



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

ANNUAL 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.

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Chairman's Statement



Liu Qing

Chairman of the Board of Directors

Chairman's Statement

In 2019, faced with the perplexing domestic and global circumstances and wave of risks and challenges, we have been adhering to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and have resolutely implemented the decisions and plans of the provincial party committee and government, and have been committed to serving the development of local economy and society and determined in overcoming difficulties and forging ahead.

The past year witnessed the commitment to our mission and tested our faith. Moving forward in the trials and hardships, the Bank conscientiously studied and implemented the guiding principles of the important speeches and instructions President Xi Jinping made when visiting Gansu by taking root in Gansu and focusing on our principal business activities, with an aim to serve the major strategies and the development of infrastructure in Gansu, support the development of private and small and medium-sized enterprises and spare no effort in supporting the battle against poverty. The Bank has made fruitful achievements in supporting the local economic and social development.

The past year saw our navigating through the cloud and overcoming difficulties and challenges. Faced with the unpredictable development environment and rapidly-changing industry condition, we have been focusing on supply-side structural reform and committed ourselves to serving the development of real economy, prevention and control of financial risks, strengthening the Bank's corporate governance, promoting reform and transformation, actively building and establishing a connotative development model attaching equal importance to scale, speed, quality and efficiency. Eventually, we have improved the business structure and management system and realized the development objective of improving quality and efficiency through management and promoting transformation through innovation.

The past year was the one throughout which we strove to forge ahead and gathered energy for future development. During the year, by thinking out of box and keeping abreast of the times, we have proactively explored new approaches for transformation and innovation, streamlined the mechanisms in respect of operation and management, implemented the strategy of prioritizing retail business and accelerated the adjustment of business structure. Benchmarking ourselves against leading peers in the industry, we learned from their experience and vigorously developed our five major systems and comprehensively explored modern bank governance systems, in order to find a reform and development path which suits our growth better and serves the local economic development better.

In 2019, the Bank has drawn the attention of all sectors of society. The Bank ranked 313th among "Top 1000 World Banks 2019" and 49th among domestic banks in terms of Tier 1 capital released by The Banker (a British magazine). The Bank ranked 48th among "Top 100 Chinese Banks (中國銀行業100強)" for 2019 by the China Banking Association and received the Provincial Governor Financial Award for the sixth time.

No achievement can be made without the strong support of governmental departments, regulatory authorities and various sectors of the society and the joint efforts of all our employees. On behalf of the Board, I would like to express my heartfelt thanks to all shareholders, customers and people from all walks of life who have long been caring about and supporting the development of the Bank.

We have entered a new era with new missions, and new thoughts emerged with new challenges. 2020 is the year of satisfactory conclusion of building a well-off society in an all-round way and the "13th Five-year Plan". Focusing on the main target of high-quality development and centering on the three major tasks of serving the real economy, preventing and managing risks, and deepening reform, we will implement the strategies of prioritizing mobile business, retail business and quality, promote differentiated, professionalized, digitized and refined development, and attach great importance to the construction of the "five major systems" including internal structure system, comprehensive risk prevent and control system, comprehensive internal control and compliance system, credit card system and new discipline inspection and supervision system. We will seize the day and live it to the full and strive to write a new chapter of the high-quality development of the Bank.



Chairman of the Board of Directors
Liu Qing

President's Statement



Wang Wenyong
Executive Director, President

President's Statement

2019 is an extraordinary year in the history of Bank of Gansu. Facing unprecedented difficulties, risks and pressures, the senior management, under the guidance of the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and the correct leadership of the Party Committee and the board of directors of the Bank, has led the Bank to follow the inherent requirements of stable and high-quality development, adjust development philosophy, optimize business strategies, work as one to cope with challenges and move forward unswervingly.


In 2019, following the general principle of making progresses while maintaining stability, the Bank has achieved stable and promising business development. At the end of 2019, the Bank recorded total assets of RMB335 billion, total liabilities of RMB310.4 billion and operating income of RMB7.233 billion, achieving a net profit of RMB511 million, core tier-one capital adequacy ratio of 9.92%. The balance of savings deposits amounted to RMB136.5 billion, representing an increase of RMB29.3 billion or 27% from the beginning of the year, maintaining market competitiveness for corporate deposits, and further optimizing the deposit structure.

In 2019, the Bank kept in mind the founding mission of financial institutions to sweat our efforts to supporting the development of the real economy. By comprehensively implementing the LPR quotation policy on especially the key projects, private and small and micro enterprises in the province, it has effectively solved the difficulties for enterprises to get access to financing or to obtain loans at a higher cost. Loans for special industry development projects increased by RMB9.3 billion compared with that at the beginning of the year, and small-amount special loans for poverty alleviation advanced steadily. 25 specific measures were introduced throughout the year to support the development of private enterprises, from which 69 key provincial projects have benefited, and RMB10.5 billion were granted cumulatively to the top ten ecological industries within the province, strongly supporting the transformation and upgrading of industrial economy and green development enterprises and projects of Gansu Province.

In 2019, the Bank strengthened risk prevention and control and effectively improved our management. By continuously improving the comprehensive risk management system, we effectively improve the quality of risk management and control. It also clarified the responsibilities and working mechanism for risk mitigation throughout the Bank, put in place supporting special assessment measures, strengthened all lines of personnel, and implemented hierarchical management. In the face of frequent risk events, it strengthened liquidity emergency management, formulated emergency plans, optimized the maturity structure of assets and liabilities, and strengthened identification and early warning of liquidity risks. In addition, it firmly implemented the regulatory requirements, carried out various inspections, in order to further strengthen the foundation for internal control compliance management.

In 2019, the Bank focused on scientific and technological innovation and therefore steadily advanced our transformation and development. The supply chain financial system was launched to expand the coverage of target customers. A number of online loan products were launched to build credit card operations and operating systems, and rapidly increase channel replacement rates. The Bank became the first bank in the province to support the online application and inquiry of electronic social security cards, and won the "Most Iconic Mobile Banking Function Award" of China Financial Certification Authority. In-depth cooperation with a number of Internet companies has been carried out to fully promote the construction of digital banking, data platform planning, the construction of data warehouse and six major bazaar, data governance and other work in an orderly manner.

In 2020, the Bank will continue to follow the general principle of making progresses while maintaining stability, stay true to our founding mission, build up the confidence to overcome difficulties, and resolve to deepen reforms. We will work hard to prevent and mitigate risks, improve operating efficiency, thus laying a solid foundation for the development of Bank of Gansu. We will make every effort to promote the real economy, develop inclusive finance, support private enterprises, and reward our shareholders and society with excellent performance.



Executive Director, President
Wang Wenyong

Chief Supervisor's Statement



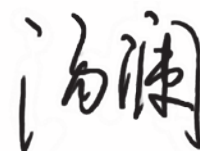
Tang Lan

Chairman of the Board of Supervisors

Chief Supervisor's Statement

In 2019, based on the principle of objectivity, fairness, scientificity and effectiveness and in accordance with the relevant laws, regulations and regulatory requirements of the State and the provisions of the Articles of Association of the Bank, the Board of Supervisors diligently and conscientiously performed its responsibilities in respect of the supervision of duty performance, financial activities, internal control, risk management, etc., with a view to promoting the compliant and healthy development of the Bank. The Board of Supervisors actively implemented the regulatory requirements to continuously improve the contents of supervision, effectively introduce innovative supervisory methods and gradually establish a mechanism for supervisory work covering meeting supervision, strategy supervision, and supervision through inspection and research, supervision for problem rectification, etc. With all these efforts, the supervisory work of the Bank has become more pragmatic in all aspects, and the relevant measures have become more effective. The Board of Supervisors has effectively fulfilled its supervisory responsibilities and made positive contributions to the business development, risk management, corporate governance and other aspects of the Bank.

In 2020, the Board of Supervisors will continue to follow the relevant requirements of the laws, regulations and the Articles of Association of the Bank to continuously optimize our supervisory methods with an aim to further improve the efficiency of supervision of the Board of Supervisors, and will also continue to fulfil its responsibilities in relation to the supervision of duty performance, so as to make positive contributions to the healthy and sustainable development of the Bank.



Chairman of the Board of Supervisors
Tang Lan

Definitions

In this annual 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”, “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”, “Board”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
“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 CBRC 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)
“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
“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
“Gansu Electric Power Investment”	Gansu Province Electric Power Investment Group Co., Ltd. (甘肅省電力投資集團有限責任公司), a company incorporated in the PRC on July 15, 1990, and a wholly-owned subsidiary of Gansu State-owned Assets Investment. As of December 31, 2019 and up to the Latest Practicable Date, Gansu Electric Power Investment held approximately 6.30% equity interests in the Bank
“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 December 31, 2019 and up to the Latest Practicable Date, Gansu Highway Aviation Tourism held approximately 12.49% equity interests in the Bank. It is a substantial Shareholder and connected person of the Bank
“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 December 31, 2019 and up to the Latest Practicable Date, it directly held approximately 3.57% equity interests in the Bank, and indirectly held approximately 12.59% equity interests in the Bank through its subsidiaries, including Gansu Electric Power Investment and Jinchuan Group. 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

Definitions

“H Share(s)”	ordinary shares to be 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 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
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	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 an associate of a connected person of the Bank under the Hong Kong Listing Rules
“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 Investments is its largest shareholder, holding 48.67% of its equity interests. As of December 31, 2019 and up to the Latest Practicable Date, Jinchuan Group held approximately 6.30% equity interests in the Bank
“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 68.42% of its equity interest owned by Gansu SASAC and 31.58% of its equity interest owned by Gansu State-owned Assets Investment. As of December 31, 2019 and up to the Latest Practicable Date, Jiuquan Iron & Steel held approximately 6.30% equity interests in the Bank
“Latest Practicable Date”	March 30, 2020, the latest practicable date for ascertaining certain information in this annual report before its publication

“Listing”	the listing of H Shares of the Bank on the Hong Kong Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“non-standard credit assets”	credit assets that are not traded on the interbank markets or stock exchanges, which for the purpose of this annual 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 annual report only, excluding Hong Kong, Macau and Taiwan, unless otherwise specified in the context
“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
“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

Definitions

“PRC Securities Law”	the Securities Laws of the PRC (《中華人民共和國證券法》), as promulgated by the 6th meeting of the Standing Committee of the 9th National People’s Congress on December 29, 1998 and previously modified upon approval by the Standing Committee of the 13th National People’s Congress on December 28, 2019, as amended, supplemented or otherwise modified from time to time
“provincial urban commercial bank(s)”	local urban 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 CBRC, the PRC GAAP and/or IFRSs
“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 CBRC, the PRC GAAP and/or IFRSs
“Reporting Period”	the year ended December 31, 2019 (from January 1, 2019 to December 31, 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)
“subsidiary(ies)”	“subsidiary(ies)” as defined under Rule 1.01 of 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 annual report:

- *certain amounts and percentage figures included in this annual 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 annual 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.*

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, 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 Annual Report	:	Office of the Board of the Bank

II. HISTORY OF THE BANK

In light of the lack of provincial urban 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 urban 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 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 CBIRC 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 urban commercial bank in Gansu province.

The registered address of the Bank is No. 122, Gannan Road, Chengguan District, Lanzhou, 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.

Company Profile

III. AWARDS OF THE BANK IN 2019

Awards and Honors	Awarding Party/Media
Ranked 321st among the 2019 Top 1000 World Banks (49th among Chinese banks)	The Banker Magazine
Ranked 330th among the 2019 Top 500 Most Valuable Global Banking Brands (39th among domestic banks)	The Banker Magazine, Brand Finance
An overall ranking of No. 9th among urban 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 Issuers on the 2019 Most Valuable Chinese Listing Brands	China Business Research Center of Tsinghua University School of Economics and Management Forbes (magazine)
Ranked 1,430th among the 2019 Top 2,000 Global Listed Companies (628th in terms of assets, 1,387 in terms of profit)	
2018 Provincial Governor Financial Award (2018年度省長金融獎)	The People's Government of Gansu Province
2019 China Financial Market Award for Best Corporate Governance (2019年中國融資大獎最佳企業管治獎)	China Financial Market (financial magazine)
2019 China Financial Market Award for Best Sustainable Development Report (2019年中國融資大獎最佳可持續發展報告獎)	China Financial Market (financial magazine)
2018 Top 300 Trading Banks in Interbank RMB Market (2018年度銀行間本幣市場交易300強)	Notional Interbank Funding Center
Achievement Award for IT Risk Management Research of the Banking Industry in 2018 (Class II) (2018年度銀行業信息科技風險管理研究二類成果獎)	China Banking and Insurance Regulatory Commission
2018 Outstanding Unit of Gansu Foreign Exchange Self-regulatory Mechanism (2018年度甘肅省外匯市場自律機制先進單位)	Gansu Foreign Exchange Self-Regulatory Mechanism
Excellent Proprietary Institution Award (優秀自營商獎)	CCDC
Leading Bank of Debt Financing Plan (債權融資計劃業務乘風破浪獎)	Beijing Financial Assets Exchange (北京金融資產交易所)
Outstanding Partner of China UnionPay Card-free Payment Business (「中國銀聯無卡支付業務合作先進單位」)	China UnionPay
2019 Top 100 Financial Services Enterprises (2019金融服務100強)	China Economic Net
2019 Top 100 Financial Innovation Enterprises (2019中國金融創新百強)	China Economic Net
Most Iconic Mobile Banking Function Award (最具特色手機銀行功能獎)	China Financial Certification Authority (CFCA)
Outstanding Contribution Award for Financial Technology Innovation-Contribution Award for Operation and Maintenance (金融科技創新突出貢獻獎 – 運維創新貢獻獎)	Periodical Office of Financial Computerizing
Outstanding Contribution Award for Financial Technology Innovation-Contribution Award for Management Innovation (金融科技創新突出貢獻獎 – 管理創新貢獻獎)	Periodical Office of Financial Computerizing

Financial Highlights

FIVE-YEAR FINANCIAL DATA

(Expressed in millions of RMB, unless otherwise stated)	2019	2018	2017	2016	2015
Results of operations					
Interest income	14,380.0	15,327.1	14,045.8	12,063.0	11,129.0
Interest expense	(9,092.1)	(8,199.3)	(6,560.8)	(5,392.8)	(5,995.0)
Net interest income	5,287.9	7,127.8	7,485.0	6,670.2	5,134.0
Fee and commission income	357.6	362.7	462.8	327.4	198.7
Fee and commission expenses	(104.4)	(196.6)	(86.1)	(71.1)	(57.3)
Net fee and commission income	253.2	166.1	376.7	256.3	141.4
Net trading gains/(losses)	1,489.8	1,089.2	(21.9)	(8.0)	(6.1)
Net gains/(losses) arising from investment securities	131.2	42.7	116.9	–	(1.0)
Net exchange gains/(losses)	68.9	388.2	(13.2)	9.9	6.3
Other operating income, net	2.3	58.2	109.0	42.5	28.2
Operating income	7,233.3	8,872.2	8,052.5	6,970.9	5,302.8
Operating expenses	(2,356.5)	(2,271.0)	(2,052.2)	(1,903.8)	(1,830.0)
Impairment losses on assets, net of reversals	(4,312.0)	(1,962.4)	(1,523.0)	(2,504.4)	(1,720.5)
Operating profit	564.8	4,638.8	4,477.3	2,562.7	1,752.3
Share of result of an associate	(0.1)	(1.0)	1.8	1.9	1.4
Profit before tax	564.7	4,637.8	4,479.1	2,564.6	1,753.7
Income tax expense	(53.4)	(1,198.2)	(1,115.4)	(643.6)	(455.3)
Profit for the year	511.3	3,439.6	3,363.7	1,921.0	1,298.4
Profit for the year attributable to:					
– Owners of the Bank	509.1	3,435.3	3,358.5	1,917.0	1,295.4
– Non-controlling interests	2.2	4.3	5.2	4.0	3.0
Profit for the year	511.3	3,439.6	3,363.7	1,921.0	1,298.4

Financial Highlights

(Expressed in millions of RMB, unless otherwise stated)	2019	2018	2017	2016	2015
Major indicators of assets/liabilities					
Total assets	335,044.5	328,622.4	271,147.6	245,056.4	211,930.7
Of which: total loans and advances to customers	170,449.2	160,885.3	130,283.6	107,855.1	90,626.7
Total liabilities	310,355.5	303,374.8	254,534.6	231,712.7	199,836.0
Of which: deposits from customers	236,868.7	210,723.3	192,230.6	171,165.3	141,020.6
Total equity	24,689.0	25,247.6	16,613.0	13,343.7	12,094.7
Per Share (RMB)					
Net assets per Share	2.45	2.51	2.21	1.77	1.61
Basic earnings per Share	0.05	0.35	0.45	0.25	0.17
Diluted earnings per Share	0.05	0.35	0.45	0.25	0.17
Profitability indicators (%)					
Return on assets ⁽¹⁾	0.15	1.15	1.30	0.84	0.69
Return on equity ⁽²⁾	2.05	16.43	22.46	15.10	11.37
Net interest spread ⁽³⁾	1.74	2.07	2.74	2.89	2.79
Net interest margin ⁽⁴⁾	1.96	2.37	2.91	3.08	2.96
Net fee and commission income to operating income ratio ⁽⁵⁾	3.50	1.87	4.68	3.68	2.67
Cost-to-income ratio ⁽⁶⁾	31.53	24.72	24.81	25.16	28.72
Capital adequacy indicators (%)					
Core tier-one capital adequacy ratio ⁽⁷⁾	9.92	11.01	8.71	8.58	8.57
Tier-one capital adequacy ratio ⁽⁸⁾	9.92	11.01	8.71	8.58	8.57
Capital adequacy ratio ⁽⁹⁾	11.83	13.55	11.54	11.80	11.42
Shareholders' equity to total assets ratio	7.37	7.68	6.13	5.45	5.71
Assets quality indicators (%)					
Non-performing loan ratio	2.45	2.29	1.74	1.81	1.77
Provision coverage ratio ⁽¹⁰⁾	135.87	169.47	222.00	192.72	150.94
Provision to total loan ratio ⁽¹¹⁾⁽¹²⁾	3.33	3.89	3.86	3.48	2.67
Other indicators (%)					
Loan to deposit ratio ⁽¹³⁾	71.96	76.35	67.77	63.01	64.26

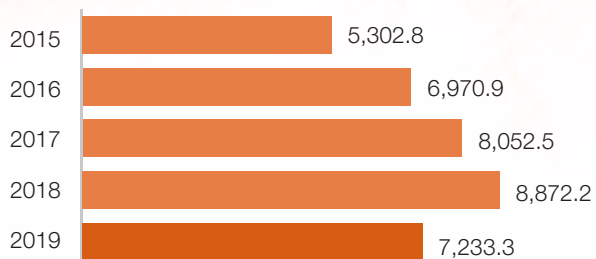
Notes:

- ⁽¹⁾ Calculated by dividing the net profit for a year by the average balance of total assets at the beginning and the end of that year.
- ⁽²⁾ Calculated by dividing the net profit for a year by the average balance of total equity at the beginning and the end of that year.
- ⁽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's provision to total loan ratio has been following the minimum standard of 2.5%.
- ⁽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.

Financial Highlights

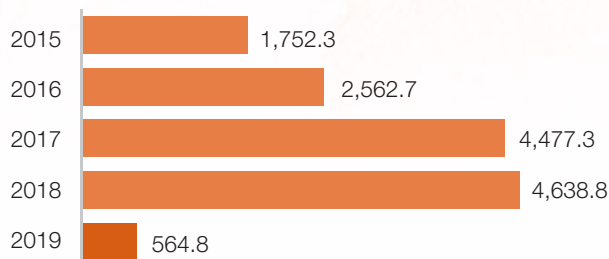
Operating income

Unit: RMB in millions



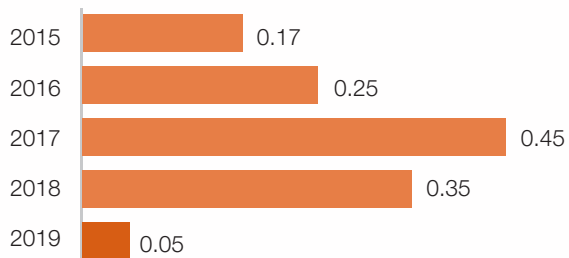
Operating profit

Unit: RMB in millions



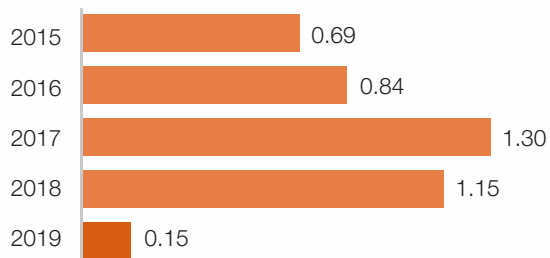
Basic earnings per Share

Unit: RMB



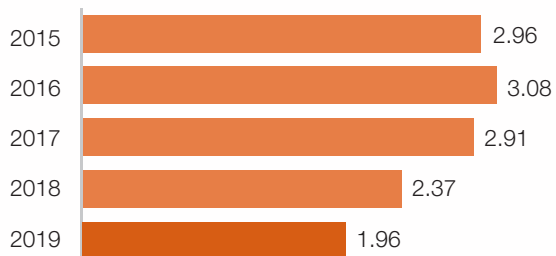
Return on assets

Unit: %



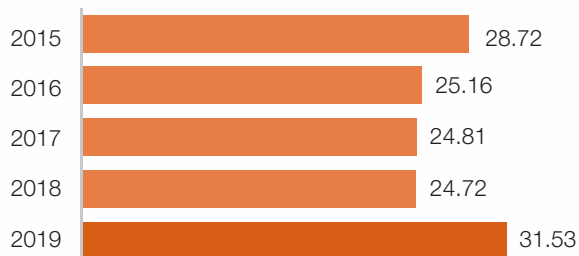
Net interest margin

Unit: %



Cost-to-income ratio

Unit: %



Management Discussion and Analysis

ENVIRONMENT AND PROSPECT

The slowdown in the current world economic growth, continuing trade frictions, intensified protectionism, Brexit, geopolitical conflicts, and populism rising in many places have all brought greater risks and challenges to the global economy. Facing with increasing and more complex external risks and challenges, China's economic development is at a critical stage of transforming the development mode, optimizing the economic structure, and transforming the driving force for growth. In addition to the intertwined structural and periodic issues and the increased downturn pressure on the economy, the sudden outbreak of COVID-19 (the "COVID-19 outbreak") has further exacerbated such downturn pressure. Problems in the economic structure of Gansu Province are more prominent, such as monotonous economic structure, heavy reliance on primary industry, incomplete industry chain, low technology production, weak economic growth momentum, slow cultivation of new economic growth points, growth pole and growth belt. With the global economic downturn and domestic market fluctuations, the development pressure we face will be greater, the task we shoulder will be harsher and the situation will become more acute.

With challenges such as the accelerated opening-up of China's banking industry, the tightening of the regulatory system, the overall decline in interest rates, the profound impact of fintech, and the intensifying market competition, the weaknesses of urban commercial banks have been amplified, including weak development foundations, to-be-improved team capabilities and quality, extensive management, the lack of innovative capabilities and the left-behind digital transformation. While the COVID-19 outbreak impacts the tertiary industry and a large number of small, medium and micro enterprises, the non-performing assets of the banking industry may increase significantly. Especially since 2019, the "black swan" incidents of small and medium banks have occurred frequently, causing a cloudy operating environment, and sharply increasing operating pressure. Facing more complicated external shocks, coupled with the pressure from internal operation and management, small and medium-sized banks will face huge challenges to survive and develop in the new environment.

Although macroeconomic development faces many uncertain factors, China's economy still presents stable performance with good momentum for growth. In relation to Gansu Province, it is in an unprecedented period full of strategic opportunities for economic development. With the gradually increased national support for the development of the western region, the advancement of the Belt and Road Initiative and the construction of new land and sea corridors in the western region, as well as the accelerated transfer and concentration of various manufacturing factors to the western region, Gansu's advantages in terms of location, resource, industries, role of platform will be further unleashed. In particular, President Xi Jinping made an inspection tour to Gansu again in 2019, bringing the greatest historical opportunity for the development of the province, including opportunities in infrastructure construction such as transportation, water conservancy, energy, information, etc., ecological protection and governance in the Yellow River Basin, critical battle against poverty, pollution prevention, cultural tourism, and ten major ecological industry-driven projects, Green Finance Reform and Innovation Pilot Area in Lanzhou New District, Yuzhong Ecological Innovation City construction, the Great Dunhuang cultural tourism economic circle, and constructions of a number of railways, highways, and airports. In other words, these major projects will lay a solid foundation for Gansu's economic operations in the future, bringing Bank of Gansu great development opportunity. The Bank will follow the trend, refine measures to seize such opportunities, further improve the corporate governance mechanism, make full use of the various advantages of the economic environment within and outside the province, continue to comply with operational requirements while maintaining stable development, lay solid foundation, build capacity, enhance efficiency, strictly control risks, maintain consistent asset quality and carry out digital transformation, so as to comprehensively promote its high-quality development.

EVALUATION ON THE IMPACT OF COVID-19 OUTBREAK

Since the nationwide outbreak of COVID-19 in January 2020, the prevention and control measures on the epidemic have been taken on a continuous basis across the country. The Bank will firmly implement various requirements of the Notice on Further Strengthening Financial Support for the Prevention and Control of COVID-19 (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》), jointly promulgated by the PBOC, the Ministry of Finance of the PRC (“MOF”), the CBIRC and the CSRC and State Administration of Foreign Exchange of the PRC, so as to strengthen financial support for the prevention and control of the epidemic.

The COVID-19 outbreak would have an impact on the operating of entities in some provinces (including Hubei province) and cities and certain industries as well as the overall economic situation, which may in turn affect the quality or returns of the Bank’s credit assets and investment assets to the extent of which could not be estimated as at the date of the financial statements. Such extent will depend on the development and duration of the prevention and control measures and implementation of various control policies.

The Bank will continue to pay close attention to the development of the COVID-19 outbreak, evaluate and take positive steps to address its impact on the financial condition, results of operations and other aspects of the Bank. As at the date of this annual report, such evaluation is still ongoing.

DEVELOPMENT STRATEGY

Our vision is committed to building ourselves into a first class listed urban commercial bank. To this end, the Bank will adhere to the principle of customer-oriented business operation based on sustainable high-quality development, focus on business safety with risk prevention and compliance management, guarantee business growth through refined management and professional capability enhancement and consider serving the real economy as its mission. We will make steady progress and uphold traditional values to lay a solid foundation for development and insist on the quality first while prioritizing economic benefits and set off on a path that leads to “differentiated, refined and professional” 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) fully leverage domestic and overseas capital markets to expand capital replenishment channels and secure continuous capital replenishment; (iii) adapt to new norms for economy and regulation, hold onto the bottom line of risks and effectively strengthen quality control of assets; (iv) develop mega retail business system to ensure the implementation of the retail transformation strategy; (v) improve wholesale business service systems to lay a solid foundation for business growth; (vi) promote the application of Fintech and cross-sector cooperation and take the mobile end as a priority to expand its service coverage; (vii) optimize its business and management process and improve refined management standards towards the direction of building a refined management system; and (viii) adhere to talent cultivation with continuous promotion in team cohesion and comprehensive ability.

OVERALL BUSINESS REVIEW

The Bank recorded a total operating income of RMB7,233.3 million in 2019, representing a decrease of 18.5% as compared to RMB8,872.2 million in 2018. The Bank's net profit decreased by 85.1% from RMB3,439.6 million in 2018 to RMB511.3 million in 2019. Such decrease in the Bank's operating income was mainly due to adjustments to its business structure, intensive market competition and the rise of capital cost; the year-on-year decrease in net profit was mainly attributable to the increased provisions for credit impairment loss as a result of the declined asset quality.

As at December 31, 2019, the Bank's total assets amounted to RMB335,044.5 million, representing a year-on-year increase of 2.0%; total loans and advances to customers amounted to RMB170,449.2 million, representing a year-on-year increase of 6.0%; the non-performing loan ratio was 2.45%, representing an increase of 0.16 percentage point as compared to the end of 2018, mainly due to the declined asset quality; total deposits from customers amounted to RMB236,868.7 million, representing a year-on-year increase of 12.4%.

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			Percentage change (%)
	2019	2018	Increase or decrease	
Interest income	14,380.0	15,327.1	(947.1)	(6.2)
Interest expense	(9,092.1)	(8,199.3)	(892.8)	10.9
Net interest income	5,287.9	7,127.8	(1,839.9)	(25.8)
Fee and commission income	357.6	362.7	(5.1)	(1.4)
Fee and commission expenses	(104.4)	(196.6)	92.2	(46.9)
Net fee and commission income	253.2	166.1	87.1	52.4
Net trading gains	1,489.8	1,089.2	400.6	36.8
Net gains arising from investment securities	131.2	42.7	88.5	207.3
Net exchange gains	68.9	388.2	(319.3)	(82.3)
Other operating income, net	2.3	58.2	(55.9)	(96.0)
Operating income	7,233.3	8,872.2	(1,638.9)	(18.5)
Operating expenses	(2,356.5)	(2,271.0)	(85.5)	3.8
Impairment losses on assets, net of reversals	(4,312.0)	(1,962.4)	(2,349.6)	119.7
Operating profit	564.8	4,638.8	(4,074.0)	(87.8)
Share of result of an associate	(0.1)	(1.0)	0.9	(90.0)
Profit before tax	564.7	4,637.8	(4,073.1)	(87.8)
Income tax expense	(53.4)	(1,198.2)	1,144.8	(95.5)
Profit for the year	511.3	3,439.6	(2,928.3)	(85.1)
Profit for the year attributable to:				
– Owners of the Bank	509.1	3,435.3	(2,926.2)	(85.2)
– Non-controlling interests	2.2	4.3	(2.1)	(48.8)
Profit for the year	511.3	3,439.6	(2,928.3)	(85.1)

In 2019, the Bank's profit before tax was RMB564.7 million, representing a year-on-year decrease of 87.8%; profit for the year was RMB511.3 million, representing a year-on-year decrease of 85.1%, mainly attributable to adjustments to its business structure and a decrease in net interest income as a result of the rise of capital cost and an increase in provision for the credit impairment loss arising from the declined asset quality.

