate per annum on the Group's tier-two capital bonds issued is 5.20%. As at June 30, 2019, the outstanding balance of this fixed rate tier-two capital bonds issued is approximately RMB3,195,785,000 (2018: approximately RMB3,194,430,000).

(iii) Interbank deposits

- (a) During the six months ended June 30, 2019, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB20,350,000,000 and duration between 3 months to 1 year. As at June 30, 2019, the outstanding balance of interbank deposits issued is approximately RMB34,243,863,000. The ranges of effective interest rates per annum on the Group's interbank deposits issued are 2.97% to 3.80%.
- (b) During the year ended December 31, 2018, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB45,090,000 and duration between 1 month to 1 year. As at December 31, 2018, the outstanding balance of interbank deposits issued is approximately RMB32,385,991,000. The ranges of effective interest rates per annum on the Group's interbank deposits issued are 3.35% to 5.35%.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

35. OTHER LIABILITIES

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Other payable and accrued expenses	404,772	406,822
Clearance of inter-bank accounts	1,264,692	480,300
Agency business liabilities	52,323	80,762
Dividend payable	1,037,898	8,560
Other tax payables	120,624	214,873
Fiscal deposits	22,552	12,059
Provision for bank acceptances and letters of guarantees	48,282	61,454
Lease liabilities (Note 23(b)(ii))	282,753	–
Others	119,681	104,542
	3,353,577	1,369,372

36. SHARE CAPITAL

Share capital as at June 30, 2019 and December 31, 2018 are as follows:

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Registered, issued and fully paid ordinary shares of RMB1 each:		
– Ordinary shares	10,069,791	10,069,791
At the beginning of the period/year	10,069,791	7,525,991
Issuance of shares (Note (i))	–	2,543,800
At the end of the period/year	10,069,791	10,069,791

Note:

- (i) On January 18, 2018, the Bank's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 2139). The total number of H shares issued globally was 2,543,800,000 (including an over-allotment of 331,800,000 H-shares issued on February 5, 2018) at par value RMB 1 per share were issued at an offer price of HK\$2.69 per share. Total gross proceeds from the share issuance amounted to approximately RMB5,602,442,000 (equivalent to HK\$6,842,822,000) giving rise to share premium approximately RMB3,058,642,000 credit to capital reserve. Share issuance expenses approximately RMB168,487,000 was debited to capital reserve.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

36. SHARE CAPITAL (CONTINUED)

A summary of movements of the Bank's issued shares (in thousands of shares) during the reporting period is as follows:

	Domestic shareholders	H shareholders	Total
At January 1, 2018	7,525,991	–	7,525,991
Issuance	–	2,543,800	2,543,800
At December 31, 2018, January 1, 2019 and June 30, 2019	7,525,991	2,543,800	10,069,791

37. RESERVES

(a) Capital reserve

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Share premium	4,339,584	4,339,584
Shareholders' injection (Note)	319,234	318,176
Changes in ownership in a subsidiary without change in control	554	554
	4,659,372	4,658,314

Note:

The promoters of the additional shares issued during the Bank's restructuring injected the Bank's net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Bank. Up to June 30, 2019, approximately RMB319,234,000 has been recorded as capital reserve (2018: approximately RMB318,176,000).

(b) Surplus reserve

The surplus reserve at June 30, 2019 and December 31, 2018 represented statutory surplus reserve fund and other surplus reserve. The statutory surplus reserve fund of the Group as at June 30, 2019 were approximately RMB1,510,052,000 (2018: approximately RMB1,510,052,000), while other surplus reserve were approximately nil as at June 30, 2019 (2018: nil).

(c) General reserve

With effect from July 1, 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the Ministry of the Finance of the PRC (the "MOF") in March 2012, the Group is required, in principle, to set aside a general reserve not lower than 1.5% of the balance of its gross risk-bearing assets at each year end.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

38. DIVIDENDS

	At June 30, 2019 RMB'000 (Unaudited)	At June 30, 2018 RMB'000 (Unaudited)
2018 final dividend (Note (a))	1,029,365	–

Note:

- (a) Pursuant to the resolution of the shareholders meeting on June 4, 2019, the Bank declared cash dividends of approximately RMB0.1022 per share (tax included) based on 10,069,791,000 shares held amounting to approximately RMB1,029,365,000 during the period ended June 30, 2019.