Management Discussion and Analysis

(i) Net interest income

The net interest income was the largest component of the Bank's operating revenue, accounting for 80.3% and 73.1% of the operating income in 2018 and 2019, respectively. Such decrease in the percentage for 2019 was attributable to adjustments to its business structure and a decrease in net interest income as a result of the rise of capital cost. 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)	Year ended December 31,			
	2019	2018	Increase or decrease	Percentage change (%)
Interest income	14,380.0	15,327.1	(947.1)	(6.2)
Interest expense	(9,092.1)	(8,199.3)	(892.8)	10.9
Net interest income	5,287.9	7,127.8	(1,839.9)	(25.8)

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)	Year ended December 31, 2019			Year ended December 31, 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	157,708.9	9,970.7	6.32	147,267.4	9,971.4	6.77
Investment securities and other financial assets ⁽³⁾	97,736.0	3,969.9	4.06	92,171.5	3,812.3	4.14
Deposits with banks	6,804.0	244.1	3.59	20,051.6	692.6	3.45
Financial assets held under resale agreements and placements with banks and other financial institutions	14,972.2	451.8	3.02	13,486.8	416.4	3.09
Deposits with the central bank ⁽⁴⁾	26,055.0	392.8	1.51	28,153.5	434.4	1.54
Total interest-earning assets	303,276.1	15,029.3	4.96	301,130.8	15,327.1	5.09

Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2019			Year ended December 31, 2018		
	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾ (%)	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾ (%)
Interest-bearing liabilities						
Deposits from customers	219,154.5	6,583.1	3.00	196,727.2	4,923.3	2.50
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	7,913.8	262.6	3.32	12,823.5	431.1	3.36
Debt securities issued ⁽⁵⁾	38,566.0	1,579.6	4.10	32,958.1	1,566.3	4.75
Deposits from banks and other financial institutions	11,741.7	483.0	4.11	21,964.5	1,017.5	4.63
Borrowings from the central bank	4,452.4	177.2	3.98	7,034.1	261.1	3.71
Other liabilities	303.1	6.6	2.18	–	–	–
Total interest-bearing liabilities	282,131.5	9,092.1	3.22	271,507.4	8,199.3	3.02
Net interest income		5,937.2			7,127.8	
Net interest spread⁽⁶⁾			1.74			2.07
Net interest margin⁽⁷⁾			1.96			2.37

Notes:

- ⁽¹⁾ The daily average balances of interest-earning assets and interest-bearing liabilities are derived from our unaudited management accounts of the Bank.
- ⁽²⁾ Calculated by dividing interest income/expense by average balance.
- ⁽³⁾ Primarily includes interest income from debt investments and others; the main difference against interest income is that such item includes interest income from financial assets at fair value through profit or loss classified into net trading gains.
- ⁽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 daily 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 interest rate are measured by changes in average interest rates. Changes caused by both amount and interest rate have been allocated to changes in amount.

Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2019 vs 2018		Net increase/ (decrease) ⁽³⁾
	Amount ⁽¹⁾	Increase/(decrease) due to Rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	659.9	(662.7)	(0.7)
Investment securities and other financial assets	225.9	(73.7)	157.6
Deposits with banks	(475.6)	28.1	(448.5)
Financial assets held under resale agreements and placements with banks and other financial institutions	44.9	(9.4)	35.4
Deposits with the central bank	(31.7)	(8.4)	(41.6)
Change in interest income	106.4	(391.5)	(297.8)
Interest-bearing liabilities			
Deposits from customers	672.8	983.6	1,659.8
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	(163.0)	(5.1)	(168.5)
Debt securities issued	229.9	(214.2)	13.3
Deposits from banks and other financial institutions	(420.2)	(114.2)	(534.5)
Borrowings from the central bank	(102.8)	19.0	(83.9)
Other liabilities	6.6	–	6.6
Change in interest expense	342.1	543.0	892.8
Change in net interest income	(235.7)	(934.5)	(1,190.6)

Notes:

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

Management Discussion and Analysis

(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)	Year ended December 31,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Loans and advances to customers	9,970.7	66.4	9,971.4	65.1
Investment securities and other financial assets ⁽¹⁾	3,969.9	26.4	3,812.3	24.9
Deposits with banks	244.1	1.6	692.6	4.5
Financial assets held under resale agreements and placements with banks and other financial institutions	451.8	3.0	416.4	2.7
Deposits with the central bank	392.8	2.6	434.4	2.8
Total	15,029.3	100.0	15,327.1	100.0

Note:

⁽¹⁾ the main difference against interest income is that such item includes interest income from financial assets at fair value through profit or loss classified into net trading gains.

Interest income decreased by 1.9% from RMB15,327.1 million in 2018 to RMB15,029.3 million in 2019, primarily due to a 0.7% increase in the average balance of interest-earning assets, from RMB301,130.8 million in 2018 to RMB303,276.1 million in 2019, partially offset by a decrease in the average yield of interest-earning assets from 5.09% in 2018 to 4.96% in 2019. 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 a decrease in the average yield of loans and advances, investment securities and other financial assets as a result of the downward impact of market interest rates leading to a decrease in the interest rate of the Bank's loans granted for this period, as well as our increased investments in asset allocation with high liquidity.

Management Discussion and Analysis

(A) Interest income from loans and advances to customers

Interest income from loans and advances to customers represented 65.1% and 66.4% of total interest income in 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)	Year ended December 31,					
	Average balance ⁽¹⁾	2019 Interest income	Average yield (%)	Average balance ⁽¹⁾	2018 Interest income	Average yield (%)
Corporate loans	106,724.7	7,103.5	6.66	106,076.8	7,194.3	6.78
Retail loans	27,547.6	1,888.8	6.86	22,678.2	1,757.7	7.75
Discounted bills	23,436.6	978.4	4.17	18,512.4	1,019.4	5.51
Total loans and advances to customers	157,708.9	9,970.7	6.32	147,267.4	9,971.4	6.77

Note:

⁽¹⁾ Represents the average of daily balances based on our 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 RMB3,812.3 million in 2018 to RMB3,969.9 million in 2019, primarily due to a 6.0% increase in the average balance of investment securities and other financial assets, from RMB92,171.5 million in 2018 to RMB97,736.0 million in 2019, offset by a decrease in the average yield of investment securities and other financial assets, from 4.14% in 2018 to 4.06% in 2019. The increase in average balance was primarily due to our increased investments in financial assets to diversify our asset portfolio. The decrease in average yield was primarily due to (i) lower returns on our investments in non-standard credit assets; and (ii) our increased investments in standard securities with high liquidity and lower yields.

(C) Interest income from deposits with banks

Interest income from deposits with banks decreased by 64.8% from RMB692.6 million in 2018 to RMB244.1 million in 2019, primarily due to a 66.1% decrease in the average balance of deposits with banks, from RMB20,051.6 million in 2018 to RMB6,804.0 million in 2019, and an increase in the average yield of deposits with banks, from 3.45% in 2018 to 3.59% in 2019. The decrease in average balance was due to our decreased investments in deposits with banks based on changes in interbank money market interest rates. The increase in average yield was primarily due to increased market interest rate and the average yield of certain deposits with banks was offset by the decrease in the average balance, which in turn resulted in a decrease in the interest income from the deposits with banks.

Management Discussion and Analysis

(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 8.5% from RMB416.4 million in 2018 to RMB451.8 million in 2019, which was primarily due to a 11.0% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB13,486.8 million in 2018 to RMB14,972.2 million in 2019; a decrease in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 3.09% in 2018 to 3.02% in 2019, was offset, which in turn resulted in an increase in returns from reverse repurchase transactions.

(E) Interest income from deposits with the central bank

Interest income from deposits with the central bank decreased by 9.6% from RMB434.4 million in 2018 to RMB392.8 million in 2019, primarily due to a 7.5% decrease in the average balance of deposits with the central bank, from RMB28,153.5 million in 2018 to RMB26,055.0 million in 2019. The lower average balance was primarily due to a decrease in average balance of deposits with the central bank as a result of a decrease in deposit reserve ratio.

(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)	Year ended December 31,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	6,583.1	72.4	4,923.3	60.0
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	262.6	2.9	431.1	5.3
Debt securities issued	1,579.6	17.4	1,566.3	19.1
Deposits from banks and other financial institutions	483.0	5.3	1,017.5	12.4
Borrowings from the central bank	177.2	1.9	261.1	3.2
Other liabilities	6.6	0.1	–	–
Total	9,092.1	100.0	8,199.3	100.0

Interest expense increased by 10.9% from RMB8,199.3 million in 2018 to RMB9,092.1 million in 2019, primarily due to a 3.9% increase in the average balance of interest-bearing liabilities, from RMB271,507.4 million in 2018 to RMB282,131.5 million in 2019, and an increase in the average cost of interest-bearing liabilities, from 3.02% in 2018 to 3.22% in 2019. The increase in the average balance of interest-bearing liabilities was primarily due to the increases in customer deposits and bonds issued, in line with the business growth. The increase in the average cost of interest-bearing liabilities was mainly due to higher market interest rate in deposits from customers.

Management Discussion and Analysis

(A) Interest expense on deposits from customers

Interest expense on deposits from customers increased by 33.7% from RMB4,923.3 million in 2018 to RMB6,583.1 million in 2019, primarily due to a 11.4% increase in the average balance of deposits from customers, from RMB196,727.2 million in 2018 to RMB219,154.5 million in 2019, and an increase in the average cost of deposits from customers, from 2.50% in 2018 to 3.00% in 2019. The increase in average balance of deposits from customers was mainly due to the business growth. The increase in the average cost of deposits from customers was due to higher market interest rates in deposits from customers.

(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 39.1% from RMB431.1 million in 2018 to RMB262.6 million in 2019 primarily due to a 38.3% decrease in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB12,823.5 million in 2018 to RMB7,913.8 million in 2019, and a decrease in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 3.36% in 2018 to 3.32% in 2019. The decrease in average balance was primarily because we entered into less repurchase transactions. The decrease in average cost was primarily due to a decrease in the cost of repurchase transactions.

(C) Interest expense on debt securities issued

Interest expense on debt securities issued increased by 0.8% from RMB1,566.3 million in 2018 to RMB1,579.6 million in 2019, primarily due to a 17.0% increase in the average balance of debt securities issued, from RMB32,958.1 million in 2018 to RMB38,566.0 million in 2019, and a decrease in the average cost of debt securities issued, from 4.75% in 2018 to 4.10% in 2019. The increase in average balance was primarily due to the interbank certificates in an aggregate principal amount of RMB34,310.0 million. The decrease in average cost was primarily due to a decrease in the interest rates of interbank certificates reflecting lower market interest rates.

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

Interest expense on deposits from banks and other financial institutions decreased by 52.5% from RMB1,017.5 million in 2018 to RMB483.0 million in 2019, primarily due to a 46.5% decrease in the average balance of deposits from banks and other financial institutions, from RMB21,964.5 million in 2018 to RMB11,741.7 million in 2019, primarily because fund raising through deposits from banks and other financial institutions were reduced as a result of increase deposits from customers and our issuance of interbank certificates. In 2018 and 2019, the average cost of deposits from banks and other financial institutions decreased from 4.63% to 4.11%.

(E) Interest expense on borrowings from the central bank

Interest expense on borrowings from the central bank decreased by 32.1% from RMB261.1 million in 2018 to RMB177.2 million in 2019, primarily due to a 36.7% decrease in the average balance of borrowings from the central bank, from RMB7,034.1 million in 2018 to RMB4,452.4 million in 2019, primarily due to the repayment of borrowings from the central bank for the period. The average cost of borrowings from the central bank increased from 3.71% in 2018 to 3.98% in 2019, respectively.

Management Discussion and Analysis

(iv) Net interest spread and net interest margin

Net interest spread decreased from 2.07% in 2018 to 1.74% in 2019, primarily due to a decrease in average yield of total interest-earning assets, from 5.09% to 4.96%, primarily due to (i) the downward impact of market interest rates leading to a decrease in average yield of the loans and advances to customers; (ii) a decrease in the average yield of investment securities and other financial assets, primarily due to declined returns on our investments in non-standard credit assets, as well as our increased investments in asset allocation with high liquidity; (iii) an increase in the average cost of total interest-bearing liabilities, from 3.02% to 3.22%, primarily due to higher average cost of customer deposits.

Net interest margin decreased from 2.37% in 2018 to 1.96% in 2019, primarily attributable to the growth in the daily average balance of interest-earning assets, which outpaced the growth in the net interest income.

(v) Non-interest income

(A) Net fee and commission income

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			Percentage change (%)
	2019	2018	Increase or decrease	
Fee and commission income				
Wealth management service fees	36.2	48.0	(11.8)	(24.6)
Agency service fees	120.6	207.3	(86.7)	(41.8)
Settlement and clearing fees	146.4	68.4	78.0	114.0
Bank acceptance bill service fees	27.6	19.8	7.8	39.4
Letters of guarantee fees	2.5	4.3	(1.8)	(41.9)
Others ⁽¹⁾	24.2	14.9	9.3	62.4
Subtotal	357.6	362.7	(5.1)	(1.4)
Fee and commission expenses	(104.4)	(196.6)	92.2	(46.9)
Net fee and commission income	253.2	166.1	87.1	52.4

Note:

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

Net fee and commission income increased by 52.4% from RMB166.1 million in 2018 to RMB253.2 million in 2019, primarily due to lower fees.

Fee and commission expenses mainly included settlement and clearing service fees paid to third parties and debit card service fees. Fee and commission expenses decreased by 46.9% from RMB196.6 million in 2018 to RMB104.4 million in 2019, primarily due to a decrease in card fees.

Management Discussion and Analysis

(B) Net trading gains

Net trading gains primarily included gains from disposal of financial assets and interest income from financial assets held for trading for the period. We had net trading gains of RMB1,089.2 million in 2018, and net trading gains of RMB1,489.8 million in 2019, primarily reflected in gains from disposal of, and interest income from financial assets. The increase was mainly due to an increase in financial assets held for trading.

(C) Net gains arising from investment securities

The net gains arising from investment securities and other financial assets included net gains 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 net gains arising from investment securities and other financial assets of the Bank was RMB42.7 million in 2018. The net gains arising from investment securities and other financial assets of the Bank was RMB131.2 million in 2019. The increase in the net gains was mainly due to an increase in a transaction amounts.

(D) Net exchange gains

Net exchange gains mainly included net gains arising out of foreign exchange settlement and translation of foreign exchange investment assets. We had net exchange gains of RMB388.2 million in 2018 and net exchange gains of RMB68.9 million in 2019, primarily reflecting fluctuations in exchange rates.

(E) Other operating income

Other operating income mainly included government subsidies, net income from the short-term leasing of fixed assets and assets disposal and others. Other operating income decreased by 96.0% from RMB58.2 million in 2018 to RMB2.3 million in 2019. This mainly reflects the decrease in government subsidies and rentals of premises.

Management Discussion and Analysis

(vi) Operating expenses

Operating expenses increased by 3.8% from RMB2,271.0 million in 2018 to RMB2,356.5 million in 2019, primarily due to the property and equipment expenses.

The table below sets forth the principal components of operating expenses of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			Percentage change (%)
	2019	2018	Increase or decrease	
Staff costs	1,272.1	1,240.5	31.6	2.5
General management and administrative expenses	443.3	429.8	13.5	3.1
Property and equipment expenses	565.0	523.1	41.9	8.0
Business tax and surcharge	76.1	77.7	(1.6)	(2.1)
Total	2,356.5	2,271.1	85.4	3.8
Cost-to-income ratio⁽¹⁾(%)	31.53	24.72	6.81	27.55

Note:

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

Management Discussion and Analysis

(A) Staff costs

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Increase or decrease	Percentage change (%)
	2019	2018		
Salaries and bonuses	905.7	910.4	(4.7)	(0.5)
Social insurance	219.0	209.2	9.8	4.7
Housing allowances	67.1	57.1	10.0	17.5
Staff welfares	49.9	35.5	14.4	40.6
Labour union and staff education expenses	22.5	23.5	(1.0)	(4.3)
Others	7.9	4.8	3.1	64.6
Total staff costs	1,272.1	1,240.5	31.6	2.5

Staff costs increased by 2.5% from RMB1,240.5 million in 2018 to RMB1,272.1 million in 2019, which remained stable.

(B) Property and equipment expenses

Property and equipment expenses increased by 8.0% from RMB523.1 million in 2018 to RMB565.0 million in 2019. The increase in property and equipment expenses was mainly due to an increase in depreciation on leased assets, and an increase in depreciation on equipment due to development of new IT systems and addition of new equipment.

(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 3.1% from RMB429.8 million in 2018 to RMB443.3 million in 2019, mainly due to the business growth.

(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 decreased by 2.1% from RMB77.7 million in 2018 to RMB76.1 million in 2019, mainly reflecting the implementation of tax and surcharges reduction policies.

Management Discussion and Analysis

(vii) Impairment losses on credit/assets

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2019	2018	Increase or decrease	Percentage change (%)
Loans and advances to customers	3,598.3	1,994.4	1,603.9	80.4
Investment assets	677.3	(57.2)	734.5	(1,284.1)
Other assets	71.5	7.8	63.7	816.7
Acceptance bill and letter of guarantee	(35.1)	17.4	(52.5)	(301.7)
Total impairment losses on credit/assets	4,312.0	1,962.4	2,349.6	119.7

Impairment losses on credit/assets increased by 119.7% from RMB1,962.4 million in 2018 to RMB4,312.0 million in 2019, mainly due to increases in provisions for credit impairment of loans and advances to customers and investment assets.

Credit impairment losses on loans and advances to customers increased by 80.4% from RMB1,994.4 million in 2018 to RMB3,598.3 million in 2019, mainly due to the increase in provision for impairment losses on credit resulting from an increase in new non-performing loans in 2019.

Credit impairment losses on investment assets increased from RMB57.2 million of reversal in 2018 to RMB677.3 million of provision in 2019, mainly due to the increase in provision for impairment losses on credit resulting from an increase in new non-performing investment assets in 2019.

(viii) Income tax expense

Income tax expense decreased by 95.5% from RMB1,198.2 million in 2018 to RMB53.4 million in 2019. The decrease in income tax expense was mainly due to less taxable income of the Bank. Effective tax rates were 9.5% and 25.8% in 2019 and 2018, respectively.

Management Discussion and Analysis

(b) Analysis of the Consolidated Statement of Financial Position

(i) Assets

As of December 31, 2019 and 2018, the total assets of the Bank were RMB335,044.5 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 December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Assets				
Loans and advances to customers, gross	170,449.2	50.9	160,885.3	49.0
Provision for impairment losses	(5,682.4)	(1.7)	(6,251.5)	(1.9)
Loans and advances to customers, net	164,766.8	49.2	154,633.9	47.1
Investment securities and other financial assets ⁽¹⁾	113,508.7	33.9	102,876.4	31.3
Deposits with banks	3,967.5	1.2	12,927.7	3.9
Cash and deposits with the central bank	25,274.3	7.5	31,536.9	9.6
Financial assets held under resale agreements	16,264.0	4.9	19,523.8	5.9
Other assets ⁽²⁾	11,263.2	3.4	7,123.7	2.2
Total assets	335,044.5	100.0	328,622.4	100.0

Notes:

- (1) Including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, and financial assets at amortized cost.
- (2) Primarily consist of property and equipment, deposit paid for acquisitions of premises, deferred tax assets, interests receivable, interests in an associate and right-of-use assets.

(A) Loans and advances to customers

As of December 31, 2019, the total loans and advances to customers of the Bank were RMB170,449.2 million, representing an increase of 5.9% as compared to the end of last year. Total loans and advances to customers accounted for 50.9% of the total assets of the Bank, representing an increase of approximately 1.9 percentage points as compared to the end of last year.

Management Discussion and Analysis

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 December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate loans	111,292.0	65.3	113,204.1	70.4
Retail loans	34,265.5	20.1	28,025.2	17.4
Discounted bills	24,891.7	14.6	19,656.0	12.2
Total loans and advances to customers	170,449.2	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, all of which are substantially denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 49.2% and 47.1% of total assets as of December 31, 2019 and 2018, respectively.

The Bank's corporate loans decreased by 1.7% from RMB113,204.1 million as of December 31, 2018 to RMB111,292.0 million as of December 31, 2019, primarily due to the decrease in the extension of corporate loans for the period.

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 22.3% from RMB28,025.2 million as of December 31, 2018 to RMB34,265.5 million as of December 31, 2019, primarily due to (i) the Bank's efforts to support the financing needs of small and medium-sized enterprises (including sole proprietors); (ii) the expansion of the distribution network; and (iii) the adjustment of the Bank's loan portfolio to increase online loans and 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 December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Collateralized loans	79,970.4	46.9	77,917.8	48.4
Pledged loans	11,696.2	6.9	10,310.4	6.4
Guaranteed loans	60,326.3	35.4	54,814.5	34.1
Unsecured loans	18,456.3	10.8	17,842.6	11.1
Total loans and advances to customers	170,449.2	100.0	160,885.3	100.0

Management Discussion and Analysis

As of December 31, 2018 and 2019, collateralized loans, pledged loans and guaranteed loans in the aggregate represented 88.9% and 89.2% 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. We usually only accept guarantees provided by listed companies or guarantee companies. We evaluate 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 increased by 3.4% from RMB17,842.6 million as of December 31, 2018 to RMB18,456.3 million as of December 31, 2019. The increase of unsecured loans was primarily due to the successive launching of certain online loan products with lower risk by utilizing big data resources.

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

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

(Expressed in millions of RMB, unless otherwise stated)	2019	2018
As of January 1	6,251.5	5,029.0
Adjustments due to application of new standards	–	52.2
Charge for the year	3,598.3	1,994.4
Write-offs for the year and others	(4,204.2)	(824.8)
Reversal of write-offs for the previous years	36.8	0.7
As of December 31	5,682.4	6,251.5

Provisions for impairment losses on loans decreased by 9.1% from RMB6,251.5 million as of December 31, 2018 to RMB5,682.4 million as of December 31, 2019, primarily due to provision for write-offs and other consumption loans exceeding provision for the loans for the period.

(B) Investment securities and other financial assets

As of December 31, 2019 and 2018, the Bank's investment securities and other financial assets (original value) were RMB114,835.7 million and RMB105,605.8 million, representing 34.3% and 32.1% of its 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 and others.

Investment securities and other financial assets increased by 8.7% from RMB105,605.8 million as of December 31, 2018 to RMB114,835.7 million as of December 31, 2019. This increase was primarily due to the adjustment of our investment portfolio, the increase in the investment assets based on investment considerations, market conditions and other factors.

Management Discussion and Analysis

(ii) Liabilities

As of December 31, 2019 and 2018, the total liabilities were RMB310,355.5 million and RMB303,374.8 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) deposits from banks and other financial institutions; (iii) financial assets sold under repurchase agreements; (iv) debt securities issued; (v) borrowings from the central bank; (vi) placements from banks and other financial institutions; and (vii) other liabilities. 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 December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	236,868.7	76.3	210,723.3	69.5
Deposits from banks and other financial institutions	13,621.9	4.4	15,513.8	5.1
Financial assets sold under repurchase agreements	5,398.6	1.7	11,717.0	3.9
Debt securities issued	39,459.2	12.7	41,576.8	13.7
Borrowings from the central bank	2,316.4	0.7	11,650.9	3.8
Placements from banks and other financial institutions	890.0	0.3	3,300.0	1.1
Other liabilities ⁽¹⁾	11,800.7	3.9	8,893.0	2.9
Total liabilities	310,355.5	100.0	303,374.8	100.0

Note:

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

Management Discussion and Analysis

(A) Deposits from customers

Deposits from customers are the largest component of total liabilities. As of December 31, 2018 and 2019, deposits from customers represented 69.5% and 76.3% of the total liabilities, respectively.

We offer 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 December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate deposits				
Demand deposits	52,256.8	22.1	54,381.4	25.8
Time deposits	19,771.7	8.3	18,058.5	8.6
Subtotal	72,028.5	30.4	72,439.9	34.4
Retail deposits				
Demand deposits	26,217.0	11.1	24,114.6	11.4
Time deposits	110,243.6	46.5	83,018.5	39.4
Subtotal	136,460.6	57.6	107,133.1	50.8
Pledged deposits	13,984.5	5.9	16,500.1	7.8
Others⁽¹⁾	14,395.1	6.1	14,650.2	7.0
Total deposits from customers	236,868.7	100.0	210,723.3	100.0

Note:

(1) Primarily include principal guaranteed wealth management products issued by the Bank and deposits raised from other investment vehicles.

Total deposits from customers increased by 12.4% from RMB210,723.3 million as of December 31, 2018 to RMB236,868.7 million as of December 31, 2019. The increases in deposits from customers were primarily attributable to our enhanced marketing efforts to grow retail deposits.

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 December 31, 2019, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB34,310.0 million. These interbank certificates have terms of three months to one year and bear effective interest rates between 2.97% and 3.50% per annum.

(iii) Shareholders' equity

The table below sets forth the change in Shareholders' equity of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 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	4,660.4	18.9	4,658.3	18.5
Defined benefit scheme reserve	3.4	–	(4.2)	–
Investment revaluation reserve	219.5	0.9	261.4	1.0
Surplus reserve	1,560.8	6.3	1,510.1	6.0
General reserve	4,471.0	18.1	4,423.1	17.5
Retained earnings	3,678.9	14.9	4,297.8	17.0
Non-controlling interests	32.0	0.1	31.3	0.1
Total equity	24,689.0	100.0	25,247.6	100.0

Management Discussion and Analysis

(c) Asset quality analysis

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

The Bank's non-performing loans are classified into substandard, doubtful and loss-making loans and advances to customers. As of December 31, 2019, the Bank's non-performing loans amounted to RMB4,182.1 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 December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Normal	157,040.6	92.1	147,789.2	91.9
Special mention	9,226.5	5.4	9,407.3	5.8
Substandard	1,270.1	0.8	1,330.2	0.8
Doubtful	2,609.6	1.5	1,773.2	1.1
Loss	302.4	0.2	585.4	0.4
Total loans and advances to customers	170,449.2	100.0	160,885.3	100.0
Non-performing loans and non-performing loan ratio⁽¹⁾	4,182.1	2.45	3,688.8	2.29

Note:

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

As of December 31, 2019 and 2018, the non-performing loan ratios of the Bank were 2.45% and 2.29%, respectively, representing an increase of 0.16 percentage point.

Management Discussion and Analysis

(ii) Concentration of loans

(A) Concentration by industry and distribution 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 December 31, 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	17,757.9	10.4	821.1	4.62	24,169.5	15.0	1,468.5	6.08
Manufacturing	21,036.0	12.3	759.2	3.61	20,197.2	12.6	583.3	2.89
Agriculture, forestry, animal husbandry and fishing	7,605.1	4.5	257.7	3.39	8,204.6	5.1	524.0	6.39
Construction	10,461.0	6.1	122.2	1.17	9,129.2	5.7	369.8	4.05
Real estate	14,860.1	8.7	0.0	0.00	13,124.8	8.2	-	-
Mining	7,279.4	4.3	358.9	4.93	8,534.1	5.3	88.2	1.03
Water, environment and public facility management	3,078.7	1.8	0.0	0.00	6,051.4	3.7	-	-
Culture, sports and entertainment	2,914.5	1.7	14.8	0.51	2,898.1	1.8	19.3	0.67
Leasing and business services	8,815.5	5.2	13.5	0.15	7,157.6	4.4	16.4	0.23
Electricity, heating power, gas and water production and supply	3,512.3	2.1	399.5	11.37	2,509.8	1.6	4.5	0.18
Transportation, storage and postal services	3,247.8	1.9	11.0	0.34	2,328.9	1.4	47.7	2.05
Education	1,591.8	0.9	0.0	0.00	1,634.6	1.0	6.0	0.37
Accommodation and catering	2,666.9	1.6	42.5	1.59	2,689.4	1.7	32.0	1.19
Financial	2,996.5	1.8	-	-	1,000.0	0.6	-	-
Health and social services	1,876.5	1.1	4.8	0.26	1,846.2	1.2	-	-
Residents and other services	555.1	0.3	1.1	0.20	622.6	0.4	16.1	2.59
Scientific research, technical service and geological prospecting	913.1	0.5	-	-	927.1	0.6	-	-
Information transmission, computer service and software	103.8	0.1	3.0	2.89	159.0	0.1	28.0	17.61
Public administration, social security and social organizations	20.0	0.0	-	-	20.0	-	-	-
Retail loans	34,265.5	20.1	1,372.8	4.01	28,025.2	17.4	485.0	1.73
Discounted bills	24,891.7	14.6	-	-	19,656.0	12.2	-	-
Total amount	170,449.2	100.0	4,182.1	2.45	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.

Management Discussion and Analysis

Loans to borrowers in the wholesale and retail, manufacturing, real estate, construction and leasing and business services industries represented the largest components of the Bank's corporate loan portfolio. Loans to these industries accounted for 66.4% and 65.5% of total corporate loans as of December 31, 2018 and 2019, respectively.

As of December 31, 2019, non-performing loans of the Bank's loans were mainly concentrated in the wholesale and retail and manufacturing industry, with a non-performing loan ratio of 4.62% and 3.61%, respectively.

(B) Borrower concentration

Indicators of concentration

Major regulatory indicators	Regulatory standard	As of December 31, 2019	As of December 31, 2018
Loan concentration ratio for the largest single customer (%)	≤ 10	10.3	4.22
Loan concentration ratio for the top ten customers (%)	≤ 50	46.2	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 December 31, 2019 and the balances of loans to these borrowers, all of which were classified as normal.