39. STRUCTURED ENTITIES

(a) Consolidated structured entities

The consolidated structured entities of the Group mainly include principal-guaranteed wealth management products sponsored by the Bank. As at June 30, 2019, the amount of assets held by the consolidated principal-guaranteed wealth management products sponsored by the Bank amounted to approximately RMB691,873,000 (2018: approximately RMB1,132,351,000).

(b) Unconsolidated structured entities

- (i) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include trust fund plans, asset management plans, asset-backed securities issued by bank and other financial institutions and investment funds.

The following table set out an analysis of the gross carrying amounts of interests held by the Group as at June 30, 2019 and December 31, 2018:

	At June 30, 2019			
	Financial assets at FVTPL RMB'000 (Unaudited)	Financial assets at amortised cost RMB'000 (Unaudited)	Carrying amount RMB'000 (Unaudited)	Maximum exposure RMB'000 (Unaudited)
Trust plans	802,010	14,134,788	14,936,798	14,936,798
Asset management plans	25,722,273	17,126,274	42,848,547	42,848,547
Asset-backed securities issued by bank and other institutions	–	145,000	145,000	145,000
Investment funds	6,966,466	–	6,966,466	6,966,466
	33,490,749	31,406,062	64,896,811	64,896,811

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

39. STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities (Continued)

- (i) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

	At December 31, 2018			
	Financial assets at FVTPL RMB'000 (Audited)	Financial assets at amortised cost RMB'000 (Audited)	Carrying amount RMB'000 (Audited)	Maximum exposure RMB'000 (Audited)
Trust plans	263,294	11,977,738	12,241,032	12,241,032
Asset management plans	25,341,432	17,020,474	42,361,906	42,361,906
Asset-backed securities issued by bank and other financial institutions	–	379,726	379,726	379,726
Investment funds	6,970,953	–	6,970,953	6,970,953
	32,575,679	29,377,938	61,953,617	61,953,617

- (ii) Structured entities sponsored by the Group which the Group do not consolidate but holds an interest in as at June 30, 2019 and December 31, 2018:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at June 30, 2019, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the consolidated statements of financial positions.

As at June 30, 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are approximately RMB21,455,242,000 (2018: approximately RMB20,368,883,000).

- (iii) Unconsolidated structured entities sponsored by the Group during the year which the Group do not have an interest in as at June 30, 2019 and December 31, 2018:

During the six months ended June 30, 2019, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before June 30 amounted to RMB13,877,566,000.

During the year ended December 31, 2018, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before December 31 amounted to RMB140,995,686,000.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

40. CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the China Banking Regulatory Commission ("CBRC"). The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

Since January 1, 2013, the Group started computing its capital adequacy ratios in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2019 in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's interim financial statements prepared in accordance with PRC GAAP. During the period/year ended June 30, 2019 and December 31, 2018 the Group has complied with all its externally imposed capital requirements.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

40. CAPITAL MANAGEMENT (CONTINUED)

The Group's capital adequacy ratios as at June 30, 2019 and December 31, 2018 calculated in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBRC are as follows:

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Total core tier-one capital		
Share capital	10,069,791	10,069,791
Qualifying portion of capital reserve	4,659,372	4,658,314
Defined benefit plan reserve	(2,791)	(4,156)
Investment revaluation reserve	231,153	261,427
Surplus reserve	1,510,052	1,510,052
General reserve	4,423,117	4,423,117
Retained earnings	3,782,133	4,297,780
Qualifying portions of non-controlling interests	17,584	17,232
Core tier-one capital deductions (Note)	(216,787)	(224,973)
Net core tier-one capital	24,473,624	25,008,584
Eligible portion of non-controlling interests	2,344	2,298
Net tier-one capital	24,475,968	25,010,882
Tier-two capital		
Qualifying portion of tier-two capital instruments issued	3,195,785	3,194,430
Surplus provision for loan impairment	1,499,726	2,562,700
Eligible portion of non-controlling interests	4,689	4,703
Net capital base	29,176,168	30,772,715
Total risk weighted assets	238,308,557	227,144,084
Core tier-one capital adequacy ratio	10.27%	11.01%
Tier-one capital adequacy ratio	10.27%	11.01%
Capital adequacy ratio	12.24%	13.55%

Note: Core tier-one capital deductions primarily include computer softwares and intangible assets excluding land use rights and deferred tax assets recognised for tax losses.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

41. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following balances with an original maturity of less than three months:

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Cash on hand	487,426	432,435
Deposits with the central bank	6,216,003	6,387,471
Deposits with banks	3,132,052	8,803,411
Financial assets held under resale agreements	18,244,627	19,523,812
Total	28,080,108	35,147,129

42. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS

(a) Related parties

(i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	At June 30, 2019 (Unaudited)	At December 31, 2018 (Audited)
Gansu Province Highway Aviation Tourism Investment Group Co., Ltd.	11.49%	11.49%
Baoshang Bank Co., Ltd.	8.39%	8.39%
Jiuquan Iron & Steel (Group) Co., Ltd.	6.30%	6.30%
Gansu Province Electric Power Investment Group Co., Ltd.	6.30%	6.30%
Jinchuan Group Co., Ltd.	6.30%	6.30%

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

42. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Related parties (Continued)

(ii) Other related parties

Other related parties can be individuals or enterprises, which include members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 42(a)(i) or their controlling shareholders. Transactions with other related parties were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

(b) Transactions with related parties other than key management personnel

(i) Transactions between the Bank and subsidiary

The subsidiary of the Bank is its related parties. The transactions between the Bank and its subsidiary and among the subsidiary are eliminated on consolidation and therefore are not disclosed in this note.

(ii) Transactions between the Group and major shareholders

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Transactions during the period		
Interest income	7,854	65,923
Interest expense	9,857	281

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

42. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Transactions with related parties other than key management personnel (Continued)

(ii) Transactions between the Group and major shareholders (Continued)

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Balances at end of the period/year		
Loans and advances to customers	800,000	–
Interests receivable	–	8,859
Deposits from customers	2,671,513	2,532,081
Interests payable	13,604	31,448

(iii) Transactions between the Group and other related parties:

	Six months ended June 30, 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Transactions during the period		
Interest income	56,637	157,691
Interest expense	28,855	6,242

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Balances at end of the period/year		
Loans and advances to customers	4,028,100	3,935,525
Deposits from customers	4,212,134	1,664,214
Deposits from banks and other financial institutions	5,304	106,510
Interests payable	7,901	17,969

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

42. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, board of directors, the supervisory board and executive officers.

(i) Transactions between the Group and key management personnel

	Six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Transactions during the period		
Interest income	131	50
Interest expense	19	–

	At June 30,	At December 31,
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Balances at end of the period/year		
Deposits from customers	3,332	14
Loan and advance to customer	957	–

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	Six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Salaries and allowances	1,440	1,639
Retirement benefits scheme contributions	650	328
Discretionary bonuses	1,786	150
	3,876	2,117

(d) Loans and advances to directors, supervisors and officers

During the six months ended June 30, 2019, there is no loans and advances to directors, supervisors and officers of the Group (2018: nil).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

43. SEGMENT REPORTING

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.

Financial market operations

This segment covers the Group's financial market operations. The financial market operations enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial market segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/(expense)".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and expenses are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, land use rights and other long-term assets.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

43. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities

	Six months ended June 30, 2019				
	Corporate banking RMB'000 (Unaudited)	Retail banking RMB'000 (Unaudited)	Financial market operations RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Operating income					
External net interest income/(expense)	2,549,741	(1,133,672)	1,456,133	-	2,872,202
Internal net interest (expense)/income	(585,806)	1,873,152	(1,287,346)	-	-
Net interest income	1,963,935	739,480	168,787	-	2,872,202
Net fee and commission income	75,624	17,695	10,281	9,727	113,327
Net trading gains	-	-	852,617	-	852,617
Net gains arising from investment securities	-	-	15,457	-	15,457
Foreign exchange gain	-	-	-	8,467	8,467
Other operating expense, net	-	-	-	(4,141)	(4,141)
Operating income	2,039,559	757,175	1,047,142	14,053	3,857,929
Operating expenses	(496,932)	(184,483)	(255,134)	(5,044)	(941,593)
Impairment losses on assets	(1,848,500)	(113,476)	(333,855)	6,152	(2,289,679)
Operating (loss)/profit	(305,873)	459,216	458,153	15,161	626,657
Share of loss of an associate	-	-	-	(2,314)	(2,314)
(Loss)/profit before tax	(305,873)	459,216	458,153	12,847	624,343
Segment assets	112,327,414	33,124,610	195,272,726	43,051	340,767,801
Deferred tax assets	-	-	-	2,023,530	2,023,530
Total assets	112,327,414	33,124,610	195,272,726	2,066,581	342,791,331
Segment liabilities	96,344,032	134,079,968	86,506,403	13,980	316,944,383
Deferred tax liabilities	-	-	-	100,333	100,333
Dividend payable	-	-	-	1,037,898	1,037,898
Total liabilities	96,344,032	134,079,968	86,506,403	1,152,211	318,082,614
Other segment information					
- Depreciation and amortisation	122,205	56,113	35,508	14,565	228,391
- Capital expenditure	17,452	14,833	10,988	4,804	48,077

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

43. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (Continued)

	Six months ended June 30, 2018				
	Corporate banking RMB'000 (Unaudited)	Retail banking RMB'000 (Unaudited)	Financial market operations RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Operating income					
External net interest income/ (expense)	2,744,282	(562,527)	1,475,802	-	3,657,557
Internal net interest (expense)/ income	(615,405)	1,038,250	(422,845)	-	-
Net interest income	2,128,877	475,723	1,052,957	-	3,657,557
Net fee and commission income	54,802	11,740	58,439	2,848	127,829
Net trading gains	-	-	434,740	-	434,740
Net gains arising from investment securities	-	-	2,442	-	2,442
Foreign exchange gain	-	-	-	168,943	168,943
Other operating income, net	-	-	-	11,521	11,521
Operating income	2,183,679	487,463	1,548,578	183,312	4,403,032
Operating expenses	(423,266)	(90,674)	(451,361)	(21,994)	(987,295)
Impairment losses on assets	(319,841)	(172,168)	36,682	(17,316)	(472,643)
Operating profit	1,440,572	224,621	1,133,899	144,002	2,943,094
Share of profits of an associate	-	-	-	820	820
Profit before tax	1,440,572	224,621	1,133,899	144,822	2,943,914
Other segment information					
- Depreciation and amortisation	76,945	17,176	54,566	6,460	155,147
- Capital expenditure	576,179	128,621	408,604	48,368	1,161,772

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

43. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (Continued)

	As at December 31, 2018				
	Corporate banking RMB'000 (Audited)	Retail banking RMB'000 (Audited)	Financial market operations RMB'000 (Audited)	Others RMB'000 (Audited)	Total RMB'000 (Audited)
Segment assets	110,549,327	27,819,221	188,347,517	186,760	326,902,825
Deferred tax assets	-	-	-	1,719,546	1,719,546
Total assets	110,549,327	27,819,221	188,347,517	1,906,306	328,622,371
Segment liabilities	92,065,313	112,244,596	98,802,812	118,236	303,230,957
Deferred tax liabilities	-	-	-	135,263	135,263
Dividend payable	-	-	-	8,560	8,560
Total liabilities	92,065,313	112,244,596	98,802,812	262,059	303,374,780

(b) Geographical information

No geographical information is presented as most of the Group's operations are conducted in Gansu Province of the PRC and all non-current assets are located and therefore revenue is derived from activities in Gansu Province of the PRC.