(Expressed in millions of RMB, unless otherwise stated)		As of December 31, 2019		
Customers	Industries involved	Amount	% of total loans (%)	% of regulatory capital (%)
Borrower A	Manufacturing	3,000.0	1.8	10.3
Borrower B	Financial	2,000.0	1.2	6.9
Borrower C	Construction	1,300.0	0.8	4.5
Borrower D	Mining	1,200.0	0.7	4.1
Borrower E	Real estate	1,086.0	0.6	3.7
Borrower F	Financial	996.5	0.6	3.4
Borrower G	Electricity, heating power, gas and water production and supply	990.0	0.6	3.4
Borrower H	Leasing and business services	990.0	0.6	3.4
Borrower I	Manufacturing	970.0	0.6	3.3
Borrower J	Real estate	922.0	0.5	3.2
Total		13,454.5	7.9	46.2

Management Discussion and Analysis

(C) Non-performing loans by product

The table below sets forth 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 December 31, 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						
Working capital loans	70,930.1	1,390.0	1.96	72,527.7	3,117.9	4.30
Fixed asset loans	39,192.4	284.7	0.73	38,615.8	45.0	0.12
Others ⁽²⁾	1,169.5	1,134.6	97.02	2,060.6	40.9	1.98
Sub-total	111,292.0	2,809.3	2.52	113,204.1	3,203.8	2.83
Retail loans						
Personal business loans	6,997.9	985.4	14.08	7,580.1	361.4	4.77
Personal consumption loans	10,196.9	196.4	1.93	7,647.7	68.5	0.90
Residential and commercial mortgage loans	17,070.7	191.0	1.12	12,797.4	55.1	0.43
Sub-total	34,265.5	1,372.8	4.01	28,025.2	485.0	1.73
Discounted bills	24,891.7	–	–	19,656.0	–	–
Total non-performing loans	170,449.2	4,182.1	2.45	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 by 0.31 percentage point from 2.83% as of December 31, 2018 to 2.52% as of December 31, 2019.

The non-performing loan ratio of retail loans increased by 2.28 percentage points from 1.73% as of December 31, 2018 to 4.01% as of December 31, 2019.

Management Discussion and Analysis

(D) Loan aging schedule

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Loans not overdue	154,803.3	90.8	149,847.3	93.2
Loans past due for:				
1 to 90 days	11,689.7	6.9	6,013.6	3.7
91 days to 1 year	3,068.4	1.8	3,800.7	2.4
1 to 3 years	720.9	0.4	1,018.1	0.6
3 years or more	166.9	0.1	205.6	0.1
Subtotal	15,645.9	9.2	11,038.0	6.8
Total loans and advances to customers	170,449.2	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)	Year ended December 31,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking	3,238.4	44.8	4,643.1	52.3
Retail banking	1,461.4	20.2	1,026.0	11.6
Financial market operations	2,438.1	33.7	2,748.2	31.0
Others ⁽¹⁾	95.4	1.3	454.9	5.1
Total operating income	7,233.3	100.0	8,872.2	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.

Management Discussion and Analysis

(ii) Summary of geographical segment 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 in Gansu Province of the PRC and the revenue is derived from local activities there.

(e) Off-balance sheet commitments

Off-balance sheet commitments primarily consist of 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 December 31, 2019	As of December 31, 2018
Credit commitments:		
Bank acceptances ⁽¹⁾	22,576.5	26,418.1
Letters of guarantee ⁽²⁾	1,510.5	721.5
Letters of credit	40.4	–
Unused credit card commitments	872.4	359.2
Subtotal	24,999.8	27,498.8
Operating lease commitments	–	320.1
Capital commitments	16.0	38.7
Total	25,015.8	27,857.6

Notes:

- (1) Bank acceptances refer to our undertakings to pay bank bills drawn on our customers.
- (2) The Bank issues letters of credit and guarantee to third parties to guarantee our customers' contractual obligations.

Off-balance sheet commitments decreased by 10.2% from RMB27,857.6 million as of December 31, 2018 to RMB25,015.8 million as of December 31, 2019. The decreases in off-balance sheet commitments were primarily due to (i) the decreases in bank acceptance bills issued; and (ii) operating lease commitments that were included in the on-balance sheet under the New Leasing Standard.

(f) Miscellaneous

During the Reporting Period, the Bank launched the business related to the sub-loan ("ADB Sub-loan") of Asian Development Bank ("ADB"). ADB Sub-loan refers to the RMB denominated loans extended by the Bank to the final borrowers who meet the requirements of the ADB and the Bank leveraging on the capital funded by the ADB to the Chinese government, which shall be used to satisfy the production and operation needs of such borrowers. The ADB Sub-loan consists of two parts, with one part directly channeled from ADB funds and the other supported by the self-owned capital of the Bank. As of December 31, 2019, the Group has granted a total of RMB20.7 million ADB Sub-loan. Currently, it has applied for 4 reimbursement withdrawals totaling US\$3,144,800.

Management Discussion and Analysis

BUSINESS REVIEW

(a) Corporate banking

The Bank offers corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fee 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 by offering tailored financial solutions. As of December 31, 2019, the Bank had over 3,682 corporate borrowers with total loans of RMB111,292.0 million, and more than 74,175 corporate deposit customers with total deposits of RMB72,028.5 million. In 2018 and 2019, operating income from the Bank's corporate banking business accounted for 52.3% and 44.8% 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)	Year ended December 31,		Percentage change (%)
	2019	2018	
External interest income, net ⁽¹⁾	4,977.2	5,264.4	(5.5)
Inter-segment interest expenses, net ⁽²⁾	(1,874.0)	(708.3)	164.6
Net interest income	3,103.2	4,556.1	(31.9)
Net fees and commission income	135.2	87.0	55.4
Operating income	3,238.4	4,643.1	(30.3)
Operating expenses	(1,055.0)	(1,190.3)	(11.4)
Impairment losses on assets	(3,193.4)	(1,386.2)	130.4
Operating (loss)/profit	(1,010.0)	2,066.6	(148.9)
(Loss)/profit before tax	(1,010.0)	2,066.6	(148.9)

Notes:

- (1) Represents net income and expenses from third parties.
- (2) Represents inter-segment expenses and consideration of transfer.
- (3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Corporate loans

Corporate loans constituted the largest component of the Bank's loan portfolio. As of December 31, 2019 and 2018, corporate loans amounted to RMB111,292.0 million and RMB113,204.1 million, accounting for 65.3% and 70.4% of the Bank's total loans and advances to customers, respectively.

(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 December 31, 2019 and 2018, discounted bills totaled RMB24,891.7 million and RMB19,656.0 million, accounting for 14.6% 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 December 31, 2019 and 2018, corporate deposits totaled RMB72,028.5 million and RMB72,439.9 million, accounting for 30.4% and 34.4% of the Bank's total customer deposits, respectively.

(iv) Fee and commission-based products and services

The Bank offers corporate customers a broad range of fee 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.

In 2019 and 2018, wealth management products sold to corporate customers totaled RMB762.8 million and RMB1,220.7 million, respectively.

(B) *Entrusted loans*

The Bank provides loans to borrowers designated by corporate customers, who determine the use of proceeds, 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. In 2019 and 2018, service fees charged to corporate customers for entrusted loans totaled RMB26.1 million and RMB96.7 million, respectively.

Management Discussion and Analysis

(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. In 2018 and 2019, the Bank's total domestic settlement transaction volumes were approximately RMB842.93 billion and RMB762.741 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.

We established cooperative relationships with twenty overseas corporate customers. In 2018 and 2019, the Bank's international settlement transaction volumes were US\$1,085 million and US\$129 million. For information on the operation of the Bank in Iran in 2019, please refer to the section headed "Report of the Board of Directors – 42. Business Activities Involving Sanctioned Countries" of this annual report.

(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. There were no business occurred during 2018 and 2019.

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

The Bank offers other fee 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 fee and commission-based products and services. The Bank has a large retail customer base.

As of December 31, 2019, we had 149,487 retail borrowers with total loans of RMB34,265.5 million and over 6.9 million retail deposit customers with total deposits of RMB136,460.6 million. In 2019 and 2018, operating income from the Bank's retail banking business accounted for 20.2% and 11.6% of our 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).

Management Discussion and Analysis

As of December 31, 2019, the Bank had over 200,400 wealthy customers and over 1,691 private banking customers. The Bank continues to grow our 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)	Year ended December 31,		Percentage change (%)
	2019	2018	
External interest expenses, net ⁽¹⁾	(2,568.0)	(1,232.0)	108.4
Inter-segment interest income, net ⁽²⁾	3,963.1	2,238.8	77.0
Net interest income	1,395.1	1,006.8	38.6
Net fee and commission income	66.3	19.2	245.3
Operating income	1,461.4	1,026.0	42.4
Operating expenses	(476.1)	(262.9)	81.1
Impairment losses on assets	(404.8)	(287.7)	40.7
Operating profit	580.5	475.4	22.1
Profit before tax	580.5	475.4	22.1

Notes:

- (1) Represents net income and expenses from third parties.
- (2) Represents inter-segment expenses and consideration of transfer.
- (3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Retail loans

The Bank offers retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of December 31, 2019 and 2018, total retail loans were RMB34,265.5 million and RMB28,025.2 million, accounting for 20.1% 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 December 31, 2019 and 2018, retail deposits totaled RMB136,460.6 million and RMB107,133.1 million, accounting for 57.6% and 50.8% of the Bank's total customer deposits, respectively.

Management Discussion and Analysis

(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 social security 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 housing provident fund co-branded 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 Province Expressway Management Bureau to issue IC financial cards, which can be used for paying expressway tolls electronically.
- Veteran Card (退役軍人保障卡): The IC financial cards issued by the Bank in partnership with Gansu Provincial Veterans Affairs Office, which targets veterans and soldiers' dependents in the province, providing exclusive financial management, savings products, exclusive guarantees, and exclusive VIP services for cardholders.

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 Reli Co-branded Card (天水熱力聯名卡) and Qingyang Labor Benefit Card (慶陽工惠卡).

As of December 31, 2019, the Bank had issued approximately 7.7528 million debit cards. As of December 31, 2018 and 2019, holders of these debit cards conducted transactions of approximately RMB17,026.6 million and RMB18,015.0 million, respectively.

(B) Credit cards

On the basis of a thorough investigation of the market, the Bank integrated and upgraded the credit card system using leading financial technology and big data and officially issued credit cards with a certain credit limit to the public on November 11, 2019. Cardholders can consume by the card within the line first and then make payment to the Bank, and are entitled to financial services such as consumer credit, cash deposit and withdrawal and settlement by transfer of account. Credit cards issued by the Bank are classified into general cards, gold cards, platinum cards and diamond cards according to different credit ratings.

As of December 31, 2019, the Bank had issued 43,842 credit cards, including 27,857 credit cards and 15,985 business cards. The revolving credit card line was RMB943 million, of which RMB503 million and RMB440 million were granted to credit cards and business cards, respectively. Balance of overdraft recorded was RMB78.16 million, of which RMB40.02 million and RMB38.14 million were made by holders of credit cards and business cards, respectively. Overdraft accounts reached 10,774, including 8,086 credit card accounts and 2,688 business card accounts. The total credit card income amounted to RMB3.44 million, of which RMB2.20 million was recorded by intermediary business, and RMB1.24 million was included in interest income.

(C) POS settlement services

As a payment settlement service provider, the Bank provides selected merchants with transaction fund settlement services. As of December 31, 2019, the Bank had 117,042 selected merchant customers for POS settlement services and 118,713 POS terminals.

(iv) Fee and commission-based products and services

The Bank offers retail customers a wide range of fee 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. In 2019 and 2018, wealth management products sold to retail customers totaled RMB39,546.09 million and RMB34,914.99 million, respectively. As of December 31, 2019, the Bank had over 284,021 retail wealth management clients and the return rate of its retail wealth management products was between 3.90% and 5.00% in 2019.

(B) Agency services

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

Insurance Products: As of December 31, 2019, the Bank had entered into agency agreements with six 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. In 2019 and 2018, the Bank sold an aggregate of RMB105 million and RMB90 million of precious metal products, respectively.

In October 2017, 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.

(C) Payroll and payment agency services

Payroll Services: the Bank provides payroll services to governmental agencies, public organizations and enterprises customers. As of December 31, 2019, the Bank had over 2,840,754 payroll customers. In 2018 and 2019, the Bank paid, in the role of paying agent, average monthly salaries of approximately RMB1,897.4 million and RMB3,128.19 million, respectively.

Management Discussion and Analysis

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 fee and commission-based products and services

The Bank offers other fee 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 investment in interbank wealth management products, are one of its most important revenue sources. In 2019 and 2018, operating income from financial market operations accounted for 33.7% and 31.0% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's treasury operations for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percentage change (%)
	2019	2018	
External interest income, net ⁽¹⁾	2,878.7	3,095.4	(7.0)
Inter-segment interest expenses, net ⁽²⁾	(2,089.1)	(1,530.5)	36.5
Net interest income	789.6	1,564.9	(49.5)
Net fee and commission income	27.6	51.4	(46.3)
Net trading gains	1,489.8	1,089.2	36.8
Net income arising from investment securities	131.2	42.7	207.3
Operating income	2,438.2	2,748.2	(11.3)
Operating expenses	(794.3)	(702.1)	13.1
Impairment losses on assets	(677.3)	(263.4)	157.1
Operating profit	966.6	1,782.7	(45.8)
Profit before tax	966.6	1,782.7	(45.8)

Notes:

- (1) Represents net income and expenses from third parties.
- (2) Represents inter-segment expenses and consideration of transfer.
- (3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(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) placements with banks and other financial institutions; and (iii) repurchase and reverse repurchase transactions.

Management Discussion and Analysis

(A) Interbank deposits

The Bank deposits funds with and withdraws funds from banks and other financial institutions to manage our 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 December 31, 2019 and 2018, deposits from banks and other financial institutions totaled RMB13,621.9 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 RMB3,967.5 million and RMB12,927.7 million, respectively.

(B) Interbank placements

The balance of our placements with banks and other financial institutions as of December 31, 2019 and 2018 were both nil. As of the same dates, placements from banks and other financial institutions totaled RMB890.0 million and RMB3,300.0 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 December 31, 2019 and 2018, financial assets held under resale agreements totaled RMB16,264.0 million and RMB19,523.8 million, and financial assets sold under repurchase agreements totaled RMB5,398.6 million and RMB11,717.0 million, respectively.

(ii) Investment securities and other financial assets

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

(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 December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Financial assets at fair value through profit or loss	36,729.9	32.4	42,561.0	41.4
Financial assets at fair value through other comprehensive income	14,766.3	13.0	15,249.1	14.8
Financial assets at amortized costs (original value)	61,697.4	54.4	45,066.3	43.8
Other equity instrument investments	315.1	0.2	–	–
Total amount of investment securities and other financial assets	113,508.7	100.0	102,876.4	100.0

Total amount of investment securities and other financial assets increased by 10.3% from RMB102,876.4 million as of December 31, 2018 to RMB113,508.7 million as of December 31, 2019.

Management Discussion and Analysis

(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 December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Repayable on demand	760.0	0.7	–	–
Due in three months or less	21,546.8	19.0	32,149.1	31.2
Due between three months and one year	18,554.8	16.3	29,749.3	28.9
Due between one year and five years	60,192.3	53.0	38,537.5	37.5
Due over five years	7,808.3	6.9	2,440.5	2.4
Indefinite ⁽¹⁾	4,646.5	4.1	–	–
Total	113,508.7	100.0	102,876.4	100.0

Note:

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

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

(C) Holding of government bonds

As of December 31, 2019, the balance of face value of government bonds held by the Bank amounted to RMB18,976.3 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of December 31, 2019.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum (%)	Maturity date
19 Interest-bearing treasury bond 09 (19付息國債09)	4,040.00	2.74	July 11, 2021
19 Interest-bearing treasury bond 03 (19付息國債03)	1,970.00	2.69	March 7, 2022
18 Gansu bond 01 (18甘肅債01)	1,040.00	3.39	April 24, 2023
19 Interest-bearing treasury bond 11 (19付息國債11)	1,020.00	2.75	August 8, 2022
18 Gansu 02 (18甘肅02)	700.00	3.79	June 15, 2023
16 Gansu Targeted 02 (16甘肅定向02)	677.60	3.26	April 21, 2023
19 Gansu bond 01 (19甘肅債01)	610.00	3.32	January 31, 2026
16 Interest-bearing treasury bond 07 (16付息國債07)	610.00	2.58	April 14, 2021
19 Gansu bond 07 (19甘肅債07)	580.00	3.43	April 15, 2024
19 Interest-bearing treasury bond 05 (19付息國債05)	540.00	2.65	May 23, 2020

(D) Holding of financial bonds

As of December 31, 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 RMB20,700.00 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of December 31, 2019.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum (%)	Maturity date
17 CDB bond 09 (17國開09)	1,470.00	4.14	September 11, 2020
18 ADBC bond 05 (18農發05)	1,200.00	4.13	April 11, 2020
18 ADBC bond 01 (18農發01)	1,110.00	4.98	January 12, 2025
18 CDB bond 08 (18國開08)	1,100.00	4.07	April 27, 2021
18 ADBC bond 08 (18農發08)	1,080.00	4.37	May 25, 2023
18 ADBC bond 09 (18農發09)	1,080.00	4.24	June 1, 2021
15 ADBC bond 15 (15農發15)	1,000.00	3.73	May 22, 2020
15 CDB bond 16 (15國開16)	750.00	3.94	July 10, 2022
17 ADBC bond 02 (17農發02)	700.00	3.54	January 6, 2020
16 EIBC bond 02 (16進出02)	550.00	3.07	February 22, 2021

(d) Distribution network

(i) Physical outlets

As of December 31, 2019, the Bank had 1 head office operational department, 12 branches, 190 sub-branches, 5 micro-to-small sub-branches and 2 community sub-branches. The Bank branch network covered all of Gansu's cities and prefectures and approximately 93% 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 December 31, 2019, the Bank had over 999,600 Internet banking customers, consisting of 41,104 corporate customers and over 958,500 retail customers. As of December 31, 2019, the Bank's corporate customers conducted over 2.74 million online transactions with a total transaction amount of approximately RMB415,714 million, while retail customers conducted approximately 1.02 million online transactions with a total transaction amount of approximately RMB34,161 million.

(B) Direct banking platform

The Bank launched its direct banking platform in August 2017. Through the platform, our customers can achieve electronic account management, smart saving, investment and financing, and purchases of financial products and services. As of December 31, 2019, the Bank's direct banking platform had over 1,077,936 registered users with total transaction amounts of RMB8,367.38 million. The sales of direct banking platform products exceeded RMB2,411.23 million.

Management Discussion and Analysis

(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 December 31, 2019, the Bank had approximately 2,284,900 mobile phone banking customers that had conducted approximately 8.62 million transactions through mobile phones, with total transaction amounts of approximately RMB100,828.67 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 December 31, 2019, the Bank had 386,768 registered telephone banking customers, which were all individual 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 December 31, 2019, the Bank had 210 outlets, 150 off-bank self-service zones and 1,059 self-service facilities.

(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; accounts management, transaction inquires, payment and convenience services; and the Bank's outlet locations inquiry service. As of December 31, 2019, the Bank had over 499,900 WeChat banking customers.

(G) E-commerce platform

In April 2018, 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 December 31, 2019, the platform had 866 merchants and 244,500 users.

(e) Information on the subsidiary

Jingning Chengji Rural Bank

In September 2008, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with 4 other legal entities and 7 individuals. As of December 31, 2019, the Bank held an approximately 62.7% equity interest in Jingning Chengji Rural Bank. Jingning Chengji Rural Bank, a joint stock company with limited liability incorporated in the PRC, carries out its business in the PRC, primarily engaging in offering financial products and services, including loans, deposits and fee and commission-based products and services to local corporate and retail customers.

As of December 31, 2019, Jingning Chengji Rural Bank had 21 corporate loan customers, 603 corporate deposit customers, 4,538 retail loan customers and 71,410 retail deposit customers. As of December 31, 2019, Jingning Chengji Rural Bank had 12 outlets and 108 employees.

As of December 31, 2019, Jingning Chengji Rural Bank had total assets of RMB1,212.6 million, total deposits of RMB1,094.5 million and total loans of RMB747.9 million. In 2018 and 2019, operating income attributable to Jingning Chengji Rural Bank totaled RMB42.9 million and RMB41.2 million, accounting for 0.48% and 0.57% of the Bank's total operating income, respectively.

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

(f) Operation and safety of IT systems

The Bank regularly optimizes and upgrades its IT system to support the operation and management of its businesses. For 2018 and 2019, the Bank's investments in its IT system totaled approximately RMB311.0 million and RMB301.3 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 ISO 20000 – 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.

In July 2019, the Bank passed the GB/T22080–2016 (equivalent to ISO/IEC 27001) national information security management system standard certification (資訊安全管理體系標準認證), creating an information security management system that is in line with the Bank's circumstances.

The Bank completed the commissioning and launch of the smart counter project in June 2019, transferring high-frequency counter transactions to smart appliances, which primarily guaranteed the smart transformation of the Bank. In November 2019, the centralized operation platform was completed and put into operation, and thus the background centralized processing of certain businesses was realised, representing that a solid step had been made in intensifying operation with enhanced risk prevention and control enhancement, releasing front-office pressure and promoting outlet transformation.

Management Discussion and Analysis

The Bank successfully completed the IPv6 technical transformation of the portal website in July 2019 and became the first local banking institution to provide IPv6 website services in Northwest China. On December 30, 2019, Chengguan sub-branch launched the “5G Smart Finance” pilot, which established the first experience spot of 5G smart banking service in Gansu Province.

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 our 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, desk site security, intrusion prevention and detection, filing and evaluation 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.

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 our 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 response to changes in government policies, the economic environment and risk preferences of the Bank.

Management Discussion and Analysis

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

Industries	Credit Policies
Warehouse and logistics, transportation, tourism, education, health care, agriculture, hydropower, public infrastructure and energy saving and environment industries (“active support” industries)	<ul style="list-style-type: none">• prioritize credit allocation and increase credit exposure to borrowers in these industries.
IT, Internet, clean energy, power, logistics, pharmaceutical manufacturing, food & beverage, accommodation and catering, culture and sporting industries (“moderate support” industries)	<ul style="list-style-type: none">• selectively distribute credit to borrowers in these industries.
Real estate, construction, iron and steel, coal, mining 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 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.

Management Discussion and Analysis

(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.

The table below sets forth the results of the Bank's gap analysis based on the earlier of (i) the expected next repricing dates; and (ii) the final maturity dates for its assets and liabilities as of December 31, 2019.

Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019					
	Total	Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	25,274.3	405.8	24,868.5	-	-	-
Deposits with banks	3,967.5	-	3,967.5	-	-	-
Financial assets held under resale agreement	16,264.0	-	16,264.0	-	-	-
Interest receivable	2,202.1	2,202.1	-	-	-	-
Loans and advances to customers	164,766.8	9,071.7	22,595.4	96,704.7	35,458.0	937.0
Investments	113,508.7	-	26,953.4	18,554.8	60,192.3	7,808.2
Others ⁽¹⁾	9,061.1	9,061.1	-	-	-	-
Total assets	335,044.5	20,740.7	94,648.8	115,259.5	95,650.3	8,745.2
Liabilities						
Borrowings from the central bank	2,316.4	-	1,903.0	413.4	-	-
Deposits from banks and other financial institutions	13,621.9	54.4	7,177.5	6,390.0	-	-
Placements from banks and other financial institutions	890.0	-	580.0	310.0	-	-
Financial assets sold under repurchase agreements	5,398.6	-	5,398.6	-	-	-
Deposits from customers	236,868.6	-	92,738.9	24,280.8	119,848.9	-
Interest payable	8,761.5	8,761.5	-	-	-	-
Debt securities issued	39,459.2	-	10,030.3	23,732.9	999.5	4,696.5
Others ⁽²⁾	3,039.3	2,755.4	-	101.4	180.4	2.1
Total liabilities	310,355.5	11,571.3	117,828.3	55,228.5	121,028.8	4,698.6
Asset-liability gap	24,689.0	9,169.4	(23,179.5)	60,031.0	(25,378.5)	4,046.6

Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018					
	Total	Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	31,536.9	432.4	31,104.5	-	-	-
Deposits with banks	12,927.7	-	8,903.4	4,024.3	-	-
Financial assets held under resale agreement	19,523.8	-	19,523.8	-	-	-
Interest receivable	1,891.2	1,891.2	-	-	-	-
Loans and advances to customers	154,633.9	5,777.8	67,559.1	55,280.9	24,044.7	1,971.4
Investments	102,876.4	-	32,099.4	21,347.2	40,491.6	8,938.2
Others ⁽¹⁾	5,232.5	5,232.5	-	-	-	-
Total assets	328,622.4	13,333.9	159,190.2	80,652.4	64,536.3	10,909.6
Liabilities						
Borrowings from the central bank	11,650.9	-	4,835.9	6,815.0	-	-
Deposits from banks and other financial institutions	15,513.8	57.4	5,786.4	9,170.0	500.0	-
Placements from banks and other financial institutions	3,300.0	-	-	3,300.0	-	-
Financial assets sold under repurchase agreements	11,717.0	-	11,717.0	-	-	-
Deposits from customers	210,723.3	-	99,502.9	20,943.0	85,410.8	4,866.6
Interest payable	6,418.9	6,418.9	-	-	-	-
Debt securities issued	41,576.8	-	10,516.2	21,869.8	5,993.7	3,197.1
Others ⁽²⁾	2,474.1	2,474.1	-	-	-	-
Total liabilities	303,374.8	8,950.4	132,358.4	62,097.8	91,904.5	8,063.7
Asset-liability gap	25,247.6	4,383.5	26,831.8	18,554.6	(27,368.2)	2,845.9

Notes:

- (1) Primarily include property and equipment, goodwill and deferred tax assets.
- (2) Primarily include accrued staff costs and taxes payable.

Management Discussion and Analysis

The Bank uses sensitivity analysis to measure the impact of changes in interest rates on our net profit or loss and equity. The table below sets forth the results of the Bank's interest rates sensitivity analysis based on its assets and liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31,			
	2019 Change in net profit	Changes in equity	2018 Change in net profit	Changes in equity
Increase by 100 basis points	60.4	(675.9)	151.1	(419.6)
Decrease by 100 basis points	(60.4)	675.9	(151.1)	419.6

The sensitivity analysis above is based on a static interest rate risk profile of the assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by the repricing of assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each Track Record Period apply to the Bank's non-derivative financial instruments;
- At the end of each Track Record Period, an interest rate movement of 100 basis points is based on the assumption of interest rate movements over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Management Discussion and Analysis

(B) Exchange rate risk management

The Bank is exposed to exchange rate risks primarily due to 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 reduce the number of 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 failure 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 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 our liquidity of the Bank include the term structure of its assets and liabilities and changes to financial industry policies, such as changes in the requirements relating to its statutory required reserve ratio. The Bank is exposed to liquidity risks primarily in its lending, trading and investment activities, as well as in the management of its cash flow positions.

The organizational framework of our 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 body for the liquidity risk management, the Board of Directors assumes ultimate responsibility for the liquidity risk management of the Bank.

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 implement 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 reporting and monitoring, cash flow analysis, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

(B) *Liquidity risk analysis*

The Bank funds its loan and investment portfolios principally through customer deposits. Deposits from customers have been, and the Bank believes will continue to be, a stable source of funding. Customer deposits with remaining maturities of less than one year represented 49.4% and 57.2% deposits from customers as of December 31, 2019 and 2018, respectively.

The table below sets forth the remaining maturity of the Bank's assets and liabilities as of December 31, 2019 and 2018.

Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
Assets							
Cash and deposits with the central bank	20,334.8	4,939.5	-	-	-	-	25,274.3
Deposits with banks	-	3,895.8	71.7	-	-	-	3,967.5
Financial assets held under resale agreements	-	-	16,264.0	-	-	-	16,264.0
Financial assets at fair value through profit or loss	-	-	14,657.9	3,193.2	17,991.7	887.1	36,729.9
Interest receivable	27.1	26.1	626.5	1,031.2	398.4	92.8	2,202.1
Loans and advances to customers	4,075.2	4,996.6	19,538.1	63,138.2	50,620.1	22,398.6	164,766.8
Financial assets at fair value through other comprehensive income	-	-	495.7	2,832.2	7,667.0	4,086.5	15,081.4
Financial assets at amortised costs	4,646.6	760.0	6,393.2	12,529.4	34,533.5	2,834.7	61,697.4
Others ⁽¹⁾	5,569.8	-	-	-	3,491.3	-	9,061.1
Total assets	34,653.5	14,618.0	58,047.1	82,724.2	114,702.0	30,299.7	335,044.5
Liabilities							
Borrowings from the central bank	-	-	1,903.0	413.4	-	-	2,316.4
Deposits from banks and other financial institutions	-	601.9	6,630.0	6,390.0	-	-	13,621.9
Placements from banks and other financial institutions	-	-	580.0	310.0	-	-	890.0
Financial assets sold under repurchase agreements	-	-	5,398.6	-	-	-	5,398.6
Deposits from customers	-	82,717.2	10,021.7	24,280.8	119,848.9	-	236,868.6
Interest payable	-	8,381.7	135.5	155.1	35.2	54.0	8,761.5
Debt securities issued	-	-	10,030.3	23,732.9	999.5	4,696.5	39,459.2
Others ⁽²⁾	26.4	1,994.2	734.8	101.4	180.4	2.1	3,039.3
Total liabilities	26.4	93,695.0	35,433.9	55,383.6	121,064.0	4,752.6	310,355.5
New working capital	34,627.1	(79,077.0)	22,613.2	27,340.6	(6,362.0)	25,547.1	24,689.0

Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
Assets							
Cash and deposits with the central bank	24,717.0	6,819.9	-	-	-	-	31,536.9
Deposits with banks	-	4,038.6	4,864.8	4,024.3	-	-	12,927.7
Financial assets held under resale agreements	-	-	19,523.8	-	-	-	19,523.8
Financial assets at fair value through profit or loss	-	-	24,428.9	8,262.8	8,654.1	1,215.2	42,561.0
Interest receivable	-	13.3	558.9	1,214.6	104.4	-	1,891.2
Loans and advances to customers	3,586.3	2,191.6	18,517.1	65,564.8	46,074.4	18,699.7	154,633.9
Financial assets at fair value through other comprehensive income	-	-	299.7	8,451.7	6,497.7	-	15,249.1
Financial assets at amortised costs	-	-	7,420.5	13,034.7	23,385.8	1,225.3	45,066.3
Others ⁽¹⁾	5,053.4	-	-	-	179.1	-	5,232.5
Total assets	33,356.7	13,063.4	75,613.7	100,552.9	84,895.5	21,140.2	328,622.4
Liabilities							
Borrowings from the central bank	-	-	4,835.9	6,815.0	-	-	11,650.9
Deposits from banks and other financial institutions	-	1,093.8	4,750.0	9,170.0	500.0	-	15,513.8
Placements from banks and other financial institutions	-	-	-	3,300.0	-	-	3,300.0
Financial assets sold under repurchase agreements	-	-	11,717.0	-	-	-	11,717.0
Deposits from customers	-	81,896.5	17,606.4	20,943.0	85,410.8	4,866.6	210,723.3
Interest payable	-	5,873.3	124.0	400.4	21.2	-	6,418.9
Debt securities issued	-	-	10,516.2	21,869.8	5,993.7	3,197.1	41,576.8
Others ⁽²⁾	61.5	1,093.0	1,319.6	-	-	-	2,474.1
Total liabilities	61.5	89,956.6	50,869.1	62,498.2	91,925.7	8,063.7	303,374.8
New working capital	33,295.2	(76,893.2)	24,744.6	38,054.7	(7,030.2)	13,076.5	25,247.6

Notes:

- (1) Primarily include property and equipment, interest in an associate, right-of-use assets and deferred tax assets.
- (2) Primarily include accrued staff costs, lease liabilities and taxes payable.

Management Discussion and Analysis

The Bank's liquidity coverage ratio

	December 31, 2019	December 31, 2018
Liquidity coverage ratio (%)	199.59	198.28

Net stable funding ratio

	December 31, 2019	September 30, 2019
Closing amount of available stable funds	223,647.6	219,845.5
Closing amount of required stable funds	180,348.5	180,062.0
Net stable funding ratio (%)	124.0	122.1

(v) Reputational 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.

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.

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 Administrative Measures for the Capital of Commercial Banks (Provisional) (China Banking Regulatory Commission Order [2012] No.1).

The table below sets forth certain information relating to its capital adequacy ratio as of December 31, 2019 and 2018.

Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	December 31, 2019	December 31, 2018
Core capital		
Paid-up capital	10,069.8	10,069.8
Qualifying portion of capital reserve	4,660.4	4,658.3
Defined benefit plan reserve	(3.4)	(4.2)
Investment revaluation reserve	219.5	261.4
Surplus reserve	1,560.8	1,510.1
General risk reserve	4,471.0	4,423.1
Retained earnings	3,678.9	4,297.8
Qualifying portion of non-controlling interest	17.5	17.2
Core tier-one capital deductions ⁽¹⁾	(253.8)	(225.0)
Net core tier-one capital	24,420.7	25,008.5
Other tier-one capital ⁽²⁾	2.3	2.3
Net tier-one capital	24,423.0	25,010.8
Tier-two capital		
Instruments issued and share premium	3,197.2	3,194.4
Surplus reserve for loan impairment	1,500.3	2,562.7
Eligible portion of non-controlling interest	4.7	4.7
Net capital base	29,125.2	30,772.6
Total risk-weighted assets	246,208.0	227,144.1
Core tier-one capital adequacy ratio (%)	9.92	11.01
Tier-one capital adequacy ratio (%)	9.92	11.01
Capital adequacy ratio (%)	11.83	13.55

Notes:

- (1) Primarily include computer software and intangible assets.
- (2) Primarily includes tier-one capital instruments such as preference Shares and their premiums.

Report of the Board of Directors

The Board is pleased to present the Report of the Board of Directors together with the audited financial statements of the Group for the year ended December 31, 2019. All relevant sections of this annual report referred to in this Report of the Board of Directors form part of this Report of the Board of Directors. Unless otherwise specified, the financial data disclosed in this report are prepared in accordance with the IFRSs.

1. BUSINESS REVIEW

The Bank is the only provincial urban commercial bank in Gansu Province of China, and has established a comprehensive business network across Gansu province. The Group is engaged in a range of banking services and related financial services. The information on business review of the Group for the year ended December 31, 2019 is set out in the section headed “Management Discussion and Analysis — Business Review” of this annual report.

2. ISSUANCE OF H SHARES AND LISTING ON THE HONG KONG STOCK EXCHANGE

The H Shares of the Bank were listed on the Hong Kong Stock Exchange on January 18, 2018. The offer price was determined at HK\$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The global offering of the Bank comprised 2,543,800,000 H Shares (including over-allotment Shares) in total. The net proceeds from global offering received by the Bank, after deducting the underwriting fees, commissions, and other estimated expenses borne by us in relation to the global offering, are approximately HK\$6,616.2 million.

Pursuant to the use of proceeds disclosed in the Prospectus, the Bank had used the net proceeds that the Bank received from the global offering to strengthen its capital base and to support the on-going growth of business.

3. RELATIONSHIP BETWEEN THE BANK AND ITS EMPLOYEES

The Bank has a young and highly educated team of employees. 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. The Bank determines performance-based compensation based on the employee's work performance and its financial results.

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

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. During the Reporting Period and 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.

4. RELATIONSHIP BETWEEN THE BANK AND ITS CUSTOMERS

(1) Retail Customers

In respect of retail banking, the Bank offers its retail customers a wide range of financial products and services, including loans, deposits, bank card services and fee and commission-based products and services. The Bank categorizes retail 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 December 31, 2019, the Bank had 200,449 wealthy customers and 1,691 private banking customers. This sizable retail customer base provides a stable source of deposits and opportunities to cross-sell and develop our retail business.

(2) Corporate Customers

The Bank offers corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fee 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.

5. PROFITS AND DIVIDEND

(1) Dividend Policy

Board of Directors is responsible for submitting proposals for dividend payments to the Shareholders' general meeting for approval. The determination of whether to pay a dividend and in which amount is based on the results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions and other factors that the Board of Directors deems relevant.

Under the PRC Company Law and our Articles of Association, all of the shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Under PRC law, the Bank may only pay dividends out of profit after tax. Profit after tax for a given year represents net profit as determined under PRC GAAP or IFRSs or the accounting standards of the overseas jurisdiction where the shares are listed, whichever is lower, less:

- any of its accumulated losses in prior years;
- appropriations the Bank is required to make to the statutory surplus reserve, which is currently 10% of our net profit as determined under PRC GAAP, until such statutory surplus reserve in aggregate reaches an amount equal to 50% of our registered capital;
- a general reserve the Bank is required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders at a general meeting.

According to the relevant MOF regulations, before a financial institution makes any profit distribution, the balance of the Bank's statutory general reserve shall in principle not be lower than 1.5% of the balance of risk assets at the end of the period. As of December 31, 2019, the Bank set aside RMB46.89 million as general reserves, in line with relevant regulations.

Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The Bank generally does not distribute dividends in a year in which the Bank does not have any distributable profit. The payment of any dividend by the Bank must also be approved at a Shareholders' general meeting.

The Bank is not allowed to distribute profits to the Shareholders until the Bank has made up our losses and made appropriations to the Bank's statutory surplus reserve and general reserves. The Shareholders are required to return any profit distributed in violation of the relevant rules and regulations.

The CBIRC has discretionary authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated any other PRC banking regulations, from paying dividends or making other forms of distributions. As of December 31, 2019, the Bank had a capital adequacy ratio of 11.83%, a tier-one capital adequacy ratio of 9.92% and a core tier-one capital adequacy ratio of 9.92%, all of which comply with the relevant CBIRC requirements.

(2) Final dividend for 2018

According to the resolution of the 2018 annual general meeting held on June 3, 2019, the Bank has distributed the final dividend for 2018 on August 2, 2019 to all Shareholders (including domestic Shareholders and H Shareholders) whose names appeared on the register of members of the Bank at close of business on June 15, 2019. The specific plan was a cash dividend of RMB0.1022 (tax inclusive) for each Share. The final dividends for 2018 payable by the Bank were denominated in Renminbi, and were paid to holders of the Domestic Shares in Renminbi and to the holders of H Shares in Hong Kong dollars. The dividend payable for each H Share amounted to approximately HK\$0.1163 (tax inclusive). A total final cash dividends of approximately RMB1,029,363,510.73 (tax inclusive) for 2018 were distributed.

(3) Profit and profit distribution plan for 2019

The Group's revenue for the year ended December 31, 2019 and the Group's financial position as of the same date are set out in the consolidated financial statements of this annual report.

The Board of Directors, after taking into consideration the need for adequate capital to support the future business development of the Bank, did not recommend the distribution of any 2019 final dividend or any capitalisation of capital reserve at the meeting of the Board held on March 30, 2020.

6. 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 with the relevant matters of the non-public issuance of offshore preference shares according to the plan.

As of the Latest Practicable Date, the Bank has not issued any offshore preference shares. The Bank shall disclose the update on the progress of the non-public issuance of offshore preference shares in a timely manner according to the requirements of the Hong Kong Listing Rules.

7. ANNUAL GENERAL MEETING AND BOOK CLOSURE DATE

The 2019 annual general meeting of the Bank will be held on Wednesday, June 3, 2020. In order to determine the holders of H Shares who are eligible to attend the 2019 annual general meeting of the Bank, the H Share register of the Bank will be closed from Monday, May 4, 2020 to Wednesday June 3, 2020 (both days inclusive), during which period no transfer of H Shares will be registered. In order to be eligible for attending the 2019 annual general meeting of the Bank, share certificates accompanied by transfer documents must be lodged with the Bank's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, April 29, 2020. Holders of H Shares of the Bank who have been registered with Computershare Hong Kong Investor Services Limited on Wednesday, June 3, 2020 are entitled to attend the 2019 annual general meeting of the Bank.

8. CHANGES IN THE RESERVES

Details of the Group's changes in the reserves and the distributable profit reserve for the year ended December 31, 2019 are set out in "Consolidated Statement of Changes in Equity" of this annual report. The distributable profit reserves as of December 31, 2019 were RMB3,678,817,399.51.

9. SUMMARY OF FINANCIAL INFORMATION

The summary of the operating results for the year ended December 31, 2019 and assets and liabilities as of December 31, 2019 of the Group is set out in the section headed "Financial Highlights" of this annual report.

10. DONATIONS

For the year ended December 31, 2019, the Group made charity and other donation of RMB11,216,600.00 in aggregate.

11. PROPERTY AND EQUIPMENT

Details of the changes in property and equipment of the Group for the year ended December 31, 2019 are set out in note 27 to the consolidated financial statements of this annual report.

12. RETIREMENT BENEFITS

Details of the retirement benefits provided by the Group to employees are set out in notes 12 and 37 to the consolidated financial statements of this annual report.

13. SUBSTANTIAL SHAREHOLDERS

Details of the substantial Shareholders as of December 31, 2019 are set out in the section headed “Changes in Share Capital and Particulars of Shareholders – II. Particulars of Shareholders – (II) Interests and Short Positions of Substantial Shareholders and Other Persons” of this annual report.

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

During the Reporting Period, the Bank and any of its subsidiaries had not purchased, sold or redeemed any of the Bank’s listed securities.

15. PRE-EMPTIVE RIGHTS

There are no provisions in the Articles of Association and the relevant PRC laws for granting pre-emptive rights to the Shareholders.

16. MAJOR CUSTOMERS

As of December 31, 2019, the Group’s five largest depositors and five largest borrowers accounted for less than 30% of the respective total deposits from customers and total loans and advances to customers.

None of the Directors, their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Bank’s issued share capital) has any interests in the Group’s five largest borrowers or depositors.

17. SHARE CAPITAL

Please refer to the section headed “Changes in Share Capital and Particulars of Shareholders” of this annual report for details of the share capital of the Bank.

18. DIRECTORS AND SUPERVISORS OF THE BANK

During the Reporting Period, the Board of Directors includes:

Executive Directors:	Mr. Liu Qing, Mr. Wang Wenyong
Non-executive Directors:	Ms. Wu Changhong, Ms. Zhang Hongxia, Mr. Guo Jirong, Mr. Zhang Youda, Mr. Liu Wanxiang (his appointment shall take effect upon obtaining the approval of his directorship qualification by the regulatory authority)
Independent non-executive Directors:	Ms. Tang Xiuli, Ms. Luo Mei, Mr. Wong Sincere, Mr. Dong Ximiao

Details of the Directors, Supervisors and senior management members of the Bank are set out in the section headed “Directors, Supervisors, Senior Management, Employees and Organizations” of this annual report.

According to the Articles of Association of the Bank, the Board of Directors shall consist of twelve Directors. The Board of Directors had eleven Directors as of the date of this annual report. The Bank is in the process of selecting the twelfth Director in accordance with the Articles of Association, and will make the appointment as soon as practicable. As advised by Grandall Law Firm (Shanghai), the Bank’s PRC legal adviser, although the actual number of the Directors is lower than that set forth in the Articles of Association, the Board of Directors is still able to function properly. Grandall Law Firm (Shanghai) is of the view that the composition of the Board of Directors will not result in any violation of applicable PRC laws and regulations. The Bank will make announcement(s) in relation to the appointment of the twelfth Director in due course in accordance with the Hong Kong Listing Rules.

19. 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 December 31, 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	Employee Representative Supervisor	Domestic Shares	Beneficial owner	225,514(L) ⁽¹⁾	0.003	0.002
Mr. Luo Zhenxia	Employee Representative Supervisor	Domestic Shares	Beneficial owner	205,711(L) ⁽¹⁾	0.003	0.002
Mr. Li Yongjun ⁽¹⁾	Shareholder 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 executive of the Bank held any interests or short positions in the Shares, underlying Shares or debentures of the Bank or its associated corporations as at December 31, 2019.

20. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting Period was the Bank or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors and Supervisors (including their spouses and children under the age of eighteen) of the Bank to acquire benefits by means of the acquisition of Shares in, or debentures of, the Bank or any other body corporate.

21. INTERESTS OF DIRECTORS AND SUPERVISORS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS AND SERVICE CONTRACTS

Saved as disclosed in this annual report, none of the Directors or Supervisors (or their connected entities) had any material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance of the Bank or its subsidiaries subsisting during or at the end of the Reporting Period. None of the Directors and Supervisors has entered into a service contract with the Bank that cannot be terminated by the Bank or its subsidiaries within one year without payment of compensation (other than statutory compensation).

22. MANAGEMENT CONTRACT

Save for the service contracts entered into with the Directors, Supervisors and senior management members of the Bank, the Bank has not entered into any other contract with any individual, company or body corporate in relation to the management or administration of the whole or any substantial part of any business of the Bank.

23. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESSES

None of the Directors and Supervisors has any interest in a business that competes, or is likely to compete, either directly or indirectly, with the business of the Bank under Rule 8.10(2) of the Hong Kong Listing Rules.

24. CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance. Details of the Group's corporate governance are set out in the section headed "Corporate Governance Report" of this annual report.

25. CONNECTED TRANSACTIONS

The continuing connected transactions of the Bank during the Reporting Period are set forth below:

Exempt Continuing Connected Transactions

(I) Commercial banking services and products provided in the ordinary and usual course of business

The Bank is a commercial bank incorporated in the PRC under the supervision of the CBIRC and the PBOC. It provides commercial banking services and products in the ordinary and usual course of business to the public in China, including the Bank's connected persons (such as the Directors, the Supervisors and/or their respective associates). Details of the connected transactions between the Bank and its connected persons are set out below. These transactions are entered into in the ordinary and usual course of business of the Bank on normal commercial terms.

(1) *Extending loans and other credit facilities to connected persons*

The Bank provides loans and other credit facilities to certain connected persons of the Bank in the ordinary and usual course of business on normal commercial terms and with reference to prevailing market rates (including providing loans indirectly to connected persons of the Bank through trust schemes or asset management schemes established by third parties).

The above loans and other credit facilities provided by the Bank to the connected persons are entered into in the ordinary and usual course of business on normal commercial terms and with reference to prevailing market interest rates. Accordingly, pursuant to Rule 14A.87(1) of the Hong Kong Listing Rules, these transactions constitute fully exempt continuing connected transactions (i.e. financial assistance provided by the Bank to connected persons in the ordinary and usual course of business on normal commercial terms), and are therefore fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(2) *Taking deposits from connected persons*

The Bank takes deposits from certain connected persons in the ordinary and usual course of business with normal deposit interest rates and on normal commercial terms.

The deposits are placed by the Bank's connected persons with the Bank on normal commercial terms, with reference to prevailing market rates. Accordingly, pursuant to Rule 14A.90 of the Hong Kong Listing Rules, these transactions constitute fully exempt continuing connected transactions (i.e. financial assistance received by the Bank from connected persons which are made by connected persons on normal commercial terms, and are not secured by the Bank's assets) and are therefore fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(3) *Other banking services and products*

The Bank provides various commercial banking services and products (such as bank acceptance bills and debit card services) to certain connected persons in the ordinary and usual course of business on normal commercial terms and conditions at normal fee standards.

Report of the Board of Directors

These continuing connected transactions are the provision of various commercial banking services and products to the Bank's connected persons in the ordinary and usual course of business on normal commercial terms similar to or no more favorable than those offered to independent third parties and are expected to constitute *de minimis* transactions under Chapter 14A of the Hong Kong Listing Rules. Accordingly, pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules, these transactions constitute fully exempt continuing connected transactions and are therefore fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(II) Property leasing agreements with connected persons

The Bank entered into a property leasing agreement (the "Zhongtian Leasing Agreement") with JISCO Zhongtian Property Co., Ltd. (酒鋼集團中天置業有限公司) (an associate of Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, "Zhongtian Property"). Pursuant to the Zhongtian Leasing Agreement, Zhongtian Property leased a property located in Jiayuguan, Gansu province to the Bank as the Bank's business office, with a leasing term from January 1, 2019 to December 31, 2019 and at an annual rental of RMB562,200. The transaction is conducted on normal commercial terms.

The Bank entered into a property leasing agreement (the "HAT Leasing Agreement") with Gansu HAT Asset Management Co., Ltd. (甘肅公航旅資產管理有限公司) (an associate of Gansu Highway Aviation Tourism, a substantial Shareholder of the Bank, "HAT Asset Management"). Pursuant to the HAT Leasing Agreement, HAT Asset Management leased a shop located in Xifeng district, Qingyang city, Gansu province to the Bank as the Bank's business office, with a leasing term from August 1, 2019 to July 31, 2022 and at an annual rental of RMB627,000. During the Reporting Period, the Bank has paid the actual rental of RMB627,000. The transaction is conducted on normal commercial terms.

Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, holds 31.58% equity interest in Jiuquan Iron & Steel, while Zhongtian Property is a subsidiary of Jiuquan Iron & Steel. Zhongtian Property is therefore a connected person of the Bank. Gansu Highway Aviation Tourism, a substantial Shareholder of the Bank, holds 12.49% equity interest in the Bank, while HAT Asset Management is a subsidiary of Gansu Highway Aviation Tourism. HAT Asset Management is therefore a connected person of the Bank. As the highest applicable percentage ratios of the transactions under the Zhongtian Leasing Agreement and the HAT Leasing Agreement calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are both, on an annual basis, less than 0.1%, the continuing connected transactions contemplated under the Zhongtian Leasing Agreement and the HAT Leasing Agreement constitute *de minimis* transaction, and therefore is exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

(III) Property management agreement with a connected person

The Bank entered into a property management agreement with Lanzhou Changhong Property Management Co., Ltd. (蘭州長虹物業管理有限公司) (an associate of Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, "Changhong Property Management"). Pursuant to this agreement, Changhong Property Management agreed to provide property management services to the Bank for the Bank of Gansu Tower situated at Chengguang District of Lanzhou, Gansu Province, with a term from January 1, 2019 to December 31, 2019 and at a total annual fee of RMB8,590,700. The transaction is conducted on normal commercial terms. Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, holds 31.58% equity interest in Jiuquan Iron & Steel, which holds 100% equity interest in JISCO Lanzhou Judong Real Estate Development Co., Ltd. JISCO Lanzhou Judong Real Estate Development Co., Ltd. holds 100% equity interest in Changhong Property Management. Therefore, Changhong Property Management is a connected person of the Bank. As the highest applicable percentage ratios of the above transaction calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are expected to be, on an annual basis, less than 0.1%, the continuing connected transaction contemplated under the above property management services agreement constitutes *de minimis* transaction, and therefore is exempt from all the reporting, annual review, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

Non-exempt Connected Transactions

(IV) Purchase of the Guotou Medium-term Notes

During the period from September 23, 2019 to September 24, 2019, Gansu State-owned Assets Investment had completed the issuance of the Guotou medium-term notes in a total nominal value of RMB2 billion (the “Guotou Medium-term Notes”), which are listed on the Shanghai Clearing House. The Guotou Medium-term Notes have been listed for trading since September 26, 2019. On October 15, 2019, the Bank, through a securities broker, purchased the Guotou Medium-term Notes in a total nominal value of RMB300 million at market price by way of on-exchange trading from the secondary market. The total consideration was approximately RMB300.75 million. The term of the Guotou Medium-term Notes is 5 years, and the payment date is September 25, 2024. The payment price is based on the nominal value. The total amount of issuance of the Guotou Medium-term Notes is RMB2 billion with a fixed interest rate of 4% per annum. The value date is September 25, 2019, and the interest shall be paid on September 25 in each year during the effective term.

The Bank is expected to receive an interest of RMB12 million per annum during the term it holds the Guotou Medium-term Notes. During the Reporting Period, the Bank has not received interest.

Gansu State-owned Assets Investment is a substantial Shareholder of the Bank and is thus a connected person of the Bank. Although the Bank purchased the Guotou Medium-term Notes through on-exchange trading, holding of the Guotou Medium-term Notes constitutes a financial assistance of the Bank to Gansu State-owned Assets Investment, and a connected transaction of the Bank under Chapter 14A of the Hong Kong Listing Rules. As one or more applicable percentage ratios of the purchase and holding of the Guotou Medium-term Notes exceed 0.1% but all percentage ratios are less than 5%, the transaction is subject to the reporting and announcement requirements under Chapter 14A of the Hong Kong Listing Rules, but is exempt from circular (including independent financial advice) and independent shareholders’ approval requirements.

Non-exempt Continuing Connected Transactions

(V) Trust arrangement with a connected person

In the ordinary and usual course of business, the Bank and Everbright Xinglong Trust Co., Ltd. (光大興隴信託有限責任公司) (“Everbright Xinglong Trust”) enter into a number of fund trust agreements (“Everbright Xinglong Trust Agreements”). As the settlor of the trust schemes, the Bank uses its own funds as the trust property, while Everbright Xinglong Trust, serving as the trustee of the trust schemes, sets up specific service management trust schemes. The Bank designates the end users of the trust property and Everbright Xinglong Trust in turn enters into relevant agreements (the “Relevant Agreements”, such as trust loan agreements) with the end users.

The Bank and Everbright Xinglong Trust have entered into the Trust Business Cooperation Framework Agreement on August 31, 2018, which took effect from September 1, 2018 and will expire on December 31, 2020. Pursuant to the Trust Business Cooperation Framework Agreement, The Bank entrusts its all or managed funds to Everbright Xinglong Trust, which will apply, under its own name, the trust funds into the purposes agreed upon in the specific trust agreement. The establishment of the trust, target recipient of trust property, management, application and way of disposal of the trust property under the trust business cooperation shall be further set out in the trust business agreements by both parties according to the principles under the Trust Business Cooperation Framework Agreement and taking into account of the specific circumstances. Unless otherwise paid by the Bank for various taxes, trust management fees and custody fees arising from the establishment, management and termination of the trust, all expenses incurred from handling the business of the trust by Everbright Xinglong Trust shall be paid out of the trust property. If the trust property is insufficient to pay the trust expense, Everbright Xinglong Trust is entitled to refuse to pay in advance by using its proprietary assets. However, if Everbright Xinglong Trust makes advance payment of trust expenses out of its proprietary assets, it is entitled to be reimbursed in priority out of the trust property. Everbright Xinglong Trust is entitled to receive trust management fee for its management, application and disposal of trust property (including fixed trust management fee and floating trust management fee, which should be agreed upon in the specific trust business agreement).

Report of the Board of Directors

As the trustee of the trust schemes, Everbright Xinglong Trust is entitled to obtain trust management fees from the trust property which should be a fixed amount agreed upon between Everbright Xinglong Trust and the Bank or calculated with reference to the principal balance of the trust property multiplied by the annualized trust management fee rate agreed by both parties. In the previous trust scheme agreements signed between the Bank and Everbright Xinglong Trust, the annualized trust management fee rate charged by Everbright Xinglong Trust ranges from 0.15% to 0.79%.

The trust management fees obtained by Everbright Xinglong Trust in accordance with the Trust Business Cooperation Framework Agreement totaled approximately RMB9,312,300 for the period from January 1, 2019 to December 31, 2019 (the cap of the transaction for such period amounted to RMB21 million).

Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, holds 43.98% equity interest in Everbright Xinglong Trust. Everbright Xinglong Trust is therefore an associate of Gansu State-owned Assets Investment, and then a connected person of the Bank. The transactions under the Trust Business Cooperation Framework Agreement between the Bank and Everbright Xinglong Trust constitute connected transactions under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio of the transaction exceeds 0.1% but is less than 5%, the transaction is therefore subject to compliance with the reporting, announcement and annual review requirements under Chapter 14A of the Hong Kong Listing Rules, but is exempt from independent Shareholders' approval requirements.

Confirmation by the independent non-executive Directors

The independent non-executive Directors of the Bank have reviewed the transactions carried out between the Bank and Everbright Xinglong Trust under the Trust Business Cooperation Framework Agreement and confirmed that the transactions have been conducted:

- (1) in the ordinary and usual course of business of the Group;
- (2) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as case may be) independent third parties; and
- (3) in accordance with relevant agreement governing the relevant transactions, on terms that are fair and reasonable and in the interests of the Shareholders of the Bank as a whole.

Confirmation by the auditor

SHINEWING (HK) CPA Limited, the auditor of the Bank, has issued a letter to the Board of Directors, confirming that for the year ended December 31, 2019, in respect of the transactions carried out between the Bank and Everbright Xinglong Trust under the Trust Business Cooperation Framework Agreement:

- (1) nothing has come to their attention that causes them to believe that the transactions have not been approved by the Board of Directors;
- (2) nothing has come to their attention that causes them to believe that the transactions were not carried out, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (3) nothing has come to their attention that causes them to believe that the amount of each of the transactions has exceeded its annual cap mentioned above.

Related Party Transactions Referred to in the Consolidated Financial Statements and Connected Transactions under the Hong Kong Listing Rules

Save as disclosed above, there is no related party transaction or continuing related party transaction referred to in note 47 to the consolidated financial statements that falls into the category of connected transactions or continuing connected transactions that need to be disclosed under the Hong Kong Listing Rules. The Bank has complied with the requirements under Chapter 14A of the Hong Kong Listing Rules with respect to the connected transactions and continuing connected transactions of the Bank.

26. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

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. Please refer to note 12 to the consolidated financial statements in this annual report for the details of the remuneration of the Directors and Supervisors.

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.

27. 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.

28. TAX RELIEF

(I) Withholding and Payment of Enterprise Income Tax for Non-resident Enterprise Shareholders

Pursuant to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation rules and the relevant regulations, the Bank has the obligation to withhold and pay enterprise income tax at a tax rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the H Share register in the distribution of dividend. As any shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders, the dividends received shall be subject to the withholding of enterprise income tax.

Upon receipt of such dividends, a non-resident enterprise shareholder may apply to the competent tax authorities for relevant treatment under the tax treaties (arrangements) in person or through a proxy or a withholding agent, and provide evidence in support of its status as an actual beneficial owner as defined in the tax treaties (arrangements). Upon verification by the competent tax authorities, the difference between the tax levied and the amount of tax payable as calculated at the tax rate under the tax treaties (arrangements) will be refunded.

(II) Withholding and Payment of Individual Income Tax for Individual Overseas Resident Shareholders

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation rules and the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (Announcement of the State Administration of Taxation 2015 No. 60) (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》(國家稅務總局公告2015年第60號)) (the "Tax Convention Announcement"), the Bank has the obligation to withhold and pay individual income tax on behalf of the individual shareholders whose names appear on the H Share register ("Individual H Shareholder(s)") in the distribution of final dividend for 2019. However, Individual H Shareholders are entitled to the relevant favorable tax treatments pursuant to the provisions in the tax treaties between the countries (regions) in which they are domiciled and the PRC, and the tax arrangements between the PRC and Hong Kong (or Macau). As such, the Bank will withhold and pay individual income tax on behalf of the Individual H Shareholders in accordance with the following arrangements:

- for Individual H Shareholders receiving dividends who are Hong Kong or Macau residents or citizens from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Bank will withhold and pay individual income tax at the rate of 10% in the distribution of final dividend;
- for Individual H Shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Bank will withhold and pay individual income tax at the rate of 10% in the distribution of final dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Bank will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Convention Announcement. Qualified shareholders shall submit in time a letter of entrustment and all application materials as required under the Tax Convention Announcement to the Bank's H share registrar, Computershare Hong Kong Investor Services Limited. The Bank will then submit the above documents to competent tax authorities and, after their examination and approval, the Bank will assist in refunding the excess amount of tax withheld and paid;
- for Individual H Shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Bank will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty in the distribution of final dividend;

- for Individual H Shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of 20% or without tax treaties with the PRC or under other circumstances, the Bank will withhold and pay the individual income tax at the rate of 20% in the distribution of final dividend.

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Bank.