(c) Information about major customers

During the six months ended June 30, 2019 and 2018, no operating income from a customer contributes over 10% of the total operating income of the Group.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities

Fair values of debt securities investments are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of policy models or discounted cash flows.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at June 30, 2019 and December 31, 2018.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on the present value of estimated future cash flows at June 30, 2019 and December 31, 2018. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at June 30, 2019 and December 31, 2018.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

The carrying amount and fair value of financial assets at amortised cost are disclosed in Note 17 and the carrying value of debt securities classified as receivables approximate to their fair value.

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, deposits from customers and debts securities issued.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the condensed consolidated statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. These three types of inputs have created the following fair value hierarchy:

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 assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

	At June 30, 2019			
	Level 1	Level 2	Level 3	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Assets				
Financial assets at FVTPL				
– debt securities held for trading	–	6,987,091	–	6,987,091
– trust plans	–	802,010	–	802,010
– asset management plans	–	25,722,273	–	25,722,273
– investment funds	–	6,966,466	–	6,966,466
– other debt securities	–	712,686	–	712,686
Debt instruments at FVOCI				
– debt securities	–	16,168,068	–	16,168,068
	–	57,358,594	–	57,358,594

	At December 31, 2018			
	Level 1	Level 2	Level 3	Total
	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)
Assets				
Financial assets at FVTPL				
– debt securities held for trading	–	8,811,736	–	8,811,736
– trust plans	–	263,294	–	263,294
– asset management plans	–	25,341,432	–	25,341,432
– investment funds	–	6,970,953	–	6,970,953
– other debt securities	–	1,173,558	–	1,173,558
Debt instruments at FVOCI				
– debt securities	–	15,249,097	–	15,249,097
	–	57,810,070	–	57,810,070

During the six months ended June 30, 2019, there were no significant transfers among each level (2018: nil).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

- (i) The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available. The main parameters used in valuation techniques for financial instruments held by the Bank include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are basically observable and obtainable from open market.
- (ii) The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

Financial assets	Fair value as at ,		Fair value hierarchy	Valuation technique(s) and key input(s)
	June 30, 2019 RMB'000	December 31, 2018 RMB'000		
Financial assets at FVTPL				
Debt securities - listed	6,987,091	8,811,736	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model
Trust plans	802,010	263,294	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Asset management plans	25,722,273	25,341,432	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Investment funds	6,966,466	6,970,953	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Other debt securities	712,686	1,173,558	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Debt instruments at FVOCI				
Debt securities - listed	16,168,068	15,249,097	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

45. ENTRUSTED LENDING BUSINESS

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the condensed consolidated statements of financial position. Surplus funding is accounted for as deposits from customers.

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Entrusted loans	3,126,445	3,739,920
Entrusted funds	3,126,445	3,739,920

46. COMMITMENTS

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The Group provides financial guarantees to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Acceptances	26,374,876	26,418,071
Letters of guarantees	1,153,025	721,547
Unused credit card commitment	381,668	359,224
	27,909,569	27,498,842

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

46. COMMITMENTS (CONTINUED)

(b) Operating lease commitments

As at December 31, 2018, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

The Group as lessee

	At December 31, 2018 RMB'000 (Audited)
Within one year	142,223
In the second to fifth years inclusive	165,992
Over five years	11,847
	320,062

(c) Capital commitments

At June 30, 2019 and December 31, 2018, the Group's authorised capital commitments are as follows:

	At June 30, 2019 RMB'000 (Unaudited)	At December 31, 2018 RMB'000 (Audited)
Purchase of property and equipment – Contracted for but not provided	9,393	38,655

47. CONTINGENT LIABILITIES

The Bank and its subsidiary are involved as defendants in certain lawsuits arising from their normal business operations. As at June 30, 2019, in light of court decisions or advice from legal counsels, the directors of the Bank considered it not necessary to provide for potential losses from these claims. The directors of the Bank believe, based on legal advices, the final result of the lawsuits will not have any material impact on the financial position or operations of the Group.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's condensed consolidated statement of cash flows from financing activities.