29. AUDITORS

Shinewing Certified Public Accountants LLP was engaged by the Bank as the auditor for the financial statements of the Bank prepared under the PRC GAAP for 2019. SHINEWING (HK) CPA Limited was engaged by the Bank as the auditor for financial statements of the Bank prepared under the IFRSs for 2019. Please also refer to the section headed “Corporate Governance Report – II. Corporate Governance – (IX) External Auditors and Remuneration of Auditors” of this annual report for the information on the auditors’ remuneration.

During its application for the Listing of H Shares on the Hong Kong Stock Exchange, the Bank engaged Shinewing Certified Public Accountants LLP as its domestic auditor and SHINEWING (HK) CPA Limited its overseas auditor.

30. PERMITTED INDEMNITY PROVISION

The Bank has arranged appropriate insurance covering possible legal liabilities of the Directors and the senior management arising from corporate activities to third parties.

31. MAJOR RISKS AND UNCERTAINTIES

Major risks and uncertainties faced by the Group include credit risk, market risk, operational risk and liquidity risk. By promoting comprehensive risk management, continuously refining the systems, enriching operating means and improving technologies, the Group has effectively enhanced its risk management capability. Please refer to the sections headed “Management Discussion and Analysis – Risk Management” and “Risk Management, Internal Control and Internal Audit” in this annual report.

32. FUTURE DEVELOPMENT OF BUSINESS

Please refer to the sections headed “Management Discussion and Analysis – Environment and Prospect” and “Management Discussion and Analysis – Development Strategy” of this annual report for further details.

33. KEY FINANCIAL PERFORMANCE INDICATORS

As of December 31, 2019, according to the financial data prepared under the IFRSs, the total assets of the Group amounted to RMB335,044.5 million, representing a year-on-year increase of 2.0%; total loans and advances to customers amounted to RMB170,449.2 million, representing a year-on-year increase of 5.9%; the non-performing loan ratio was 2.45%; total deposits from customers amounted to RMB236,868.7 million, representing a year-on-year increase of 12.4%; the operating income of the Group amounted to RMB7,233.3 million, representing a year-on-year decrease of 18.5%; and the net profit of the Group amounted to RMB511.3 million, representing a year-on-year decrease of 85.1%. As of December 31, 2019, the Group's capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio was 11.83%, 9.92% and 9.92%, respectively.

34. ENVIRONMENTAL PROTECTION POLICY AND IMPLEMENTATION

The Group places great emphasis on its own environmental and social performance by integrating the banking operation and management with social responsibilities, actively supporting environmental friendly industries and environmental protection. In May 2017, we issued the first "green" financial bonds in Gansu, which totaled RMB1,000 million in the national interbank bond market. The proceeds of these bonds will be used to promote the development of the green and environmental friendly industry projects. In addition, we established our Green Finance Department in June 2017, which focuses on "green finance".

In line with national policies to save energy costs, the Bank has implemented a series of measures, including: (i) regulating office room temperature; (ii) strengthening management of usage of the Bank's business vehicles and encouraging the use of public transport for long-distance business trips; and (iii) encouraging the turning off of lights and electronic appliances after work.

35. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2019, the Bank has complied with the "comply or explain" provisions set forth in the Environmental, Social and Governance Reporting Guide. For details, please refer to the 2019 Environmental, Social and Governance Report of the Bank to be published in accordance with the Hong Kong Listing Rules.

For details of the governance of the Bank, please refer to the section headed "Corporate Governance Report" of this annual report. The Bank continuously refined its internal control and management system to make the internal control system more comprehensive, practicable and efficient. The rules and systems of the Bank were further improved to ensure that the departments of the Bank could duly discharge their respective duties and responsibilities.

36. COMPLIANCE WITH LAWS AND REGULATIONS

The Board pays close attention to the policies and regulations in relation to compliance with laws and regulatory requirements. As of December 31, 2019, to the best knowledge of the Board, the Group has complied in all material respects with all applicable laws and regulations which could materially affect the Group.

(1) Legal and compliance risk management of the Bank

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.

The legal and compliance department at its head office is in charge of managing our overall legal and compliance risks. In addition, the Bank has established discipline inspection, legal and compliance departments at the tier-one branches and sub-branches in charge of the matters in respect of legal compliance and risk management.

Our risk management and internal control committee supervises and leads our legal and compliance work. The Bank systematically manages our internal control compliance and legal affairs by building a management system for internal control compliance and operational risks. The Bank manages legal and compliance risks primarily through the following measures:

- formulating our rules, systems and annual plans, and leading and urging the formulation and amendment thereof;
- enhancing the compliance review mechanism to identify and evaluate compliance risks associated with our business activities;
- developing, coordinating, reviewing and incorporating the Bank's operation authorization plans and revised plans and putting them into implementation;
- uniformly managing standard contracts and other legal documents;
- managing and tracking our legal proceedings;
- formulating an annual compliance management plan, stipulating the focus for annual compliance work;
- managing related parties and related party transactions to control related party transactions in advance;
- optimizing the management mechanism for rectifications upon inspection, and enhancing the supervision and management of our rectifications upon inspection;
- closely monitoring regulatory changes and reporting compliance information and risks to our senior management and the relevant business lines; and
- enhancing internal training on legal and compliance, and issuing compliance alerts and reminders to employees through compliance proposals and internal publications.

Report of the Board of Directors

(2) 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 other applicable regulations of the PBOC.

The Board of Directors oversees our 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 our overall money-laundering risk profile, and adjusts our 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. The anti-money laundering steering group at its head office leads and coordinates our bank-wide anti-money laundering efforts. It is primarily responsible for:

- formulating anti-money laundering plans;
- reviewing rules and internal controls regarding anti-money laundering;
- ensuring the effective implementation of internal controls for anti-money laundering;
- analyzing significant issues relating to anti-money laundering;
- formulating solutions and responsive measures; and
- reporting to our Board of Directors.

This steering group is led by the president of the Bank with the vice president of the Bank as deputy director and the office at the legal and compliance department. The group consists of major responsible persons from our planning and financial department, risk management department, corporate business department, individual business department, inclusive finance department and information technology department, etc.

The Bank conducts due diligence on the customers in accordance with anti-money laundering laws and regulations. The Bank reports large-scale and suspicious transactions to the China Anti-Money Laundering Monitoring and Analyzing Center on a daily basis through our anti-money laundering management system. The Bank also reports major reasonably suspected money laundering activities to the local branch of the PBOC and cooperates with their investigations, and reports to local public security units when necessary.

The Bank provides bank-wide anti-money laundering training on a regular basis based on employees' position and seniority. The Bank also requires all new employees to participate in mandatory anti-money laundering training before commencing employment.

37. BUSINESS QUALIFICATIONS

During the Reporting Period and as of the date of this annual report, the Bank and its sole subsidiary Jingning Chengji Rural Bank have obtained necessary business qualifications required for their business operations.

38. LEGAL PROCEEDINGS

The Bank and its sole subsidiary Jingning Chengji Rural Bank are involved in legal disputes in the ordinary course of business, which primarily include actions against borrowers for the recovery of loans. As of the Latest Practicable Date, none of the Bank or any of its subsidiary were involved in any material pending lawsuits as a defendant.

During the Reporting Period and up to the Latest Practicable Date, none of the Bank's Directors, Supervisors, or senior management was involved in any material litigation or arbitration, nor had any of them been subject to any administrative penalty.

39. ISSUANCE OF BONDS

For the year ended December 31, 2019, the Bank has issued debt securities during the Reporting Period to supplement its capital, the details of which are set out as follows:

Interbank certificates

For the year ended December 31, 2019, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate principal amount of RMB34,310.0 million. The interbank certificates have terms of three months to one year and bear effective interest rates between 2.97% and 3.50% per annum.

Financial bonds

At the meeting of the Board of Directors convened on March 27, 2019, the Board of Directors advised the Bank to issue undated capital bonds 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 the progress of issuing financial bonds to the Shareholders of the Bank and potential investors in a prompt manner.

40. EQUITY-LINKED AGREEMENT

During the Reporting Period, the Bank did not enter into any equity-linked agreement.

41. REVIEW OF ANNUAL RESULTS

Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited have audited the consolidated financial statements of the Group prepared in accordance with the PRC GAAP and IFRSs, respectively, and issued standard unqualified auditors' reports. The Board of Directors and the Audit Committee of the Bank have reviewed the results and financial report of the Bank for the year ended December 31, 2019 and recommended the Board of Directors to approve these documents.

42. BUSINESS ACTIVITIES INVOLVING SANCTIONED COUNTRIES

The United States has imposed sanctions against Cuba, Iran, North Korea, Sudan, Syria, and the Crimea region of Ukraine (the "Sanctioned Countries") as well as individual persons and entities on lists of designated parties. To varying extents, the European Union, Australia, and the U.N. also maintain certain sanctions.

The Bank does not engage, and have not in the past five years engaged, in a transaction or dealing, directly or indirectly, involving a Sanctioned Country other than Iran. The Bank's Iran-related transactions and dealings have been limited to the provision of RMB and Euro ("EUR") settlement services to PRC merchants that the Bank believes sell daily necessities and commercial electronic devices to Iranian companies (the "Iran-related Business"). The Bank has called a complete halt to our Iran-related Business since October 23, 2018 and frozen the money in all Irani banks' settlement accounts with the Bank and would cut off all communications with them until such sanctions are lifted. The monetary value of the Iran-related settlement transactions the Bank has handled from 2018 to 2019, as well as the commission income the Bank received in connection with these settlement services and the percentage of our total operating income that this commission income represents, are set out as follows:

Year	Settlement Amount	Commission Income	Percent of Total
2018	US\$859 million	RMB22 million	0.25
2019	Nil	Nil	N/A

When the Bank applied to the Hong Kong Stock Exchange for the Listing of the H Shares issued by the Bank on the Hong Kong Stock Exchange, the Bank made the following undertakings to the Hong Kong Stock Exchange:

- The Bank will not knowingly use the proceeds from the Global Offering or any other funds raised through the Hong Kong Stock Exchange to finance or facilitate, directly or indirectly, sanction projects or businesses in the Sanctioned Countries;
- The Bank will disclose on the Hong Kong Stock Exchange's website and on the Bank's own website if our transactions or dealings in Sanctioned Countries put the Bank or the Bank's Shareholders or potential investors at risk of being sanctioned; and
- The Bank will disclose in our annual reports/interim reports our efforts on monitoring sanctions risk exposure, the status of any future business in the Sanctioned Countries, and our business intentions relating to the Sanctioned Countries.

The Bank has adopted the following internal control measures to identify, monitor, and manage our exposure to sanctions risk and to comply with our undertakings to the Hong Kong Stock Exchange:

- The Bank conducts sanctions-related screening in connection with our international transactions, including screening against the SDN List and the Sectoral Sanctions Identifications List and the E.U. Consolidated List of Financial Sanctions Targets;
- The Bank provides training on sanctions laws to all business personnel of the Bank;
- The Bank will seek appropriate advice from external legal advisers upon identifying any material sanctions risk in our operations; and
- The Bank will closely monitor the use of the proceeds from the Global Offering and other funds raised through the Hong Kong Stock Exchange to help ensure the proceeds and other funds will not be used for or applied to any sanctioned business. The Bank has deposited these proceeds and funds in a separate bank account.

The Bank expects that it will not engage in the future in a transaction or dealing, directly or indirectly, involving a Sanctioned Country other than Iran. As disclosed above, the Bank's Iran-related Business has come to a complete halt since October 23, 2018 and would not be resumed until the new round of sanctions against Iran by the U.S. government are lifted. The Bank expects that the Bank's Iran-related transactions and dealings will also be limited to the provision of RMB and EUR settlement services to PRC merchants that the Bank believes has business dealings with Iranian companies even if such sanctions are removed. The Bank will not take the initiative to enlarge the scale of the Bank's Iran-related transactions unless required by national macro policies or strategies, to ensure these transactions account for one percent or less of our total operating income.

The Bank considers various factors when determining whether to engage in transactions involving Sanctioned Countries, including:

- The scale of the transactions as a percentage of our total operating income;
- Involvement of any persons or entities on lists of designated parties maintained by the sanctions enforcement agencies;
- Involvement of any industries or sectors that are subject to sanctions; and
- Legal and reputational risks.

Report of the Board of Directors

43. COMPANY SECRETARIES

During the Reporting Period, there were changes in the Bank's company secretaries. The current company secretary of the Bank is Ms. Fok Po Yi (霍寶兒), whose appointment was effective on July 9, 2019. Prior to that, the company secretary of the Bank is Ms. Ng Wing Yan (伍穎欣), whose resignation was effective on July 9, 2019.

44. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2019, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB2,120,000,000.00. The ranges of the interest rates per annum on the Group's interbank deposits issued are 3.00% to 3.20%.

45. MISCELLANEOUS

1. As of the Latest Practicable Date, the Bank was not aware that any Shareholders had waived or agreed to waive any dividend arrangement.
2. As of the Latest Practicable Date, none of the Directors waived or agreed to waive the related remuneration arrangements.
3. During the Reporting Period and up to the Latest Practicable Date, there were no collateral and pledges of significant assets of the Bank.
4. The Bank did not implement any equity incentive plan during the Reporting Period and up to the Latest Practicable Date.
5. The Bank did not implement any employee stock ownership scheme during the Reporting Period and up to the Latest Practicable Date.
6. Save for those disclosed in this annual report, there were no other material investments held by the Group, nor were there other material investments or additions of capital asset plan approved by the Board of the Directors during the Reporting Period and up to the Latest Practicable Date.
7. There were no material acquisitions or disposals of subsidiaries during the Reporting Period and up to the Latest Practicable Date.

By Order of the Board
Liu Qing
Chairman

Work Report of the Board of Supervisors

During 2019, in accordance with the PRC Company Law, the PRC Securities Law, various guidelines of regulatory authorities, the Articles of Association of the Bank, and all rules and regulations of the Board of Supervisors, the Board of Supervisors diligently and earnestly fulfilled its duties, and a comprehensive supervision system including meeting supervision, strategy supervision, performance supervision, patrol inspection supervision and external audit supervision, which made the supervision work more pragmatic and related measures more effective, and played a positive role in promoting the development of the Bank's business.

I. IMPLEMENTATION OF MAJOR TASKS

During the Reporting Period, the Board of Supervisors successfully completed its re-election. According to the requirements of corporate governance and the Articles of Association of the Bank, the proposals on the establishment and composition of the second session of the Board of Supervisors were considered and passed successively at the employee representative meeting, the general meeting and the first meeting of the second session of the Board of Supervisors, through which the member structure was adjusted and the professional competence of the Board of Supervisors in fields such as finance, accounting and law was enhanced. Upon the re-election, the Board of Supervisors consists of nine Supervisors, including three employee representative Supervisors, three shareholder Supervisors and three external Supervisors. The professional structure of all supervisors meets regulatory requirements and has effectively guaranteed the smooth supervision work of the Board of Supervisors.

During the Reporting Period, the Board of Supervisors continuously strengthened the system construction. In accordance with the requirements of regulatory inspection and work needs and on the basis of learning from peers and fully soliciting the opinions of our Supervisors, the Board of Supervisors further revised and improved the rules and regulations, including the Rules of Procedure for the Board of Supervisors of Bank of Gansu Co., Ltd., the Rules of Procedure for the Nomination Committee of the Board of Supervisors of Bank of Gansu Co., Ltd., the Rules of Procedures of the Supervisory Committee of the Board of Supervisors of Bank of Gansu Co., Ltd., the Evaluation Measures of the Board of Supervisors of Bank of Gansu Co., Ltd. on the Duty Performance of Directors (provisional), the Evaluation Measures of the Board of Supervisors of Bank of Gansu Co., Ltd. on the Duty Performance of Supervisors (provisional) and the Evaluation Measures of the Board of Supervisors of Bank of Gansu Co., Ltd. on the Duty Performance of Senior Management and its Members (provisional), which provided the basis for the Board of Supervisors to perform its duties according to the laws and regulations. Currently, the six revised and improved rules and regulations have all been considered and approved by the Board of Supervisors, and the Rules of Procedures of the Board of Supervisors of Bank of Gansu Co., Ltd. has been proposed to the general meeting for consideration.

During the Reporting Period, the Board of Supervisors convened 8 meetings and 11 special committee meetings, at which 55 proposals were considered and passed. The members of the Board of Supervisors had attended the general meeting in a timely manner, and Supervisors had been designated to attend the meetings of the Board of Directors as non-voting delegates, as well as all kinds of operating work meetings, compliance, internal control and case prevention meetings, risk control meetings, etc. By attending and presented various meetings and activities, the Board of Supervisors can obtain various information on operation and management more timely and comprehensively, and timely put forward supervisory opinions, suggestions or recommendations to the Board of Directors and senior management, thus further strengthening the supervision responsibilities.

Work Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors conducted patrol inspection, investigation and supervision. Successively, the Board of Supervisors carried out patrol inspection on the operating units, including Longnan branch, Dingxi branch, Zhangye branch, Anning branch, Qilihe branch, Gaoxin branch and Chengxian branch, and the business department and legal compliance department of the headquarters, in respect of the construction of compliance. By going to the front line, listening to reports from various units, communicating with each other, conducting questionnaire surveys and examining materials on site, the Board of Supervisors obtained first-hand materials of operation and management, produced research reports on risk management, internal control compliance and other aspects, and put forward 12 suggestions and recommendations. The Board of Supervisors conducted specific investigation on Dingxi branch and its Lintao sub-branch and Longxi sub-branch in respect of the targeted poverty alleviation work, and put forward 8 recommendations and suggestions. The Board of Supervisors also conducted investigation and supervision on Pingliang branch, Baiyin branch, Qingyang branch, Jiuquan branch, Tianshui branch, Zhangye branch and Linxia branch in respect of operations and management and internal control, and put forward over 20 recommendations and suggestions on the found issues.

During the Reporting Period, the Board of Supervisors regularly and from time to time transmitted various information to the Board of Directors, senior management and Supervisors through meetings, emails, WeChat groups, etc. The Board of Supervisors kept smooth reporting to and communication with the supervisory authorities, and timely obtained guidance and support from all parties; at the same time, it had successively conducted work exchanges with the supervisory boards of urban commercial banks such as Bank of Chang'an, Bank of Jiangsu, Bank of Nanjing, Zhongyuan Bank, Bank of Zhengzhou, etc., with a view to drawing on each other's strengths to make up for each other's weaknesses and thus providing a strong guarantee for the Board of Supervisors to better perform the supervision responsibilities.

During the Reporting Period, the Board of Supervisors evaluated the duty performance of the Board of Directors, the Board of Supervisors and senior management as well as its members for 2019 in accordance with the requirements of the Guidelines on the Functioning of the Board of Supervisors of Commercial Banks, the Articles of Association of the Bank, the Evaluation Measures of the Board of Supervisors of Bank of Gansu on the Duty Performance of the Directors (Provisional), the Evaluation Measures of the Board of Supervisors of Bank of Gansu on the Duty Performance of the Supervisors (Provisional) and the Evaluation Measures of the Board of Supervisors of Bank of Gansu on the Duty Performance of Senior Management and Its Members (Provisional). After evaluation, the Board of Supervisors believed that the Board of Directors earnestly, diligently and proactively implemented national and local financial policies and resolutions of general meetings in accordance with the requirements of the Articles of Association of the Bank, while consciously accepting supervision from the Board of Supervisors. They also had an accurate grasp of the macro trends in the nation and the development direction of the Bank, making material decisions and adjustments in a timely manner. They placed emphasis on corporate governance, risk prevention and control, capital management, internal control and compliance management and rectification to the issues identified during the internal and external inspection. The Board of Directors regularly listened to business performance reports, profitability analysis reports, risk monitoring reports, asset and liability management analysis reports, anti-money laundering work reports, case prevention reports and compliance management reports. The Board of Directors timely adjusted development strategies and gave full play to a scientific decision-making. The Directors performed earnestly, diligently and consciously accepted supervision from the Board of Supervisors. They have regularly considered business reports, financial reports and related reports on risk management of the Bank, consistently and proactively learned, and conducted analysis of, the operation of the Bank, comprehensively understood the evaluation of the Bank by the regulators, external audits and the public and provided business basis for the Board's decision-making based on their independent, professional and objective judgments on the operations and management of the Bank. The senior management fully implemented the general working arrangement by the Board of Directors with strict adherence to various regulatory requirements, earnestly implementing the advice from the Board of Supervisors. Adhering to the guidelines of reform and development, tracing back to the fundamentals of the business of serving local economy and real economy, they constantly innovated products and service models

and optimized business structure. They also strengthened risk prevention and control management to continuously promote the comprehensive optimization of risk management framework. Senior management established a sound system and advanced rectification to the issues to continuously strengthen the management of employee behavior. They actively promoted the reform of incentive mechanism and implemented the assessment model under the overall risk management framework, strengthening the guiding role of the assessment mechanism. They strengthened budget and cost management, and strove to achieve cost reduction and efficiency improvement, thus effectively promoting the stable development of the Bank. Senior management members earnestly implemented the resolutions of the Board of Directors and Supervisors and the requirements of regulators and prudently exercised management authority under which they diligently and efficiently performed their respective duties. They effectively arranged daily operation and management in a spirit of earnest and diligence while improving the business and relevant matters under their management and focusing on the communication with the Board of Directors and Supervisors. During the process of daily operation, management and decision-making, senior management members had the knowledge, skills and experience to cope with the complex issues, and demonstrated their excellent management ability and professionalism. The Board of Supervisors diligently performed its duties in accordance with various guidelines of the regulators, the Bank's Articles of Association and various rules of the Board of Supervisors, with the goal of promoting the Bank's compliant and sound development, actively implemented regulatory requirements, continuously improved supervision mechanism, and innovated supervision methods to improve the supervision mechanism, playing a positive role in promoting the Bank's business development, risk management, corporate governance and other aspects. The Supervisors actively performed their supervisory duties, attended the general meetings and the meetings of the Board of Directors, senior management and the Board committees, at which they carefully considered various proposals and made their opinions and recommendations. They actively coordinated and balanced the interest of the shareholders and the Bank, paid attention to and safeguarded the Bank's overall interests, and put forward specific supervision opinions and recommendations. They also focused on reporting employees' reasonable demand, placed emphasis on outstanding problems occurring during the operation of the Bank and provided timely and tailored supervision opinions and recommendations. In addition, they paid attention to the interests of the Bank and its depositors as a whole, performed their duties independently according to laws, participated in supervision and research activities according to the requirements and arrangements of the Board of Supervisors, and independently and objectively made supervisory opinions and recommendations, and their working hours in the Bank are consistent with relevant requirements. Upon evaluation, it is considered that all Directors, Supervisors and senior management members are competent.

II. INDEPENDENT OPINIONS ISSUED ON RELEVANT MATTERS

(I) Operation in compliance

During the Reporting Period, The business activities conducted by the Bank were in compliance with the requirements of the PRC Company Law, the Commercial Banking Law and the Articles of Association of the Bank, and decision-making procedures were lawful and valid. No Director or senior management of the Bank has been identified acting in violation of laws, regulations or the Articles of Association of the Bank or doing harm to the interests of the Bank or Shareholders during their performance of duties.

(II) Truthfulness of the financial report

During the Reporting Period, Shinewing Certified Public Accountants LLP has audited the financial report and issued a standard unqualified audit report thereon. The financial report gave a fair view of the financial position and operating results of the Bank.

Work Report of the Board of Supervisors

(III) Related party transactions

During the Reporting Period, the Bank further standardized management on related party transactions and the Board of Supervisors was not aware of any related party transaction which was against the principle of fairness or detrimental to the interests of the Bank and its Shareholders.

(IV) Internal Control

During the Reporting Period, the Bank continuously strengthened and improved its internal control, and the Board of Supervisors was not aware of any significant deficiencies in its internal control system and execution thereof.

(V) Implementing resolutions of the Shareholders' general meeting by the Board

During the Reporting Period, the Board of Supervisors had no disagreement upon any reports and proposals submitted by the Board to the Shareholders' general meeting for consideration, and was of the view that the Board diligently implemented relevant resolutions passed at the Shareholders' general meetings.

(VI) Performance of social responsibilities

During the Reporting Period, the Bank earnestly performed its social responsibilities. The Board of Supervisors had no disagreement upon Corporate Social Responsibility Report on 2019.

III. WORK PLANS IN 2020

In 2020, the Board of Supervisors will continue to optimize its supervisory methods in accordance with laws, regulations and the relevant provisions of the Articles of Association of the Bank, further improve its efficiency in supervision, and earnestly perform all kinds of work to promote the healthy and sustainable development of the Bank.

- (I) We will effectively integrate supervision in beforehand, on-going and afterwards stages closely in line with the changes in China's macroeconomic development trends and new regulatory requirements; endeavor to standardize our supervision work and enhance its effectiveness by performing our duties in strict accordance with prescribed procedures through effective utilizing various supervisory tools including verification, inquiry, and reminder.
- (II) We will give a full play to relevant working mechanisms to timely learn and grasp the status of major issues and voice necessary supervisory opinions; leveraging characteristics and strengths of its work, the Board of Supervisors will strive to offer advice for the work of the Bank as a whole, while streamlining relationships and sentiments amid employees of the Bank, thereby to combine service with supervisory work.
- (III) In our work, we highly value the "three combinations", namely, combining inspection opinions of supervisory authorities, combining internal and external auditing results and combining working progress and resources of relevant parties, collectively contributing to our supervisory work.



Work Report of the Board of Supervisors

- (IV) The Board of Supervisors will strengthen effective communication with major management personnel, shareholders, directors, regulatory authorities and management members of branches to earn their understanding and support for our work and ensure we can carry out supervisory work on a normal basis.
- (V) We will unceasingly enhance and innovate working methods through practice; continuously to strengthen self-improvement and elevate the ability of supervisors to perform their duties.

Changes in Share Capital and Particulars of Shareholders

I. CHANGES IN SHARE CAPITAL OF THE BANK

(I) Share Capital

As of December 31, 2019, 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

(II) Changes in Share Capital

During the Reporting Period and up to the Latest Practicable Date, there has been no changes in the share capital of the Bank.

II. PARTICULARS OF SHAREHOLDERS

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

As of December 31, 2019, the top ten Shareholders of the Domestic Shares of the Bank are set out as follows:

No.	Name of Shareholder	The Number of Shares Held as at December 31, 2019 ⁽¹⁾	Shareholding Percentage as at December 31, 2019 (%)	The Number of Shares Held as at the Latest Practicable Date ⁽¹⁾	Shareholding Percentage as at the Latest Practicable Date (%)	Number of Shares Pledged
1	Gansu Highway Aviation Tourism	1,157,154,433	11.49	1,157,154,433	11.49	0
2	Baoshang Bank Co., Ltd.	845,296,403	8.39	845,296,403	8.39	0
3	Jiuquan Iron & Steel	633,972,303	6.30	633,972,303	6.30	0
4	Gansu Electric Power Investment	633,972,303	6.30	633,972,303	6.30	0
5	Jinchuan Group	633,972,303	6.30	633,972,303	6.30	0
6	Gansu State-owned Assets Investment	359,250,972	3.57	359,250,972	3.57	0
7	Jingyuan Coal Industry Group Limited	239,326,800	2.38	239,326,800	2.38	0
8	Yong Xin Hua Holdings Co., Ltd.	239,326,800	2.38	239,326,800	2.38	239,326,800
9	Duzhe Publishing Group Limited	211,324,101	2.10	211,324,101	2.10	0
10	Ningxia Tianyuan Manganese Limited Company (寧夏天元錳業有限公司)	201,083,333	2.00	201,083,333	2.00	0
	Hebei Jingye Group Co., Ltd. (河北敬業集團有限責任公司)	201,083,333	2.00	201,083,333	2.00	0

Changes in Share Capital and Particulars of Shareholders

Notes:

⁽¹⁾ The shareholding in this table refers to the number of Domestic Shares directly held in the Bank.

⁽²⁾ As at the end of the Reporting Period, so far as the Bank was aware, the Bank's 1,494,006,035 Shares, representing 14.84% of the Shares issued, were pledged.

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

To the best knowledge of the Bank, as of December 31, 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 ⁽²⁾	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 ⁽⁵⁾	Domestic Shares	1,157,154,433 (L) ⁽¹⁾	11.49	15.38
	Interest in controlled corporation ⁽⁵⁾	Domestic Shares	100,541,667(L) ⁽¹⁾	1.00	1.34
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 ⁽⁶⁾	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 ⁽⁷⁾	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 ⁽⁷⁾	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 ⁽⁷⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
Cui Wei	Interest in controlled corporation ⁽⁷⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09

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 ⁽⁷⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
Guotai Junan International Holdings Limited	Interest in controlled corporation ⁽⁸⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
	Interest in controlled corporation ⁽⁸⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
Guotai Junan Securities Co., Ltd.	Interest in controlled corporation ⁽⁸⁾	H Shares	282,064,000(L) ⁽¹⁾	2.80	11.09
	Interest in controlled corporation ⁽⁸⁾	H Shares	282,064,000(S) ⁽²⁾	2.80	11.09
CITIC Securities Company Limited	Interest in controlled corporation ⁽⁹⁾	H Shares	201,471,000(L) ⁽¹⁾	2.00	7.92
			201,471,000(S) ⁽²⁾	2.00	7.92
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 ⁽¹⁰⁾	H Shares	145,394,000(L) ⁽¹⁾	1.44	5.72
China Huarong Asset Management Co., Ltd.	Interest in controlled corporation ⁽¹⁰⁾	H Shares	145,394,000(L) ⁽¹⁾	1.44	5.72
Deutsche Bank Aktiengesellschaft	Interest in controlled corporation ⁽¹⁰⁾	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 31.58% 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⁾ Gansu Highway Aviation Tourism held 1,157,154,433 Domestic Shares of the Bank, representing approximately 11.49% of the total issued capital of the Bank. Gansu Highway Aviation Tourism holds 100% equity interest in Gansu Financial Capital Management Co., Ltd. (甘肅金融資本管理有限公司), which in turn held 100,541,667 Domestic Shares of the Bank, representing approximately 1% of the total issued capital of the Bank. Therefore, Gansu Financial Capital Management Co., Ltd. is a controlled corporation of Gansu Highway Aviation Tourism. Pursuant to the SFO, Gansu Highway Aviation Tourism is deemed to be interested in the Shares held by Gansu Financial Capital Management Co., Ltd.

⁽⁶⁾ 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.

Changes in Share Capital and Particulars of Shareholders

- ⁽⁷⁾ 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..
- ⁽⁸⁾ 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.
- ⁽⁹⁾ 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.
- ⁽¹⁰⁾ 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 the Latest Practicable Date, 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) Shareholders Holding 5% or More of the Share Capital

Please refer to "II. Particulars of Shareholders" above for information on Shareholders holding 5% or more of the share capital of the Bank.

(IV) Particulars of Controlling Shareholders and De Facto Controller

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

Directors, Supervisors, Senior Management, Employees and Organizations

I. INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

During the Reporting Period and up to the Latest Practicable Date, 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)	54	May 2011	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)	54	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; coordinating and supervising the fully implementation of the operating plans of the Bank; in charge of the Planning and Financial Department and the Asset Preservation Department
Ms. Wu Changhong (吳長虹)	56	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)	41	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

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)	49	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)	47	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)	52	December 2018	December 3, 2018 ⁽²⁾	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)	51	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, related party transaction and risk management committee and the Consumer Rights Protection Committee

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)	44	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 transaction and risk management committee
Mr. Wong Sincere (黃誠思)	55	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 transaction 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, related party transaction and risk management committee and the Consumer Rights Protection Committee

Notes:

- ⁽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 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.

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)	57	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, institutional construction. In charge of the Office of the Board of Supervisors, Audit Department, Institutional Management Department (Security Department)
Mr. Xu Yongfeng (許勇鋒)	56	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)	56	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)	54	November 2016	November 20, 2016	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Li Yongjun (李永軍)	51	October 2011	October 15, 2011	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Zeng Lehu (曾樂虎)	49	June 2019	June 3, 2019	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Yang Zhenjun (楊振軍) ⁽²⁾	51	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Dong Ying (董英)	57	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Luo Yi (羅藝)	40	June 2018	June 1, 2018	External Supervisor	Supervising the Board of Directors and the senior management

Notes:

⁽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.

⁽²⁾ Mr. Yang Zhenjun ("Mr. Yang") tendered his resignation to the Board of Supervisors from his offices as an external Supervisor of the Bank, the chairman of the nomination committee and a member of the audit committee under the Board of Supervisors on October 16, 2019 due to work rearrangement. The Bank is currently identifying a suitable candidate as the replacement of Mr. Yang as an external Supervisor, and will make a further announcement in due course. Mr. Yang will continue to perform his duties as an external Supervisor of the Bank, the chairman of the nomination committee and a member of the audit committee until the new Supervisor is appointed. Mr. Yang's resignation as an external Supervisor of the Bank, the chairman of the nomination committee and a member of the audit committee will take effect from the date when the new external Supervisor of the Bank formally assumes his/her role.

Directors, Supervisors, Senior Management, Employees and Organizations

Senior Management

Name	Age	Date of joining the Bank	Date of appointment as senior management	Position held as of the Latest Practicable Date	Responsibilities
Mr. Wang Wenyong (王文永)	54	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; coordinating and supervising the fully implementation of the operating plans of the Bank; in charge of the Planning and Financial Department and the Asset Preservation Department
Mr. Qiu Jinhu (仇金虎)	56	January 2015	January 23, 2015	Vice president	Responsible for administrative work, logistical support as well as work relating to poverty alleviation; in charge of the General Office (Office of the Party Committee), Administrative Affairs Department and work relating to poverty alleviation and support
Mr. Wang Zhiyuan (王志遠)	51	April 2012	November 1, 2017	Vice president ⁽¹⁾	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
Ms. Hao Jumei (郝菊梅)	51	February 2012	December 3, 2018	Vice president ⁽²⁾ , secretary to the Board of Directors	Responsible for the daily work of the Board of Directors, work of risk internal control segment, as well as the coordination and liaison with the companies held or invested by the Bank (such as rural banks). In charge of Risk and Management Department, Credit Management Department, Legal and Compliance Department, assisting the chairman to take charge of the Office of the Board of Directors, and assisting the Asset Preservation Department
Mr. Chen Jinhui (陳金輝)	50	July 2012	December 27, 2019	Vice president ⁽³⁾	Responsible for corporate banking business, in charge of Corporate Business Department, Inclusive Finance Department and Investment Banking Department
Mr. Du Jing (杜晶)	43	December 2011	December 27, 2019	Vice president ⁽³⁾	Responsible for operating supporting, technical supporting and asset management related work, in charge of Asset Management Department, Financial Interbank Department, Accounting and Operation Department and Information Technology Department
Mr. Wang Chunyun (王春雲)	48	October 2011	October 21, 2016	Senior executive officer for internal control and compliance	Specifically responsible for the disposals of significant risk assets and assist the president to take charge of the Asset Preservation Department

Notes:

⁽¹⁾ Mr. Wang Zhiyuan has ceased to act as the vice president of the Bank since February 6, 2020 due to work rearrangement.

⁽²⁾ Ms. Hao Jumei was appointed as a vice president of the Bank, which 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.

⁽³⁾ Mr. Chen Jinhui and Mr. Du Jing were appointed as a vice president of the Bank, which were approved at the Board meeting of the Bank held on December 27, 2019, respectively, while their qualifications have not been approved by the relevant regulatory authority so far.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

(I) Changes in Directors

There was no change to the members of the Board of Directors 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
Consumer Rights Protection Committee	Wang Wenyong (chairman), Liu Qing, Dong Ximiao, Tang Xiuli

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

(II) Changes in Supervisors

- Due to work adjustment, Mr. Liu Xiaoyu, 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, with effect from June 3, 2019.
- As considered by the Board of Supervisors, 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 Mr. Zeng's biography and the relevant information of its appointment, please refer to the Bank's announcement and circular dated March 27, 2019.
- Mr. Yang Zhenjun ("Mr. Yang") tendered his resignation to the Board of Supervisors from his offices as an external Supervisor of the Bank, the chairman of the nomination committee and a member of the audit committee under the Board of Supervisors on October 16, 2019 due to work rearrangement. The Bank is currently identifying a suitable candidate as the replacement of Mr. Yang as an external Supervisor, and will make a further announcement in due course. Mr. Yang will continue to perform his duties as an external Supervisor of the Bank, the chairman of the nomination committee and a member of the audit committee until the new Supervisor is appointed. Mr. Yang's resignation as an external Supervisor of the Bank, the chairman of the nomination committee and a member of the audit committee will take effect from the date when the new external Supervisor of the Bank formally assumes his/her role.

Directors, Supervisors, Senior Management, Employees and Organizations

(III) Changes in Senior Management Members

- (1) 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.
- (2) Mr. Chen Jinhui and Mr. Du Jing were appointed as a vice president of the Bank, which were approved at the Board meeting of the Bank held on December 27, 2019, respectively, while their qualifications have not been approved by the relevant regulatory authority so far.
- (3) Mr. Wang Zhiyuan has ceased to act as the vice president of the Bank since February 6, 2020 due to work rearrangement.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

(I) Biographies of Directors

Executive Directors

Mr. Liu Qing (劉青), aged 54, has been an executive Director and the chairman of the Bank since December 3, 2018. Mr. Liu served as a cadre at Agricultural Bank of China Limited (“China Agricultural Bank”) Pingliang Branch from December 1984 to December 1987, office secretary of the Administration Office of Pingliang from December 1987 to October 1992, senior staff member at the education department of the Gansu Branch of PBOC from October 1992 to April 1993, deputy general manager of Gansu Securities Company from April 1993 to March 1997, and member of the Party leadership group, vice president, member of the Party committee, vice president and secretary of the discipline inspection commission of the Baiyin Branch of PBOC from March 1997 to December 1998. Mr. Liu also concurrently served as a deputy director-general of the Baiyin Bureau of the State Administration of Foreign Exchange of the PRC from March to September 1997, and director of the discipline inspection group and director of the inspection office of CPC Baiyin Commission for Discipline Inspection Designated to Financial Institutions from September 1997 to October 1998. Mr. Liu served as the deputy chief of Lanzhou Regulatory Office of PBOC, secretary to the Party committee and president of the Baiyin Branch of PBOC from December 1998 to December 2003, secretary to the Party committee and director-general of the CBRC Baiyin Office from December 2003 to December 2005, and a member of the Party committee and deputy director-general of the CBRC Gansu Office from December 2005 to May 2011. Mr. Liu 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 has been an executive director of the Bank from October 2011 to November 2017. Mr. Liu also served as a vice president of the Bank from October 2011 to October 2016, and served as the president of the Bank from October 2016 to November 2017. Mr. Liu worked at Gansu Province Rural Credit Union from November 2017 to September 2018, serving as director-general and secretary to the Party committee. Mr. Liu served as secretary to the Party committee of the Bank from October to December 2018.

Mr. Liu obtained a master’s degree from Lanzhou University in Gansu province, the PRC, in June 2014, majoring in business administration.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Wang Wenyong (王文永), aged 54, has been an executive Director and the president of the Bank since December 3, 2018. Mr. Wang served as an office cadre, office deputy director, deputy director and director of credit card department at Pingliang Central Branch of China Construction Bank Corporation (“China Construction Bank”), successively from December 1988 to December 1997. Mr. Wang served as a cadre, section-level inspector and deputy director of inspection office of Gansu Branch of China Construction Bank from December 1997 to December 2004. Mr. Wang served as president and secretary to the Party committee of Changqing Sub-branch of China Construction Bank from December 2004 to November 2005. He served as president and secretary to the Party committee of Qingyang Branch of China Construction Bank from November 2005 to August 2006. Mr. Wang served as president assistant of Gansu Branch of China Construction Bank from August 2006 to October 2008. He served as secretary of the discipline inspection commission and member of the Party committee of Xinjiang Branch of China Construction Bank from October 2008 to December 2009. Mr. Wang served as vice president and member of the Party committee of Gansu Branch of China Construction Bank from December 2009 to September 2018. Mr. Wang served as deputy party secretary of the Bank from October 2018 to December 2018.

Mr. Wang graduated from Wuhan University in Hubei Province, the PRC and obtained a master’s degree in business administration in December 2009. He was certified as an economist by the Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in November 2003 and a senior administration engineer by China Construction Bank in December 2004.

Non-executive Directors

Ms. Wu Changhong (吳長虹), aged 56, has been a non-executive Director since November 20, 2016. Ms. Wu is primarily responsible for 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. Wu has been a member of the Party committee and the deputy general manager of Gansu Highway Aviation Tourism since May 2011, and the chief financial officer of Gansu Highway Aviation Tourism from November 2015 to October 2019. She held a number of positions at Jinchuan Group from July 1984 to May 2011, including accountant of the cost division of the finance department, deputy head and head of the capital division of the finance and audit department, head of the assets management division of the finance and audit department, deputy director of the finance department and general manager of the audit department.

Ms. Wu obtained a bachelor’s degree from the Party School of Gansu Province Committee of CPC, the PRC, in December 1998, majoring in enterprise management. She was certified as a senior accountant by the Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in November 1998.

Ms. Zhang Hongxia (張紅霞), aged 41, has been a non-executive Director since October 15, 2011. Ms. Zhang is primarily responsible for 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 has been the senior manager of the office of Baoshang Bank since October 2019. She served as an officer of the human resources department and director of the department of Party affairs of Baoshang Bank from November 1998 to July 2008 and as a deputy director (presiding over the work) of the office of the board of directors of Baoshang Bank from August 2008 to June 2018. She served as the director of the office of the board of directors of Baoshang Bank from June 2018 to October 2019.

Ms. Zhang obtained a bachelor’s degree from Inner Mongolia College of Finance and Economics (currently known as “Inner Mongolia University of Finance and Economics”) in the Inner Mongolia Autonomous Region, the PRC, in January 2006, majoring in finance, and a master’s degree from Inner Mongolia University of Technology in the Inner Mongolia Autonomous Region, the PRC, in July 2011, majoring in business administration. She was certified as an economist by the Ministry of Human Resources of the PRC (currently known as “Ministry of Human Resources and Social Security of the PRC”) in November 2003. Ms. Zhang obtained the certificate of the qualification of senior economist issued by the Bureau of Human Resources and Social Security of Inner Mongolia Autonomous Region in December 2010.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Guo Jirong (郭繼榮), aged 48, has been a non-executive Director since November 20, 2016. Mr. Guo is primarily responsible for 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. Guo has been the head of the capital resources management department of Jiuquan Iron & Steel since October 2019 and director of Gansu Jiuquan Steel Group Hongxing Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600307) since August 2017. He served as the deputy head of the capital division of the finance section and head of the accounting and information division of Baiyin Nonferrous Metals Company (now known as “Baiyin Nonferrous Group Co., Ltd.”) from July 1995 to November 2002, audit project manager of Wulian United Accounting Firm (now known as “Ruihua Certified Public Accountants”) from November 2002 to May 2004, assistant senior staff and deputy senior staff of the finance department, deputy director of the property management commission, deputy director of property management department, director of the directors and supervisors office and deputy director of the asset operation and management department of Jiuquan Iron & Steel from May 2004 to June 2016, and the head of the asset operation and management department of Jiuquan Iron & Steel from June 2016 to October 2019. Mr. Guo also served as the chief accountant, chief financial officer and chief of the finance section of Gansu Jiuquan Steel Group Hongxing Iron & Steel Co., Ltd. from December 2009 and March 2013.

Mr. Guo obtained a bachelor’s degree in economics from Shanxi Institute of Finance and Economics (now known as “Shanxi University of Finance and Economics”) in Shanxi province, the PRC, in July 1995, majoring in accounting. Mr. Guo was certified as an accountant by the MOF in May 1998 and a public accountant by the Certified Public Accountant Examination Board of the MOF in March 2004.

Mr. Zhang Youda (張有達), aged 47, has been a non-executive Director since November 20, 2016. Mr. Zhang is primarily responsible for 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 has been deputy general manager and chief finance officer of Jinchuan Group since July 2018. He served as deputy head and head of the finance division of the testing center, head of the finance division of the smelting plant of Jinchuan Group, head of the cost division of the finance department, deputy director of the finance department and deputy general manager of the finance department (presiding over the work) of Jinchuan Group from April 2002 to December 2011. Mr. Zhang has been the general manager of the finance department of Jinchuan Group since December 2011. Mr. Zhang has been a non-executive director of Jinchuan Group International Resources Co. Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 2362) since August 2017 and has been appointed as the chairman of the board of directors and the non-executive director of Jinchuan Group International Resources Co. Ltd. since March 2019.

Mr. Zhang obtained a bachelor’s degree from Lanzhou University of Technology in Gansu province, the PRC, in July 2004, majoring in accounting, and a master’s degree from Lanzhou University in Gansu province, the PRC, in June 2010, majoring in business administration. Mr. Zhang was certified as a senior accountant by the Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in December 2009, a senior economist by China Nonferrous Metals Industry Association in November 2008, and a senior accountant by the Gansu Province Professional Title Reform Office in July 2017.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Liu Wanxiang (劉萬祥), aged 52, has been a non-executive Director of the Bank since December 3, 2018. Mr. Liu will be primarily responsible for 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 has served as deputy secretary to the Party committee, director and general manager of Gansu Electric Power Investment since June 2018, concurrently served as the director of Jinchuan Group Co., Ltd. since April 2018, and also served as the secretary to the Party committee and chairman of Gepic Energy Development Co., Ltd. (甘肅電投能源發展有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000791) since September 2019. Mr. Liu served successively as the trainee technician, technician and deputy director of the power supply workshop of Lanzhou Liancheng Aluminum Factory (蘭州連城鋁廠) from July 1989 to January 1998, deputy factory director and factory director of Lanzhou Liancheng Aluminum Power Plant (蘭州連城鋁廠動力廠) from January 1998 to October 2004, and manager of Lanzhou Liancheng Aluminum Industrial Company (蘭州連城鋁公司實業公司) from October 2004 to December 2004. Mr. Liu served as vice chairman, deputy secretary to the Party committee, deputy general manager and general manager of Gansu Aluminum (Group) Co., Ltd. (甘肅鋁業(集團)有限責任公司), deputy chairman of Gansu Huaxing Aluminum Company (甘肅華興鋁業公司), and director, chairman, general manager, member of and secretary to the Party committee of Gansu Dongxing Aluminum Co., Ltd. (甘肅東興鋁業有限公司) from December 2004 to December 2011. He was the chairman and secretary to the Party committee of Gansu Dongxing Aluminum Co., Ltd. (甘肅東興鋁業有限公司) of Jiuquan Iron & Steel from December 2011 to December 2012, and deputy general manager of Jiuquan Iron & Steel from December 2012 to June 2018.

Mr. Liu obtained his master's degree in business administration from Lanzhou University in Gansu Province, the PRC, in December 2005 and was certified as a senior engineer by the Gansu Province Professional Title Reform Office in December 2003.

Independent Non-executive Directors

Ms. Tang Xiuli (唐岫立), aged 51, has been an independent non-executive Director since August 12, 2017. Ms. Tang is primarily 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 performs her duties as a Director through the Board of Directors, audit committee and related party transaction and risk management committee.

Ms. Tang has served as the general manager of Heng Jiu Yuan Asset Management Co., Ltd since January 2016. She also serves as a professor of Dongbei University of Finance and Economics, tutor of master-degree students majoring in economics or finance of Fudan University and Zhejiang University as well as distinguished MBA tutor of Chinese Academy of Social Sciences and EDP distinguished professor of Dongbei University of Finance and Economics, researcher of economic research institute of Beijing Language and Culture University and the rotating head of Financial Committee of China Optimization Society of Capital Construction. Ms. Tang has many years of experience in banking regulation in the PRC. She worked at the Heilongjiang Branch and Shenyang Branch and the head office of the PBOC in the 1990s. She also previously worked at the CBIRC for nearly ten years. Ms. Tang was a member of the Party committee and vice president of Bank of Wenzhou Co., Ltd. from July 2012 to December 2015. From September 2016 to April 2018, Ms. Tang served as chief policy officer and senior vice president of Zillion Financial Network Technology Group Limited and has been the independent director of Dandong Rural Commercial Bank Co., Ltd. from March 12, 2019 to September 22, 2019.

Ms. Tang obtained a bachelor's degree in economics from Dongbei University of Finance and Economics in Liaoning province, the PRC, in July 1991, majoring in information system, a master's degree in economics from Dongbei University of Finance and Economics in April 2006, majoring in finance, and a doctorate's degree in economics from Dongbei University of Finance and Economics in June 2014, majoring in finance. Ms. Tang was certified as a senior economist by PBOC in November 2003.

Directors, Supervisors, Senior Management, Employees and Organizations

Ms. Luo Mei (羅玫), aged 44, has been an independent non-executive Director since August 12, 2017. Ms. Luo is primarily 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 performs her duties as a Director through the Board of Directors, audit committee, nomination and remuneration committee and related party transaction and risk management committee.

Ms. Luo joined Tsinghua University in June 2007 and is currently a professor and a PHD tutor of the Department of Accounting at the School of Economics and Management of Tsinghua University, and the director of the Research Center for Digital Financial Assets, School of Economics and Management, Tsinghua University. She worked at Mellon Capital Management, an assets management company in San Francisco, the United States, and was responsible for the strategy of quantitative investment in the stock market. She also taught at the Department of Accounting in University of Illinois at Urbana-Champaign, the United States. Ms. Luo has been an independent director of Canaan Inc. (a company listed on the NASDAQ, stock code: CAN) since December 2019, and an independent director of Beijing Gehua CATV Network Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600037) since March 2013. Ms. Luo was an independent director of Beijing Baofeng Technology Co., Ltd. (now known as “Baofeng Group Co., Ltd.”, a company listed on the Shenzhen Stock Exchange, stock code: 300431) from June 2013 to December 2014.

Ms. Luo obtained a bachelor’s degree from the School of Economics and Management of Tsinghua University in Beijing, the PRC, in June 1998, majoring in accounting (international accounting), and a doctorate’s degree in business management from the University of California Berkeley in California, the U.S., in December 2004, majoring in accounting and finance.

Mr. Wong Sincere (黃誠思), aged 55, has been an independent non-executive Director since August 12, 2017. Mr. Wong is primarily 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 works, and performs his duties as a Director through the Board of Directors, nomination and remuneration committee and related party transaction and risk management committee.

Mr. Wong became the founder and has been the principal of Sincere Wong & Co. (currently renamed as Wong Heung Sum & Lawyers) since May 2016. He was an in-house counsel for Hutchison Whampoa Group from September 1996 to January 2005 and China Resources Enterprise, Limited (now known as China Resources Beer (Holdings) Company Limited) from February 2005 to November 2006, chief legal officer of Shui On Construction and Materials Limited from November 2006 to June 2010, as well as the head of the legal department and company secretary of Sateri Holdings Limited (a company previously listed on the Hong Kong Stock Exchange, the name of which was later changed to Bracell Limited but has subsequently been privatized) from July 2010 to May 2011. He worked at the Hong Kong Stock Exchange from August 2011 to April 2016, and was a vice president of Listing & Regulatory Affairs Division at the time of his departure from the Hong Kong Stock Exchange, primarily responsible for reviewing listing applications and providing recommendations to the Listing Committee of the Hong Kong Stock Exchange regarding listing applications. Mr. Wong was appointed as an independent non-executive Director of U Banquet Group Holding Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1483) in September 2018. Mr. Wong was appointed as a non-executive Director of MOS House Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1653) in January 2019.

Mr. Wong obtained a bachelor’s degree of social science from the Chinese University of Hong Kong in Hong Kong in December 1986. He passed the Common Professional Examination in Wolverhampton Polytechnic (now known as University of Wolverhampton) in July 1990, and the Solicitors’ Final Examination of the Law Society of England and Wales with first class honors in October 1991. Mr. Wong was admitted as a solicitor of Hong Kong and England and Wales in October 1993 and February 1994, respectively.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Dong Ximiao (董希淼), aged 42, has been an independent non-executive Director since December 3, 2018 and is a senior economist and an associate financial planner. He is currently the chief researcher of Zhongguancun Internet Finance Institute, the deputy director of the Industry Development Research Committee of the China Banking Association and the independent director of Bozhou Yaodu Rural Commercial Bank. Mr. Dong also serves as a special economic analyst of Xinhua News Agency, a special research fellow of the Banking Research Center of the National Institution for Finance and Development, an adjunct professor of Lanzhou University, a master's tutor of the School of Finance of Zhongnan University of Economics and Law, and a guest professor of School of Economics of Sichuan Agricultural University. Mr. Dong joined China Construction Bank Corporation ("China Construction Bank") in July 2000 and successively served as the office secretary, deputy business manager and business manager of Zhejiang Branch of China Construction Bank. Since March 2009, he served as the vice president and a senior manager of the private banking department of the sub-branch directly under Zhejiang Branch of China Construction Bank. Mr. Dong served as the executive dean of its Research Institute of Hengfeng Bank Co., Ltd. from July 2015 to October 2018. In December 2017, he was elected as the deputy director of the Industry Development Research Committee of China Banking Association. Mr. Dong has served as an independent director of Bozhou Yaodu Rural Commercial Bank Co., Ltd. since February 4, 2020.

Mr. Dong graduated from Lanzhou University in Gansu Province, the PRC, in June 2000 with a dual bachelor's degree in history and laws, and graduated from Zhejiang University of Technology in Zhejiang Province, the PRC in January 2007 with a master's degree in business administration. In December 2010, he was certified as a senior economist by China Construction Bank.

(II) Biographies of Supervisors

Ms. Tang Lan (湯瀾), aged 57, was elected as an employee representative Supervisor on November 12, 2018 and was appointed as the chairman of the Board of Supervisors on December 3, 2018. Ms. Tang is responsible for overall work of the Board of Supervisors and supervising the work of the Board of Directors and management to ensure compliance with laws and regulations, and responsible for auditing, security, institutional construction and work concerning the mass organization. She is also in charge of the Office of the Board of Supervisors, Audit Department, Institutional Management Department and Security Department.

Ms. Tang was a staff member and a senior staff member of the budget division of the Bureau of Finance of Gansu Province from July 1984 to March 1991, a senior staff member and a principal staff member of the office of the Bureau of Finance of Gansu Province from March 1991 to November 1993 and temporarily served as the deputy director-general of the Finance Bureau of Chengguan District, Lanzhou City from March 1992 to October 1992. Ms. Tang served as the deputy director (deputy department-level) of farming support, compensation and financing office of the Bureau of Finance of Gansu Province from November 1993 to October 1995, the deputy director and director of the social security division of the Bureau of Finance of Gansu Province from October 1995 to December 2006 and temporarily served as the deputy director of the social security division of the Guangdong Provincial Bureau of Finance from July 2000 to February 2001 and concurrently served as the director of Social Security Fund Management Centre of Gansu Province from August 2003 to December 2006, the chief of the educational, scientific and cultural division of the Bureau of Finance of Gansu Province from December 2006 to December 2010 and deputy director, member of the Party committee, director and the secretary of the Party committee of the Finance Office of Gansu Province from December 2010 to October 2018. Ms. Tang obtained a bachelor's degree in economics from the department of finance of the Central University of Finance and Economics (formerly known as the Central Institute of Finance and Banking) in July 1984, majoring in finance.

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Mr. Xu Yongfeng (許勇鋒), aged 56, has been an employee representative Supervisor of the Bank since October 15, 2011, primarily responsible for supervising the Board of Directors and the senior management on behalf of the employees of the Bank. Mr. Xu has been the general manager of the Institution Management Department of the Bank since February 2013, and the general manager of the Security Department of the Bank since September 2015.

Mr. Xu joined the Bank in October 2011, and was the deputy secretary to the Party committee and vice president of the Pingliang Branch of the Bank from November 2011 to February 2013. Mr. Xu served as a clerk at the credit unit of the Pingliang Ankou Office of PBOC from November 1981 to July 1984 and a clerk at the credit unit of the Ankou Office of Industrial and Commercial Bank of China from July 1984 to July 1989. He was a staff member, deputy head and head at the integrated division of Pingliang Commission for Institutional Reform of Gansu Province from July 1989 to November 1998, head of the business branch of Pingliang Central Urban Credit Union of Gansu Province from November 1998 to January 2003, chief supervisor of Pingliang Urban Credit Union of Gansu Province from January 2003 to December 2008, and president of Pingliang Commercial Bank from December 2008 to October 2011.

Mr. Xu obtained a bachelor's degree from Gansu Radio & TV University in Gansu province, the PRC, in June 2004, majoring in finance.

Mr. Luo Zhenxia (羅振夏), aged 56, has been an employee representative Supervisor of the Bank since October 15, 2011, primarily responsible for supervising the Board of Directors and the senior management on behalf of the employees of the Bank. Mr. Luo has been the general manager of the Party-masses Work Department of the Bank since February 2020.

Mr. Luo joined the Bank in October 2011. He was the deputy secretary to the Party committee and vice president of the Baiyin Branch of the Bank from November 2011 to February 2013, the general manager of the Security Department of the Bank from February 2013 to January 2015, the secretary to the Party committee of the Linxia Branch (Hongyuan Road Sub-Branch was upgraded to Linxia Branch in August 2017) of the Bank from January 2015 to December 2019, and the president of the Linxia Branch of the Bank from April 2015 to December 2019. Prior to joining the Bank, Mr. Luo was a teacher at Guocheng Agricultural Middle School in Huining County of Baiyin City, Gansu province from July 1982 to January 1986, a cadre at the Huining County Committee of the Communist Youth League of China from January 1986 to November 1987, a staff member in the planning division and deputy head of the integrated planning division of the Baiyin Branch of PBOC from November 1987 to November 1994, deputy director and director of Urban Credit Union of Baiyin District of Baiyin City of Gansu Province and member of the Party leadership group, member of the Party committee, deputy general manager, general manager and director of Urban Credit Union of Baiyin City of Gansu Province from November 1994 to November 2010. He was a member of the Party committee, president and director of Baiyin Commercial Bank from November 2010 to November 2011.

Mr. Luo obtained a bachelor's degree through correspondence study from the Correspondence Institute of the Party School of the Central Committee of CPC, the PRC, in December 1995, majoring in economics.

Mr. Liu Yongchong (劉永翀), aged 54, has been a Shareholder Supervisor of the Bank since November 20, 2016. Mr. Liu is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Liu has been the chief financial officer of Jingyuan Coal Industry Group Limited since June 2015. He served as staff of the finance department, deputy senior staff member, deputy head and head of the assets and finance department and director of the accounting management center of Jingyuan Coal Industry Limited (currently known as "Jingyuan Coal Industry Group Limited") from July 2001 to November 2012. Mr. Liu was the chief financial officer, head of the assets and finance department, director of the accounting management and assets operation and management centers of Gansu Jingyuan Coal Industry and Electricity Power Co., Ltd. from November 2012 to June 2015.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Liu completed all the courses for the undergraduate self-study examination in financial accounting hosted by Lanzhou Commercial College (now known as “Lanzhou University of Finance and Economics”) in Gansu Province, the PRC, in July 1998.

Mr. Li Yongjun (李永軍), aged 51, has been a Shareholder Supervisor of the Bank since October 15, 2011. Mr. Li is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Li has been the chairman of Yong Xin Hua Holdings Group Co., Ltd. since October 1997, and was the general manager of Gansu Yong Xin Construction Installation Engineering Company Limited from April 1991 to October 1997.

Mr. Li completed the master’s course for business administration for senior management in Cheung Kong Graduate School of Business in Beijing, the PRC, in September 2008. Mr. Li was certified as a senior engineer by Gansu Province Professional Title Reform Leading Group (甘肅省職稱改革工作領導小組) in January 2001.