	At January 1, 2019 RMB'000	Financing cash flows RMB'000	Non-cash change			At June 30, 2019 RMB'000
			New lease arrangement entered RMB'000	Dividends declared RMB'000	Finance cost incurred RMB'000	
Liabilities						
Debt securities issued (Note 34)	41,576,773	1,850,000	–	–	10,098	43,436,871
Dividend payable (Note 35)	8,560	(27)	–	1,029,365	–	1,037,898
Lease liabilities (Note 23(b)(iii))	250,186	(46,969)	75,730	–	3,806	282,753
Interests payable on debt securities issued (Note 33)	187,318	(804,545)	–	–	812,129	194,902
	42,022,837	998,459	75,730	1,029,365	826,033	44,952,424

	At January 1, 2018 RMB'000	Financing cash flows RMB'000	Non-cash change		At June 30, 2018 RMB'000
			Finance cost incurred RMB'000		
Liabilities					
Debt securities issued	23,960,759	10,225,588	559,907		34,746,254
Dividend payable	8,701	(75)	–		8,626
Interests payable on debt securities issued	141,099	(143,708)	194,670		192,061
	24,110,559	10,081,805	754,577		34,946,941

Chapter 10 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purpose only.

1. LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (%)

	At June 30, 2019	Average for the six months ended 2019
Liquidity coverage ratio (RMB and foreign currency)	185.82%	191.21%

	At December 31, 2018	Average for the year ended December 31, 2018
Liquidity coverage ratio (RMB and foreign currency)	198.28%	183.90%

Leverage Ratio

	At June 30, 2019
Leverage Ratio (RMB and foreign currency)	6.62%

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the China Banking Regulatory Commission ("CBRC") and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with the People's Republic of China Generally Accepted Accounting Principles ("PRC GAAP").

Chapter 10 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

2. CURRENCY CONCENTRATIONS

	At June 30, 2019		Total
	USD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	4,192,075	280,568	4,472,643
Spot liabilities	(22,707)	(54,419)	(77,126)
Net position	4,169,368	226,149	4,395,517

	At December 31, 2018		Total (RMB equivalent)
	USD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	3,695,767	257,904	3,953,671
Spot liabilities	(3,709)	(54,629)	(58,338)
Net position	3,692,058	203,275	3,895,333

The above information is computed in accordance with the provisions of the CBRC. The Group has no structural position as at June 30, 2019 and December 31, 2018.

3. INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within People's Republic of China ("PRC"), and regards all claims on third parties outside PRC as international claims.

International claims include loans and advances to customers, deposit with the central bank, amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	At June 30, 2019	At December 31, 2018
Deposit with banks		
Asia Pacific excluding mainland China	180,580	305,575
Europe	–	–
	180,580	305,575

Chapter 10 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

4. LOANS AND ADVANCES OVERDUE FOR MORE THAN 90 DAYS BY GEOGRAPHICAL SEGMENTS

	At June 30, 2019	At December 31, 2018
Gansu Region	1,282,361	3,625,765
Mainland China excluding Gansu Region	3,783,753	1,398,652
Total	5,066,114	5,024,417

5. GROSS AMOUNT OF LOANS AND ADVANCES OVERDUE FOR MORE THAN 90 DAYS

	At June 30, 2019	At December 31, 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– Between three months and six months (inclusive)	459,923	2,486,766
– Between six months and one year (inclusive)	3,894,187	1,313,927
– Between one year and three years	597,768	1,018,092
– Over three years	114,236	205,631
Total	5,066,114	5,024,416
As a percentage of total gross loans and advances		
– Between three months and six months (inclusive)	0.27%	1.55%
– Between six months and one year (inclusive)	2.28%	0.81%
– Between one year and three years	0.35%	0.63%
– Over three years	0.07%	0.13%
Total	2.97%	3.12%

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

6. NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. At June 30, 2019 and December 31, 2018, substantial amounts of the Bank's exposures arose from businesses with mainland China entities or individuals.



甘肅銀行股份有限公司*
BANK OF GANSU CO., LTD.*

 省內撥打 96666
Inside the province call

 省外撥打 400-86-96666
Outside the province call

 網址: www.gsbankchina.com
Website : www.gsbankchina.com