Mr. Zeng Lehu (曾樂虎), aged 49, has been a Shareholder Supervisor of the Bank since June 3, 2019. Mr. Zeng is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Zeng has served at the finance division of Gansu People’s Publishing House and was engaged in accounting work for cashier, costing, taxation, auditing, general ledger and other posts in succession from July 1993 to June 2006; Mr. Zeng worked at the finance department of Readers Publishing Group Limited (“Readers Group”) from June 2006 to December 2009, during which, Mr. Zeng organized and implemented a number of accounting computerization initiatives, and served as the accountant in charge in several professional presses under Readers Group as well as the local area network administrator of the finance department. Mr. Zeng served as the director of capital center of the finance department of Readers Group from April 2008 to April 2010; and as the deputy head of audit department of Readers Group and Duzhe Publishing and Media Corp. (讀者出版傳媒股份有限公司) (“Duzhe Media”), the deputy director of the discipline inspection and supervision office of Readers Group from April 2010 to June 2014; and a supervisor, the head of audit department, and the director of the office of the supervisory committee of Duzhe Media, and concurrently as the supervisor of seven professional presses and the chairman of the supervisory committee of three controlled subsidiaries (Gansu Cultural Assets and Equity Exchange, Duzhe Culture and Tourists Co., Ltd. (讀者文化旅遊股份有限公司) and Duzhe Cultural Promotion LLC (讀者文化傳播發展有限責任公司) under Duzhe Media from July 2014 to May 2018. Mr. Zeng has been serving as a member of the professional committee under the Supervisory Commission of China Association for Public Companies since June 2017; and served concurrently as a director of Beijing Wangcai Media and Advertising Co., Ltd (北京旺財傳媒廣告有限公司) from August 2017 to December 2018; a director of Duzhe Digital Technology (Gansu) Co., Ltd (甘肅讀者數碼科技有限責任公司) from April to December in 2018; and the head of the finance department of Duzhe Media from May to December in 2018. Mr. Zeng has been the head of the finance department of Readers Group, as well as serving concurrently as the vice chairman to the board of Gansu Cultural Assets and Equity Exchange Limited (甘肅省文化產權交易中心股份有限公司) and a director of Duzhe Culture and Tourists Co., Ltd. since December 2018.

Mr. Zeng obtained a bachelor’s degree in accounting from Lanzhou Branch of Central Radio and TV University (中央廣播電視大學) in July 2007 and was rated as a senior accountant by the Gansu Professional Title and Reform Work Office in December 2009.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Yang Zhenjun (楊振軍), aged 51, has been an external Supervisor of the Bank since August 12, 2017. Mr. Yang is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Yang has been the director of the Dingxi Urban Construction and Investment Operation Management Office of Gansu Province since August 2015, and the secretary of the Party leadership group of Dingxi Urban Construction and Investment Operation Management Office of Gansu Province since February 2016. Mr. Yang was a cadre in Shouyang Township Government of Longxi County, a full-time judicial assistant, a cadre in the county government office, deputy mayor of Gongchang Town, secretary of the Youth League Committee of Longxi County, deputy secretary of the Party committee, mayor and secretary to the Party committee of Shouyang Town, Longxi County, member of the standing committee CPC county and secretary to the politics and law commission of Longxi County of Dingxi District, Gansu province from July 1989 to November 2006. Mr. Yang was a member of the standing committee of CPC Anding District Committee, secretary of the politics and law commission, secretary of the discipline inspection commission and deputy district head of Anding District of Dingxi City, Gansu province from November 2006 to August 2015.

Mr. Yang obtained an associate degree through correspondence study from the Party School of Gansu Province Committee of CPC, the PRC, in December 1998, majoring in economic management, a bachelor's degree through correspondence study from the Correspondence School of the Party School of Gansu Province Committee of CPC, the PRC, in December 2001, majoring in law, and a master's degree from the Party School of Gansu Province Committee of CPC, the PRC, in June 2009, majoring in jurisprudence.

Mr. Dong Ying (董英), aged 57, has been an external Supervisor of the Bank since August 12, 2017. Mr. Dong is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Dong has been a director of Wuwei Economic Development and Investment (Group) Co., Ltd. ("Wuwei Economic Development and Investment") since June 2015, deputy general manager of Wuwei Economic Development and Investment since May 2013 and executive deputy general manager of Wuwei Economic Development and Investment since November 2016. Mr. Dong has also been an executive director (legal representative) of Wuwei Testing Center of Quality of Urban-Rural Construction Projects since December 2016. Mr. Dong was head of the marketing department of Wuwei Urban Construction & Investment (Group) Co., Ltd. from February 2004 to March 2008, director of the general office of Wuwei Economic Development Investment from March 2008 to July 2015, as well as chairman of the labor union, deputy secretary-general and secretary of the Party branch of Wuwei Economic Development Investment at the same time from September 2010 to June 2015.

Mr. Dong completed the undergraduate course in economic management at the Party School of the Gansu Province Committee of CPC in Gansu Province, the PRC, in December 2002. He was certified as an economist by Professional Title Reform Leading Group of Township Enterprise Management Bureau of Gansu Province (甘肅省鄉鎮企業管理局職稱改革領導小組) and Gansu Province Professional Title Reform Office (甘肅省職稱改革工作辦公室) in December 2004.

Mr. Luo Yi (羅藝), aged 40, has been an external Supervisor of the Bank since June 1, 2018. Mr. Luo is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Luo has been worked since June 2002 in Law School of Gansu Institute of Political Science and Law where he now serves as an associate professor, and concurrently served as a discipline editor of Western Law Review of Gansu Institute of Political Science and Law from January 2009 to December 2011. Mr. Luo obtained a bachelor's degree in law from Gansu Institute of Political Science and Law in Gansu Province, the PRC in June 2002, majoring in economic law, a master's degree in law from Northwest Normal University in Gansu Province, the PRC in June 2009, majoring in legal theory, and a doctorate's degree in law from Wuhan University in Hubei Province, the PRC in December 2017, majoring in environment and nature resources protection law. Mr. Luo obtained the 2nd prize of Social Science Achievement Award of Gansu Province in 2017 and was honored the title of Outstanding Instructor in the Challenge Cup of Gansu Province.

(III) Biographies of Senior Management Members

Mr. Wang Wenyong (王文永) has been the president of the Bank since December 2018. For Mr. Wang Wenyong's biography, please refer to "– III. Biographies of Directors, Supervisors and Senior Management Members – (I) Biographies of Directors – Executive Directors" of this section.

Mr. Qiu Jinhu (仇金虎), aged 55, has been the vice president of the Bank since January 2015. Mr. Qiu is primarily responsible for retail credit business, administrative work, logistical support, operation and management, and work relating to poverty alleviation and support. He is also in charge of the General Office (Office of the Committee) of the Bank, Accounting and Operation Department, Retail Business Financial Service Center, Administration Department and work relating to poverty alleviation and support.

Mr. Qiu served as a credit clerk, an accountant and head of Qinyu Credit Union of Dangchang County, Gansu province from January 1980 to June 1994, head of the business and operation department of Dangchang County Rural Credit Union of Gansu Province from June 1994 to March 1996, deputy head of Dangchang County Rural Credit Union of Gansu Province from March 1996 to October 2000, deputy head of Kang County Rural Credit Union of Gansu Province from October 2000 to September 2004, and secretary to the Party committee and director-general of Xihe County Rural Credit Union of Gansu Province from September 2004 to April 2009. He successively served as the secretary to the Party committee and director-general of Chengguan District Rural Credit Union of Lanzhou City, Gansu Province, and the director of the Party committee office, general manager of the integrated management department and director assistant of Gansu Province Rural Credit Cooperative Union from April 2009 to January 2015.

Mr. Qiu obtained a bachelor's degree through online education from Lanzhou University in Gansu province, the PRC, in January 2013, majoring in finance and a master's degree in business management from Lanzhou University in December 2013.

Mr. Wang Zhiyuan (王志远), aged 51, has been a vice president of the Bank since December 2017. Mr. Wang is primarily responsible for individual business, Internet finance, information technology and work related to the Party committee. He is also stewarding organization and human resources work, in charge of the Individual Business Department, Internet Finance Department, Information Technology Department, and the Party Committee of the headquarters, and assisting the chairman to take charge of the Human Resources Department (Organization Department of the Party Committee). Mr. Wang Zhiyuan has ceased to act as the vice president of the Bank since February 6, 2020 due to work rearrangement.

Mr. Wang was the principal head of the human resources department of the Bank from April 2012 to June 2012, the head of the organization department of the Party committee and the general manager of the human resources department of the Bank from June 2012 to September 2012, a member of the discipline inspection commission, the head of the organization department of the Party committee and the general manager of the human resources department of the Bank from September 2012 to September 2014, a member of the discipline inspection commission, the head of the organization department of the Party committee, the general manager of the human resources department and the general manager of the strategy and development department of the Bank from September 2014 to December 2016, and a member of the Party committee, a member of the discipline inspection commission, the head of the organization department of the Party committee, the general manager of the human resources department and the general manager of the strategy and development department (concurrently) of the Bank from December 2016 to November 2017. Mr. Wang held a number of positions at China Construction Bank from July 1992 to January 2000, including a staff member of Lanzhou Railway Sub-Branch, office secretary of Gansu Branch, head of the cadre division of the Office of Personnel of Gansu Branch, deputy chief of the Office of Personnel and head of the cadre division of Gansu Branch. Mr. Wang worked at the Lanzhou office of China Cinda Asset Management Corporation (currently known as "China Cinda Asset Management Co., Ltd.") from January 2000 to June 2008, successively serving as senior manager (department-level) of the investment banking department, head of the first business department and director of the integrated management department thereof. Mr. Wang worked at Lanzhou Branch of Shanghai Pudong Development Bank Co., Ltd. ("SPDB Lanzhou Branch") from July 2008 to June 2009, successively being in charge of the works of the general office of SPDB Lanzhou Branch (in establishment) and serving as the director of the general office of SPDB Lanzhou Branch.

Mr. Wang obtained a bachelor's degree from Lanzhou University in Gansu province, the PRC, in June 1991, majoring in philosophy.

Directors, Supervisors, Senior Management, Employees and Organizations

Ms. Hao Jumei (郝菊梅), aged 51, has been the vice president and the secretary of the Board of Directors of the Bank since December 3, 2018. Ms. Hao is responsible for the daily work of the Board of Directors, and the financial market, investment banking and bill businesses, as well as the coordination and liaison with the controlling company of the Bank. She is in charge of the Financial Market Department, Bill Center, Investment Banking Department, and assists the chairman to take charge of the Office of the Board of Directors (the Strategy and Development Department).

Ms. Hao was the accountant of the accounting department of the Jingyuan sub-branch of the PBOC from July 1989 to April 1994 and the accountant of the Baiyin City branch of PBOC from April 1994 to December 1996. She was the deputy director of Yinxing Urban Credit Union of Baiyin City from December 1996 to July 2002, manager of business department of Urban Credit Union of Baiyin City from July 2002 to December 2003 and assistant to the general manager and director of Urban Credit Union of Baiyin City from December 2003 to April 2004. Ms. Hao was the deputy general manager and director of Urban Credit Union of Baiyin City from April 2004 to December 2009, deputy general manager, director and member of the Party committee of Urban Credit Union of Baiyin City from December 2009 to June 2010, and member of the Party committee, director and vice president of Baiyin City Commercial Bank from June 2010 to February 2012. Ms. Hao was the member of the Party committee of the Baiyin branch of the Bank from February 2012 to March 2012, member of the Party committee and vice president of the Baiyin branch of the Bank from March 2012 to June 2012, deputy general manager of the planning and finance department of the Bank from June 2012 to September 2012, member of the discipline inspection committee and deputy general manager of the planning and finance department of the Bank from September 2012 to June 2014, and member of the discipline inspection committee and general manager of the planning and finance department of the Bank from June 2014 to December 2016. She was a member of the Party committee and general manager of the planning and finance department of the Bank from December 2016 to December 2018, and served as a member of the Party committee and the secretary of the Board of Directors of the Bank from December 2018 to April 2019. Ms. Hao obtained a bachelor's degree in accounting from Lanzhou University of Technology in Lanzhou City, Gansu Province, the PRC in July 2004.

Mr. Chen Jinhui (陳金輝), aged 50, has been a vice president of the Bank since December 2019. Mr. Chen is responsible for the corporate banking segment, in charge of the Corporate Banking Department, Inclusive Finance Department, and Investment Banking Business Department.

Mr. Chen held various positions at China Construction Bank from July 1990 to July 2008, including the deputy director of business department of Tianshui Branch, the head of second audit division of Tianshui Audit Office, the head of planning and finance department of Tianshui Branch, and the manager of planning and finance department of Tianshui Branch, the president of Tianshui Branch Maiji Sub-branch, the assistant to president of Tianshui Branch, the member of Party committee, the secretary of the discipline inspection committee and the vice president of Tianshui Branch. He served as the head and general manager of the business department of Shanghai Pudong Development Bank Lanzhou Branch from July 2008 to April 2010, and worked in the market development department of Gansu Province Rural Credit Cooperative from April 2010 to June 2010. He served as the president of Tianshui Maiji Rural Cooperative Bank and the director-general of Wushan County Rural Credit Cooperative from June 2010 to July 2012. He served as the director of the Tianshui Office of the Bank, the president of Qinzhou Sub-branch of the Bank, and the secretary to the Party committee and the president of Tianshui Branch of the Bank from July 2012 to December 2019.

Mr. Chen obtained a bachelor's degree from Lanzhou University in Gansu province, the PRC, in July 2001, majoring in law.



Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Du Jing (杜晶), aged 43, has been a vice president of the Bank since December 2019. Mr. Du is responsible for works related to the operations security, technical support and asset management, in charge of the Asset Management Department, Financial Interbank Department, Accounting Operation Department and Information Technology Department.

Mr. Du served as a bank teller at the Bank of China Lanzhou Chengguan Sub-branch, a staff in business department of the Gansu Branch, and a staff in secretariat department of the President Office of Gansu Branch from July 2000 to April 2005. He served as the secretary, deputy head of promotion team (leading the work) and team leader of the Bank of China Gansu Branch Office from April 2005 to May 2008. He served as the vice president of the Bank of China Lanzhou Qilihe Sub-branch from May 2008 to December 2011, and the general manager of the Individual Business Department of the Bank and the director of the Credit Card Center from December 2011 to December 2019.

Mr. Du obtained a bachelor's degree in management from Lanzhou Commercial College (now known as "Lanzhou University of Finance and Economics") in Gansu Province, the PRC, in July 2000, majoring in marketing.

Mr. Wang Chunyun (王春雲), aged 48, has been the chief risk officer of the Bank since October 2016 and a senior executive officer of the Internal Control and Compliance Department of the Bank since December 3, 2018. Mr. Wang is primarily responsible for risk management, legal compliance as well as the organization, coordination, resolving and disposition of major risks. Mr. Wang also assists the president to take charge of the Risk and Credit Management Department, Asset Preservation Department and Legal and Compliance Department.

Mr. Wang served as the general manager of the Risk and Credit Management Department of the Bank from October 2011 to October 2016. Prior to joining the Bank, between July 1996 and July 2008, he served as a staff member in the project evaluation division and the integrated section of the risk management division, deputy head of the credit information management section of the credit risk management division, business manager of the risk management department, assistant to the general manager of the asset preservation department, deputy general manager of the asset preservation department, and head of the asset preservation department of the Gansu Branch of CCB. Mr. Wang served as the general manager of the risk management department of the Lanzhou Branch of Shanghai Pudong Development Bank Co., Ltd. from July 2008 to October 2011.

Mr. Wang obtained a bachelor's degree from Hunan University in Hunan province, the PRC, in July 1996, majoring in applied mathematics. Mr. Wang was accredited as an engineer by the Gansu Branch of China Construction Bank Corporation in July 1998.

IV. COMPANY SECRETARY

Ms. Fok Po Yi was appointed as the company secretary of the Bank on July 9, 2019. 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.



Directors, Supervisors,
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V. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND 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 remuneration of the Directors of the Bank is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the nomination and remuneration committee under the Board of Directors and submitted to the Board of Directors for approval, and submitted to the Shareholders' general meeting for approval after being approved by the Board of Directors.

The remuneration of the Supervisors of the Bank is determined and paid in accordance with the relevant laws and regulations as well as the relevant provisions of the Articles of Association. The specific remuneration distribution plans should be reviewed by the nomination committee under Board of Supervisors and submitted to the Board of Supervisors for approval, and submitted to the Shareholders' general meeting for approval after being approved by the Board of Supervisors.

The Bank's appraisal on the senior management is based on their performance in completing the decisions, strategic targets and plans of the Board of Directors and whether they are actively and effectively protecting the interests of the Bank and the Shareholders, and it is implemented by the Board of Directors.

The incentive and restraint mechanism of the Bank is mainly embodied in the remuneration mechanism for the senior management. The remuneration to the senior management is linked to the appraisal indicators of the Board of Directors, in order to combine the target incentive with responsibility restraint, ensure the alignment of the remuneration payment with the long-term interests of the Bank, and better encourage the senior management to contribute to the steady and sustainable development of the Bank.

According to the relevant regulations, the premiums and welfare benefit contributions borne by the Group are calculated on a certain percentage of the remuneration cost and paid to the relevant labor and social welfare authorities. The Group cannot withdraw or utilize its fund contribution made to above defined contribution plans under any circumstances.

VI. COMPENSATION OF DIRECTORS AND SUPERVISORS AND FIVE INDIVIDUALS WITH THE HIGHEST EMOLUMENTS OF OUR BANK

For detailed compensation of Directors and Supervisors and five individuals with the highest emoluments in the Bank, please refer to notes 12 and 13 to consolidated financial statement included in this annual report.

VII. POSITIONS HELD IN THE SHAREHOLDER COMPANY BY THE 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.	Senior manager of the office
Mr. Guo Jirong	Non-executive Director	Jiuquan Iron & Steel	Head of the capital resources 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



Directors, Supervisors,
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VIII. CHANGES IN BIOGRAPHICAL DETAIL OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

Save as disclosed above, changes in the information of Directors, Supervisors and senior management of the Bank which are required to be disclosed pursuant to the requirements the Rule 13.51B(1) of the Hong Kong Listing Rules are as follows:

1. Mr. Liu Wanxiang concurrently served as the secretary to the Party committee and chairman of Gepic Energy Development Co., Ltd.(甘肅電投能源發展有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000791) since September 2019.
2. Ms. Luo Mei served as an independent director of Canaan Inc. (a company listed on the NASDAQ, stock code: CAN) since December 2019.
3. Mr. Wong Sincere was appointed as a non-executive Director of MOS House Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1653) in January 2019.
4. Mr. Luo Zhenxia's position has been changed from the secretary to the Party committee and the president of the Linxia Branch to the general manager of the Party-masses Work Department of the Bank.
5. Mr. Wang Zhiyuan has ceased to act as the vice president of Bank of Gansu since February 6, 2020 due to work rearrangement.

IX. EMPLOYEE, EMPLOYEE COMPENSATION POLICY AND EMPLOYEE TRAINING PROGRAM

(I) Staff Composition

As of December 31, 2019, the Group had 4,225 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	689	16.31%
Retail banking	668	15.81%
Financial market operations	43	1.02%
Finance and accounting	240	5.68%
Risk management, internal audit and legal compliance	340	8.05%
Information technology	98	2.32%
Management	169	4%
Bank Teller	1,813	42.91%
Others	165	3.9%
Total	4,225	100.00

The Bank has a young and highly educated team of employees. As of December 31, 2019, the average age of the employees was 33.1, and over 88.55% of them had a bachelor's degree or higher. The following table sets forth the number of the employees by age as of December 31, 2019.

	Number of employees	Percentage (%)
Under 30 (inclusive) years old	2,065	48.88%
31 to 40 years old	1,384	32.76%
41 to 50 years old	628	14.86%
Above 50 (exclusive) years old	148	3.5%
Total	4,225	100.00

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 December 31, 2019.

	Number of employees	Percentage (%)
Master's degree or higher	277	6.56%
Bachelor's degree	3,464	81.99%
Others	484	11.45%
Total	4,225	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 provides 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.

X. THE SUBSIDIARY OF THE BANK

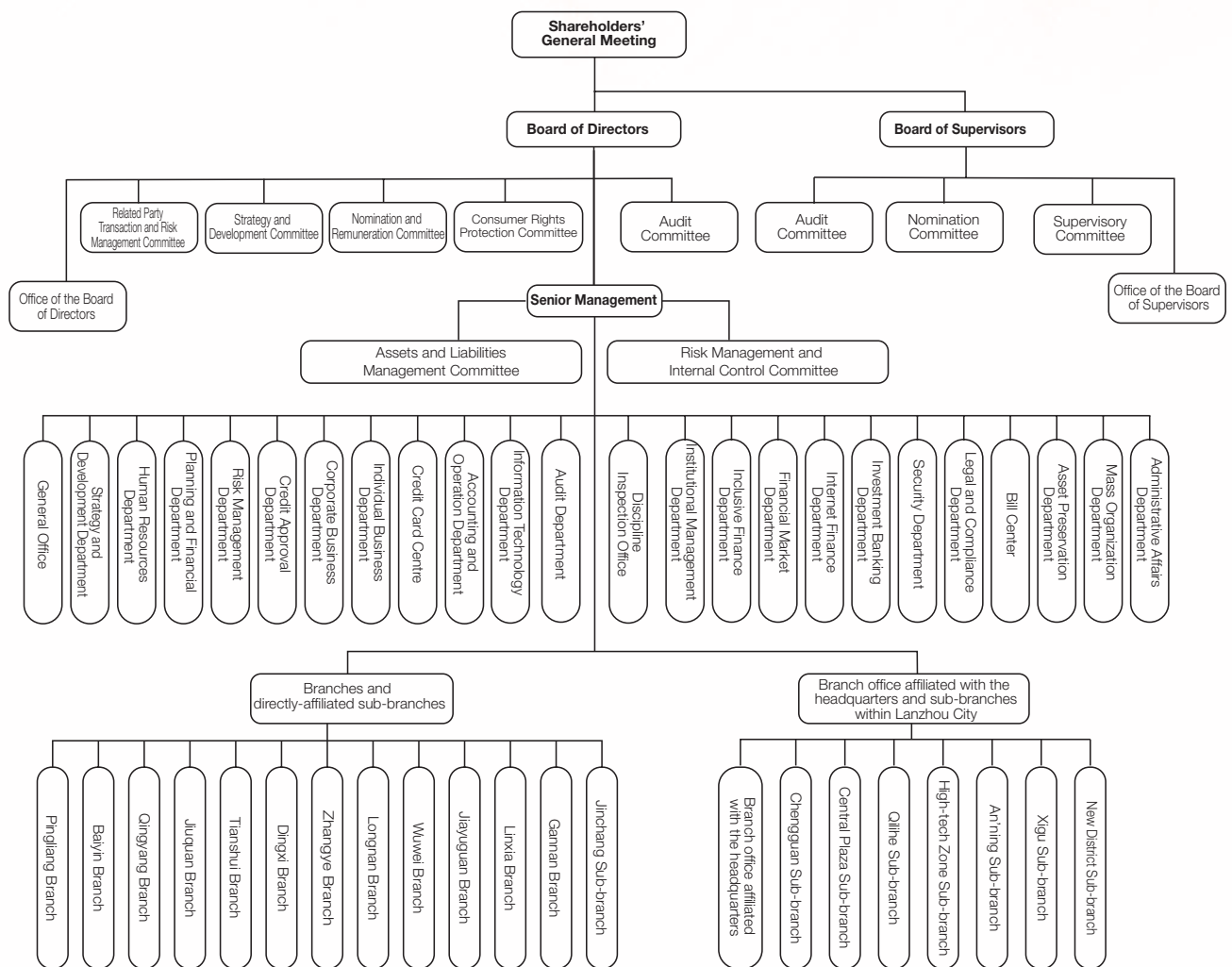
Jingning Chengji Rural Bank is the sole subsidiary of the Bank. The Bank holds 62.73% equity interest in Jingning Chengji Rural Bank, the financials of which have been consolidated into the Bank's financial statements. Jingning Chengji Rural Bank was established on September 18, 2008, which was originally 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.

Corporate Governance Report

I. CORPORATE GOVERNANCE STRUCTURE

The following chart sets forth the Bank's principal organizational and management structure:

Organizational Structure Chart of the Bank



II. CORPORATE GOVERNANCE

(I) Overview

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 urban 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 government structure and established a series of corporate government systems according to Corporate Governance Code and Guidelines. The Directors believe 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) The Board Nomination and Diversity Policy

The Bank understands and believes that the diversity of the members of the Board of Directors could improve the performance of the Bank. It is critical to have a diversified Board of Directors for the Bank to achieve sustainable development and its strategic objectives and maintain good corporate governance. In respect of appointing the Directors, the Bank will consider the diversity of the members in various aspects including but not limited to gender, age, cultural and educational background, region, professional experience, skills, knowledge, service term and any other factors that the Board may consider relevant and applicable from time to time for achieving a diverse Board of Directors. The Directors are appointed on the basis of their qualifications, skills and experience. The Directors are selected according to a series of diversification basis including but not limited to gender, age, cultural and educational background, region, professional skills, knowledge and service term.

The nomination and remuneration committee of the Board is responsible for preparing the selection procedure and standard of the Directors, president and other senior management of the Bank and having preliminary review on the qualification and conditions of Directors, president and other senior management. It reviews the structure, number of members, and composition (including the skills, knowledge and experience) of the Board of Directors and management according to the experiences, asset scale and shareholding structure of the Bank at least every year and makes recommendations to the Board of Directors relating to the proposed changes to the Board of Directors based on the Bank's strategies.

The Board Diversity Policy shall be complied with when the nomination and remuneration committee of the Board of Directors makes recommendations on the candidates. The nomination and remuneration committee is responsible for monitoring the implementation of the diversity policy and reviewing the policy regularly to ensure its effectiveness. The nomination and remuneration committee of the Board of Directors will discuss any amendments to the diversity policy and make recommendations to the Board of Directors for approval.

During the Reporting Period, the Bank completed election of the new session of the Board of Directors. When identifying the candidate for the member of the Board of Directors, the Bank will first select potential candidates within and beyond the social network of the members of the Board of Directors by means of referrals by its existing Directors, recommendations by third parties as well as by the Shareholders of the Company. Then, the suitability of these potential candidates shall be reviewed by the Bank through interview, background investigation, brief introduction and statement before the candidate for the Director is finalized. The Bank fully considered the importance of diversity of the Board members, took into a comprehensive consideration of gender, age, cultural and educational background, region, professional skills, knowledge, tenure and other factors, and paid attention to the diversity, unique insights and valuable contributions that the candidate would bring to the Board of Directors by leveraging his/her experience and expertise. The diversity analysis for the new session of Board of Directors is as follows. Currently, the ages of the members of the Board range from 41 to 56, and there are four female out of eleven Directors in total. The professional experiences and skills of the Directors cover banking, financial and accounting, finance, economics, law, engineering and other areas. In light of the foregoing, the Board of Directors believes that, during the Reporting Period, its composition, membership background and procedures for selecting new Directors are in compliance with the requirements of the Diversification Policy for the Members of the Board of Directors.

Director	Gender	Age	Seniority	Banking	Accounting and finance major	Other majors	Directorship in other companies (number of companies)
Liu Qing	Male	54	36	✓			
Wang Wenyong	Male	54	38	✓			
Wu Changhong	Female	56	36		✓		1
Zhang Hongxia	Female	41	22	✓		Economics	
Guo Jirong	Male	49	25		✓		1
Zhang Youda	Male	47	29		✓	Economics	1
Liu Wanxiang	Male	52	31			Engineering	2
Tang Xiuli	Female	51	29	✓		Economics	
Luo Mei	Female	44	16		✓		2
Wong Sincere	Male	55	24			Law	2
Dong Ximiao	Male	42	19	✓		Economics	

Corporate Governance Report

(III) General Meeting of the Bank

During the Reporting Period, the Bank convened a total of one Shareholders' general meeting, the details of which are set out as follows:

The annual general meeting of the Bank for 2018, the 2019 first domestic shareholders class meeting and the 2019 first H shareholders class meeting

The annual general meeting of the Bank for 2018, the 2019 first domestic shareholders class meeting and the 2019 first H shareholders class meeting were convened on June 3, 2019, at which the following resolutions were considered and approved by the Shareholders:

Ordinary resolutions

- (i) To consider and approve the proposal regarding the work report of the Board of Directors for 2018;
- (ii) To consider and approve the proposal regarding the financial audit report for 2018;
- (iii) To consider and approve the proposal regarding the final financial report for 2018;
- (iv) To consider and approve the proposal regarding the profit distribution proposal for 2018;
- (v) To consider and approve the proposal regarding the annual financial budget for 2019;
- (vi) To consider and approve the proposal regarding the annual report for 2018;
- (vii) To consider and approve the proposal regarding the engagement of external auditing firms for 2019;
- (viii) To consider and approve the proposal regarding the work report of Independent Directors for 2018;
- (ix) To consider and approve the proposal regarding the remuneration distribution and settlement plan for Directors and Supervisors in 2018;
- (x) To consider and approve the proposal regarding the remuneration distribution and settlement plan for senior management in 2018;
- (xi) To consider and approve the proposal regarding the work report of the Board of Supervisors for 2018;
- (xii) To consider and approve the proposal regarding the report on material related-party transactions;
- (xiii) To consider and approve the proposal regarding the estimated cap of connected transactions for 2019;
- (xiv) To consider and approve the proposal regarding the general mandates to issue Shares;
- (xv) To consider and approve the proposal regarding the plan on authorization of the Shareholders' general meeting to the Board;
- (xvi) To consider and approve the proposal regarding the formulation of Measures on Equity Management;

- (xvii) To consider and approve the proposal regarding the election of Mr. Zeng Lehu as a Supervisor;
- (xviii) To consider and approve the proposal regarding the promotion and establishment of wealth management subsidiary;
- (xix) To consider and approve the proposal regarding the promotion and establishment of financial asset investment company;

Special resolutions

- (xx) To consider and approve the proposal regarding the public issuance of undated capital bonds;
- (xxi) To consider and individually approve the proposal regarding the Plan for Offshore Preference Shares Issuance, including type of preference shares to be issued; number of preference shares to be issued and issue size; par value and issue price; maturity; method of issuance and target investors; lock-up period; dividend distribution terms; terms of mandatory conversion; terms of conditional redemption; restrictions on voting rights and terms of restoration of voting rights; order of distribution on liquidation and procedures of liquidation; security; guarantee; use of proceeds; rating arrangements; listing/trading arrangements; and validity period of the resolution for the issuance;
- (xxii) To consider and approve the proposal regarding the authorization to the Board to deal with specific matters in respect of the Offshore Preference Shares Issuance;
- (xxiii) To consider and approve the proposal regarding the formulation of the Articles of Association (draft) (to be effective upon completion of the Offshore Preference Shares Issuance);
- (xxiv) To consider and approve the proposal regarding the formulation of the Rules of Procedures for Shareholders' General Meeting (draft) (to be effective upon completion of the Offshore Preference Shares Issuance).

Corporate Governance Report

(IV) Board of Directors

The Board of Directors is core to the Bank's corporate governance and is accountable to the Shareholders as a whole. The Board of Directors is an independent decision-making body, which is responsible for implementing the resolutions of the Shareholders' general meeting, formulating the Bank's major strategy, policy and development plan, approving the operation plan, investment plan and internal management setup of the Bank, formulating the annual financial budget, final accounts and profit distribution plan and appointing the senior management. The senior management has the rights to make decision in daily operation independently and the Board of Directors will not intervene specific daily affairs of operation and management. The Board of Directors is also responsible for the performance of the corporate governance functions pursuant to the Corporate Governance Code.

(1) Composition of the Board of Directors

As of the Latest Practicable Date, the Board of Directors consists of 11 members, including:

Executive Director:	Mr. Liu Qing, Mr. Wang Wenyong
Non-executive Director:	Ms. Wu Changhong, Ms. Zhang Hongxia, Mr. Guo Jirong, Mr. Zhang Youda, Mr. Liu Wanxiang (his appointment shall take effect upon his qualification of directorship being approved by the regulatory authorities.)
Independent non-executive Director:	Ms. Tang Xiuli, Ms. Luo Mei, Mr. Wong Sincere, Mr. Dong Ximiao

The decision-making, authorization and voting procedures of the Board of Directors strictly follow the relevant rules and regulations of regulatory authorities and the Articles of Association. During the Reporting Period, the Board of Directors discharged its duties diligently, carefully reviewed matters that were significant to the Bank's future development, improved the Board operation mechanism, strengthened the corporate governance framework, implemented organizational changes, facilitated prudent decision making, ensured operational stability and protected the interests of the Bank and its Shareholders.

(2) Appointment, re-election and removal of Directors

According to the Articles of Association, Directors shall be elected or removed from office by Shareholders at a Shareholders' general meeting. The term of office of a Director shall be three years, and a Director may be re-elected and re-appointed upon expiry of his/her term of office. Subject to the relevant laws and administrative regulations, a Director whose term of office has not expired may be removed by Shareholders' ordinary resolution at a Shareholders' general meeting, without prejudice to any claim which may be instituted under any contract.

The term of service of non-executive Directors and independent non-executive Directors shall be the same as that of other Directors and they may be re-elected and re-appointed upon the expiration of their terms of office, provided that such term of office of independent non-executive Directors in the Bank shall not be more than six years on an accumulative basis.

The Directors' appointment, re-election and removal procedures of the Bank are set forth in the Articles of Association. The nomination and remuneration committee of the Board of Directors is responsible for discussing and reviewing the qualification and experience of each candidate for Director and recommending the suitable candidates to the Board of Directors. After the approval of nomination resolution related to candidates from the Board of Directors, the selected candidates will be recommended for further approval by the Shareholders at a general meeting. As a banking institution regulated by the CBIRC, the qualification of a candidate for the Bank's directorship shall also be approved by the CBIRC.

(3) Relationships among Directors, Supervisors and Senior Management Members

The Directors, Supervisors and senior management members of the Bank are not related to one another in respect of financial business, family or other material/relevant relationships.

(4) Changes of Directors

For changes of Directors, please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Organizations – II. Changes in Directors, Supervisors and Senior Management Members" of this annual report.

(5) Operation of the Board of Directors

According to the Articles of Association, the Board of Directors shall convene at least four meetings per year and at least one meeting per quarter. The meetings of the Board of Directors include regular meetings and extraordinary meetings. The regular meetings of the Board of Directors are convened by the chairman and a notice in writing shall be delivered to all Directors and Supervisors 14 days prior to the date of convening the meeting. The notice of an extraordinary meeting of the Board of Directors shall be dispatched to the Directors five days prior to the date of convening the meeting. In emergency circumstances where an extraordinary meeting of the Board of Directors is required to be convened as soon as possible, the notice of the meeting may be issued through telephone or other verbal means, but the convener shall give an explanation at the meeting. The meetings (including video conference) of the Board of Directors generally conduct voting by way of a show of hands and voting by registered ballot.

Provided that sufficient protection is ensured for the expression of opinions by Directors, the Directors may pass resolutions at an extraordinary meeting of the Board of Directors by communication voting and the resolutions shall be signed by the participating Directors. The conditions and procedures of communication voting are provided in the Articles of Association and the Rules of Procedure for Meetings of the Board of Directors. The Board of Directors shall record the decisions on matters considered at the meetings in the minutes of meetings and the participating Directors and the recorder of minutes shall sign on such minutes. Directors attending the meeting are entitled to request an explanation on record to be made in respect of their verbal comments in the meetings.

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The relevant senior management members are invited to attend meetings of the Board of Directors from time to time to provide explanations and answer queries from the Directors. In the meetings of the Board of Directors, the Directors may express their opinions freely, and important decisions should be made after detailed discussions. If any Director has a conflict of interest in a matter to be considered by the Board of Directors, the relevant Director shall abstain from the discussion of and voting on the relevant resolution, and such Director shall not be counted as quorum in voting for that particular resolution.

The Board of Directors has established an office as its operating arm, which is responsible for preparation of general meetings, meetings of the Board of Directors and meetings of Board committees, information disclosure and other daily matters.

(6) Functions and Powers of the Board of Directors

According to the Articles of Association, the Board of Directors exercises the following functions and powers:

- (i) to determine the Bank's business development strategies and determine the Bank's business plans and investment plans;
- (ii) to consider the Bank's annual report and manage the Bank's external information disclosure;
- (iii) to convene general meetings and report work to the general meeting;
- (iv) to implement the resolutions of the general meeting;
- (v) to prepare the Bank's annual financial budgets plan, final accounts plan, venture capital distribution plan, profit distribution plan and plan for making up the losses;
- (vi) to assess and evaluate the performance of the Directors' duties and report to the general meeting;
- (vii) to formulate plans for increase or reduction of the registered capital, issue of bonds or other securities and listing plan of the Bank;
- (viii) to consider and approve the Bank's plans for external investments, acquisitions and sales of assets, asset collateral, external guarantees, entrusted wealth management and related transactions in accordance with the authorization of the general meeting;
- (ix) to formulate a plan for material acquisitions or repurchases of Shares of the Bank or merger, division, dissolution and alternation of corporate form of the Bank and submit it to the general meeting for approval;
- (x) to determine the establishment, merger and removal of the internal management department and branch offices of the Bank;

- (xi) to consider and approve material related transactions within the scope of the authorization of the general meeting;
- (xii) to appoint or dismiss the president of the Bank and the secretary of the Board of Directors in accordance with the nomination of the chairman of the Board; to appoint or dismiss other senior management such as the vice president of the Bank and the person in charge of finance in accordance with the nomination of the president of the Bank;
- (xiii) to determine the Bank's risk management and internal control policies and to formulate the Bank's main management system;
- (xiv) to regularly assess and improve the Bank's corporate governance;
- (xv) to formulate the basic management system of the Bank;
- (xvi) to formulate the amendment proposals to the Articles of Association, the rules of procedure for general meetings and the rules of procedure for Board meetings;
- (xvii) to be responsible for the Bank's information disclosure and be ultimately responsible for the completeness and accuracy of the Bank's accounting and financial reporting system;
- (xviii) to listen to the work report and examine the work of the president;
- (xix) to approve the Bank's annual internal audit plans and audit budgets;
- (xx) to determine the Directors and members of the respective committees of the Board in accordance with the nomination of the nomination and remuneration committee;
- (xxi) to consider and approve the proposals put forward by the respective committees of the Board;
- (xxii) to determine the Bank's long-term incentive schemes, remuneration plans and salary plans;
- (xxiii) to request the general meeting to engage, reappoint or replace the accounting firm which conducts audit for the Bank;
- (xxiv) to have the right to stop the decision made by the president and other senior management of the Bank that may cause significant business risk or loss to the Bank;
- (xxv) to carry out the performance appraisal for the president and other senior management of the Bank and determine their remuneration, rewards and penalties and payment methods and decide on the remuneration and payment methods of the independent Directors and external Supervisors;

Corporate Governance Report

- (xxvi) to formulate the Bank's policy on the protection of consumer rights and interests, regularly listen to and consider the senior management's report on the protection of consumer rights and interests; and
- (xxvii) to consider the approve the money laundering risk management report, develop money laundering risk management strategies and monitor the implementation of the strategies and assume the ultimate responsibility for money laundering risk management; other powers conferred by the laws, administrative regulations, department rules and regulations, the Articles of Association and Shareholders' general meeting or required by the supervisory authority to the Board of Directors for exercise.

Unless otherwise stipulated in the Articles of Association, items 7, 9 and 16 shall be passed by more than two-thirds of all Directors, and the rest shall be passed by more than half of all Directors when making the resolutions above.

(7) Responsibilities of the Directors

During the Reporting Period, all Directors exercised their rights granted by the Bank and domestic and overseas regulatory authorities in a prudent, earnest, and diligent manner. The Directors have spent adequate time and effort to deal with the Bank's affairs, ensuring the compliance of the Bank's operation with laws, regulations and the requirements of national economic policies. The Directors have treated all Shareholders equally, informed themselves of the status of the Bank's business operation and management in a timely manner, and performed other diligence obligations required by the laws, administrative regulations, departmental rules and the Articles of Association.

The independent non-executive Directors make full use of their respective professional expertise to provide professional and independent advice on the corporate governance, operation and management of the Bank.

The Bank also pays attention to the ongoing training of Directors, to make sure they have proper understanding of the operation and business of the Bank and the duties and responsibilities authorized by the relevant laws and regulatory requirements and the Articles of Association. The Bank has purchased director liability insurance for all Directors.

(8) Responsibilities assumed by the Directors in the preparation of financial statements

The Directors have acknowledged their responsibilities in the preparation of financial statements of the Bank for the year ended December 31, 2019. The Directors are responsible for reviewing and confirming the financial statements for each accounting period to ensure that the financial statements truly and fairly reflect the financial conditions, operating results and cash flows of the Bank. In preparing the consolidated financial statements of the Bank for the year ended December 31, 2019, the Directors have adopted appropriate accounting policies which have been applied consistently, and prudent and reasonable judgments have been made.

(9) Meetings of the Board of Directors

During the Reporting Period, the Bank has convened 8 meetings (including teleconference) of the Board of Directors. Attendance of Directors at the meetings of the Board of Directors, meetings of Board committees and general meetings of the Bank are set out in the table as follows:

Directors	Number of meetings attended in person/attended by proxy/should be attended ⁽²⁾					
	Board of Directors	Strategy and Development Committee	Audit committee	Nomination and Remuneration Committee	Related Party Transaction and Risk Management Committee	General Meeting (actual attendance)
Mr. Liu Qing	8/0/8	2/0/2	–	3/0/3	–	3
Mr. Wang Wenyong	8/0/8	2/0/2	–	3/0/3	5/0/5	3
Ms. Wu Changhong	7/1/8	–	4/0/4	–	–	0
Ms. Zhang Hongxia	6/2/8	1/1/2	–	–	–	0
Mr. Guo Jirong	8/0/8	–	4/0/4	–	–	3
Mr. Zhang Youda	8/0/8	2/0/2	–	–	5/0/5	3
Mr. Liu Wanxiang ⁽¹⁾	8/0/8	2/0/2	–	–	–	3
Ms. Tang Xiuli	8/0/8	–	4/0/4	3/0/3	5/0/5	3
Ms. Luo Mei	6/2/8	–	4/0/4	2/1/3	5/0/5	0
Mr. Wong Sincere	7/1/8	–	4/0/4	–	5/0/5	3
Mr. Dong Ximiao	8/0/8	–	–	3/0/3	5/0/5	3

Notes:

⁽¹⁾ Mr. Liu Wanxiang shall only perform his duties from the date of approval of his qualifications of directorship by the CBIRC Gansu Office.

⁽²⁾ The Consumer Rights Protection Committee is not included in the table because such committee was established on December 27, 2019 and has not convened any meetings during the Reporting Period.

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(10) Independent Non-executive Directors

The Board of Directors has appointed four independent non-executive Directors and the qualification, number and proportion are in accordance with the regulations of the CBIRC, the CSRC and the Hong Kong Listing Rules. The four independent non-executive Directors are not involved in any conflict with the independence issue described in Rule 3.13 of the Hong Kong Listing Rules. The Bank has received from each of the independent non-executive Director the annual confirmations of independence in writing under Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Bank confirms that all the independent non-executive Directors have complied with the Hong Kong Listing Rules in respect of their independence.

The Bank's independent non-executive Directors represent the majority of the Bank's audit committee, nomination and remuneration committee, related party transaction and risk management committee and they serve as the chairman of these committees. Ms. Luo Mei, an independent non-executive Director, has appropriate accounting and relevant financial management expertise as required by the Hong Kong Listing Rules by virtue of her educational background and working experience.

During the Reporting Period, the independent non-executive Directors kept in touch with the Bank's management through various means such as attending meetings as observers. They earnestly participated in meetings of the Board of Directors and the Board committees and actively provided their opinions and emphasized on the interests of minority Shareholders of the Bank. The independent non-executive Directors have fully discharged their responsibilities.

(11) Continuing professional development plan for Directors

All newly appointed Directors have been provided with comprehensive relevant materials at the first time when they were nominated to ensure they have proper understanding of the operation and business of the Bank and fully understand the duties and responsibilities of Directors under requirements of the Hong Kong Listing Rules and the applicable laws and regulations.

The Bank has encouraged all Directors to participate in continuing professional development to develop and refresh their knowledge and skills. During the Reporting Period, trainings participated in by all Directors are as follows:

Trainings participated in by the Directors are as follows:

Directors	Contents of the trainings
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Guo Jirong, Zhang Youda, Liu Wanxiang, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	the recent amendments to Hong Kong Listing Rules and compliance cases
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Guo Jirong, Zhang Youda, Liu Wanxiang, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	Practical Manual of Anti-Money Laundering Regulations of Anti-money Laundering Bureau of the People's Bank of China
Wang Wenyong, Guo Jirong, Zhang Youda, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	Training class for the leadership of "intelligence + bankers' thinking" by Bank of Gansu/Tsinghua University (甘肅銀行/清華大學「智能+銀行家思維」領袖研修班)
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Guo Jirong, Zhang Youda, Liu Wanxiang, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	the Guidelines on Corporate Governance of Commercial Banks, Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》)
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Guo Jirong, Zhang Youda, Liu Wanxiang, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	Guidelines for Directors of The Hong Kong Institute of Directors
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Guo Jirong, Zhang Youda, Liu Wanxiang, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	Guidance for Boards and Directors by Hong Kong Stock Exchange

The Bank will provide briefings on the latest developments of the Hong Kong Listing Rules and other applicable regulatory requirements to the Directors from time to time, to ensure that the Directors are aware of the latest regulatory development.

(12) Corporate governance functions of the Board of Directors

The Board of Directors is responsible for the establishment of sound corporate governance practice and procedures for the Bank. During the Reporting Period and up to the date of this annual report, the Board of Directors has:

- (i) developed and reviewed the Bank's policies and practices on corporate governance;
- (ii) reviewed and monitored the training and continuing professional development of Directors and senior management;
- (iii) reviewed and monitored the Bank's policies and practices on compliance with legal and regulatory requirements;
- (iv) developed, reviewed and monitored the code of conduct for Directors; and
- (v) reviewed the Bank's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

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During the Reporting Period, the Board meeting considered and approved the following proposals: the work report of the Board of Directors for 2018; the financial audit report for 2018; the annual results report for 2018; the final financial report for 2018; the profit distribution proposal for 2018; the annual financial budget for 2019; the annual report for 2018 (draft); the proposal regarding the engagement of external auditing firms for 2019; the proposal regarding the general mandates to issue Shares; the work report of Independent Directors for 2018; the appraisal result of directors and senior management from the Board for 2018; the remuneration distribution and settlement plan for Directors and Supervisors in 2018; the remuneration distribution and settlement plan for senior management in 2018; the plan on authorization of the shareholders' general meeting to the Board; the plan for authorization to management by the Board; the director nomination policy; the amendments to the administrative measures on equity; the amendments to working rules of the audit committee of the Board; the amendments to working rules of the nomination and remuneration committee of the Board; the change of the second authorized person to access the e-Submission system of the Hong Kong Stock Exchange; the overall risk report for 2018; the report on material related-party transactions; the estimated cap of connected transactions for 2019; the work report on anti-money laundering for 2018; the work report of consumer rights protection for 2018; the work report of audit for 2018; the plan for audit projects of 2019; the plan for non-public issuance of offshore preference shares; the proposal regarding the formulation of the Articles of Association (draft) (to be effective upon completion of non-public issuance of preference shares); the proposal regarding the formulation of the Rules of Procedures for Shareholders' General Meeting (draft) (to be effective upon completion of non-public issuance of preference shares); the authorisation from the general meeting to the Board to process all related matters incidental to the issuance of offshore preference shares; the public issuance of undated capital bonds; the promotion and establishment of wealth management subsidiary; the promotion and establishment of financial asset investment company; the convening of the 2018 annual general meeting and the 2019 first class meeting; the appointment of Ms. Hao Jumei as the vice president of the Bank; the related-party transactions on proposed acquisition of bonds of Gansu Yasheng Industrial (Group) Co., Ltd (甘肅亞盛實業(集團)股份有限公司); the work report of audit for the first quarter of 2019; the articles of association for internal audit; the measures for management of large-amount risk exposures; the appointment of Bank of Gansu Co., Ltd. to change company secretary; the authorized representative required by the Listing Rules; the ESS first authorized person and authorized agent of the Company; the 2018 environmental, social and governance report; the 2019 interim results announcement; the 2019 interim report (draft); the overall risk report for the first half of 2019; the work report of audit for the first half of 2019; the report on particulars of related-party transactions for the first half of 2019; the revision to management measures for anti-money laundering work; the investment of bonds of Gansu Province State-owned Assets Investment Group Co., Ltd.; the authorization to Lanzhou Central Sub-branch of the PBOC for handling matters related to re-lending of credit asset; the establishment of a consumer rights protection committee of the Board; the formulation of rules of procedure for the consumer rights protection committee; the appointment of members for the consumer rights protection committee; the appointment of Chen Jinhui (陳金輝) and Du Jing (杜晶) as the vice presidents; proposing the establishment of the position of chief business officer.

(13) Board Committees

The Board of Directors delegates certain responsibilities to various committees. In accordance with relevant PRC laws, the Articles of Association and the Hong Kong Listing Rules, the Bank has formed four Board committees, namely the strategy and development committee, audit committee, nomination and remuneration committee and related party transaction and risk management committee.

(i) *Strategy and Development Committee*

During the Reporting Period, the strategy and development committee consists of Mr. Liu Qing (executive Director), Mr. Wang Wenyong (executive Director), Ms. Zhang Hongxia (non-executive Director), Mr. Zhang Youda (non-executive Director) and Mr. Liu Wanxiang (non-executive Director, but his qualification is still subject to approval). Mr. Liu Qing served as the chairman of the strategy and development committee.

The principal responsibilities of the strategy and development committee include but are not limited to:

- to formulate the business management objectives and long-term development strategy of the Bank; and
- to supervise and review the execution condition of annual business plan and investment plan.

During the Reporting Period, the strategy and development committee held 2 meetings in total, at which the resolutions regarding the plan for non-public issuance of offshore preference shares and the formulation of rules of procedure for the consumer rights protection committee were considered and approved.

(ii) *Audit Committee*

During the Reporting Period, the audit committee consists of Ms. Wu Changhong (non-executive Director), Mr. Guo Jirong (non-executive Director), Ms. Tang Xiuli (independent non-executive Director), Ms. Luo Mei (independent non-executive Director) and Mr. Wong Sincere (independent non-executive Director). Ms. Luo Mei is the chairman of the audit committee.

The principal responsibilities of the audit committee include but are not limited to:

- to review the accounting policy, financial condition, financial reports, risk and compliance condition;
- to propose to employ or replace external audit agency;
- to supervise the internal audit system and its implementation of the Bank;
- to coordinate the communication between internal audit and external audit; and
- to guarantee the authenticity, accuracy and completeness of audited financial information of the Bank.

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During the Reporting Period, the audit committee held 4 meetings in total, at which the resolutions regarding the financial audit report for 2018, the work report of audit for 2018, the 2019 interim results announcement and the 2019 interim report were considered and approved.

(iii) Nomination and Remuneration Committee

During the Reporting Period, nomination and remuneration committee consists of Mr. Liu Qing (executive Director), Mr. Wang Wenyong (executive Director), Ms. Tang Xiuli (independent non-executive Director), Ms. Luo Mei (independent non-executive Director) and Mr. Dong Ximiao (independent non-executive Director). Ms. Tang Xiuli served as the chairman of the nomination and remuneration committee.

The principal responsibilities of the nomination and remuneration committee include but are not limited to:

Responsibilities regarding nomination:

- submitting proposals to the Board of Directors in relation to the formation of the Board of Directors based on the business condition, asset size and equity structure of the Bank;
- formulating the standards and the procedures for election of Directors, president and other senior executives of the Bank, and submitting the relevant proposals to the Board of Directors;
- conducting initial review of the qualifications and credentials of the Directors, president and other senior executives, and providing review comments;
- assessing the independence of independent non-executive Directors; and
- developing and, where appropriate, reviewing the diversification policy of the members of the Board of Directors and disclosing the relevant policies or their abstracts in the annual reports. For the summary of the board diversity policy and the implementation thereof, please refer to “— II. Corporate Governance — (II) The Board Nomination and Diversity Policy” of this section.

Responsibilities regarding remuneration and evaluation:

- making recommendations to the Board of Directors on the remuneration of Directors, Supervisors, president and other senior executives, and supervising the implementation of the proposals;
- making recommendations to the Board of Directors on the remuneration packages of individual executive Directors and senior executives, and the remuneration of non-executive Directors;
- based on the remuneration offered by companies of similar nature, time needed and responsibilities, proposing the employment terms for other positions within the Bank; and
- assessing fulfillment of duties and responsibilities by Directors and senior executives and evaluating their annual performance.

During the Reporting Period, the nomination and remuneration committee held 3 meetings in total, at which the resolutions regarding the appraisal result of directors and senior management from the Board for 2018, the director nomination policy, the appointment of Hao Jumei (郝菊梅), Chen Jinhui (陳金輝) and Du Jing (杜晶) as the vice presidents and the appointment of members for the consumer rights protection committee were considered and approved.

(iv) Related Party Transaction and Risk Management Committee

During the Reporting Period, the related party transaction and risk management committee consists of Mr. Wang Wenyong (executive Director), Ms. Tang Xiuli (independent non-executive Director), Ms. Luo Mei (independent non-executive Director), Mr. Wong Sincere (independent non-executive Director) and Mr. Dong Ximiao (independent non-executive Director). Mr. Wong Sincere is the chairman of the related party transaction and risk management committee.

The principal responsibilities of the related party transaction and risk management committee include but are not limited to:

Responsibilities regarding management of related party transaction:

- examining and approving the related party transaction within the scope of authorization set by the Board of Directors, or accepting the filing of such related party transaction; and
- assessing the related party transaction outside the scope of authority set by the Board of Directors, and seeking for the approval of such related party transaction by the Board of Directors.

Responsibilities regarding risk management:

- supervising the management of risks by the Bank's senior management;
- evaluating the Bank's risk profile;
- making recommendations regarding our risk management and internal controls, discussing risk management with senior management, and ensuring that management has performed their duties to establish effective systems; and
- actively or as appointed by the Board of Directors, conducting research on key investigation results relating to risk management matters and responses of management to investigation results.

During the Reporting Period, the related party transaction and risk management committee held 5 meetings in total, at which the resolutions regarding the overall risk report for 2018, the plan on authorization of the shareholders' general meeting to the Board, the plan for authorization to management by the Board, the report on material related/connected party transactions and the measures for management of large-amount risk exposures of Bank of Gansu were considered and approved.

Corporate Governance Report

(v) *Consumer Rights Protection Committee*

During the Reporting Period, the consumer rights protection committee consists of Mr. Wang Wenyong (executive Director), Mr. Liu Qing (executive Director), Ms. Tang Xiuli (independent non-executive Director) and Mr. Dong Ximiao (independent non-executive Director). Mr. Wang Wenyong is the chairman of the consumer rights protection committee.

The principal responsibilities of the consumer rights protection committee include but are not limited to:

- formulating strategies, policies and objectives of our consumer rights protection work and incorporating contents relating to consumer rights protection into our corporate governance and business development strategies.
- supervising our senior management to effectively implement consumer rights protection work.
- periodically listening to our senior management's special reports on consumer rights protection work.
- supervising and evaluating the comprehensiveness, promptness and effectiveness of our consumer rights protection work and the performance of our senior management in this respect.
- reviewing and providing comments on proposals in relation to consumer rights protection to be submitted to the Board in accordance with our overall strategies.

The consumer rights protection committee was established on December 27, 2019. No meeting has been held during the Reporting Period.

(14) Overview of the annual audit work of the Bank

Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited (collectively as “Shinewing”) carried out the 2019 audit on the Bank by two stages, the preliminary audit and year-end audit. In the preliminary audit stage, Shinewing conducted the audit on internal control, carried out internal control test at the entity level to the Bank’s level and business process level, and evaluated the effectiveness of the internal control design and whether it has been effectively implemented during the audit. Through the interview, Shinewing understood the Bank’s control environment, the main operation conditions, business innovation, system updates and fraud risk. Shinewing conducted a preliminary audit on major subjects of financial statements, such as financial instruments, operating income, investment income and other subjects. Shinewing also made a testing and evaluation on the main information system used by the Bank and discussed timely the finding of preliminary audit with the Bank’s management. At the end of year-end audit, Shinewing followed up the finding on the preliminary audit stage and conducted detailed audit procedures for all major subjects, and communicated timely the finding of year-end audit with the Bank’s management.

In order to successfully complete the audit work in 2019 and issue relevant reports with scheduled time, the audit committee of the Board of Directors authorized the finance department of the Bank to discuss with Shinewing about the planning of audit work, audit progress, scope of consolidation, timing of initial draft and final draft of the auditor’s report, etc. During the audited period, the audit committee made multiple rounds of supervision. On March 30, 2020, Shinewing issued the standard unqualified auditor’s reports to the Bank within the scheduled time.

The audit committee reviewed the independence, objectivity and audit procedure of Shinewing to ensure that the financial reports issued give a true and fair view. Shinewing has taken the necessary protective measures in accordance with the relevant ethical requirements to prevent possible threats to independence.

(V) Board of Supervisors

The Board of Supervisors, the Bank’s supervisory body, aims to guarantee the legitimate interests of the Bank, Shareholders, employees, depositors and other stakeholders and has the obligation to oversee the Bank’s financial activities, risk management and internal control, discharge of duties by the Board and its members and the senior management, and is accountable to the Shareholders as a whole.

The term of office of the Supervisors shall be three years. Upon expiry of the current term of office, a Supervisor is eligible for re-election and re-appointment. The cumulative term of office for an external Supervisor of the Bank shall be no more than six years. Shareholder Supervisors and external Supervisors shall be elected, removed or replaced by the general meeting. Employee Supervisors shall be elected, removed or replaced by the employee representative meeting of the Bank.

Corporate Governance Report

(1) Composition of the Board of Supervisors

According to the Articles of Association, the Board of Supervisors shall comprise Shareholder Supervisors, employee Supervisors and external Supervisors. The number of the employee Supervisors of the Bank shall not be less than 1/3 of the total number of the Supervisors. During the Reporting Period and up to the date of this annual report, the members of the Board of Supervisors are as follows:

- Ms. Tang Lan (Chairman of the Board of Supervisors, Employee Representative Supervisor)
- Mr. Xu Yongfeng (Employee Representative Supervisor)
- Mr. Luo Zhenxia (Employee Representative Supervisor)
- Mr. Liu Yongchong (Shareholder Supervisor)
- Mr. Li Yongjun (Shareholder Supervisor)
- Mr. Zeng Lehu (Shareholder Supervisor)
- Mr. Yang Zhenjun (External Supervisor, tendered the resignation on October 16, 2019 but will continue to perform his duties as an external Supervisor until the new Supervisor is appointed)
- Mr. Dong Ying (External Supervisor)
- Mr. Luo Yi (External Supervisor)
- Mr. Liu Xiaoyu (Former Shareholder Supervisor, resigned on June 3, 2019)

(2) Chairman of the Board of Supervisors

During the Reporting Period, Ms. Tang Lan served as the chairman of the Board of Supervisors. The chairman of the Board of Supervisors shall have the following duties and powers:

- to convene and preside over meetings of the Board of Supervisors;
- to urge and check the implementation of the resolutions of the Board of Supervisors;
- to review and sign reports of the Board of Supervisors and other important documents;
- to report work to the general meetings on behalf of the Board of Supervisors;
- to organize the Board of Supervisors to fulfill obligations; and
- other duties and powers as provided for in laws, administrative regulations and Articles of Association.

(3) Changes of Supervisors

For changes of Supervisors, please refer to the section headed “Directors, Supervisors, Senior Management, Employees and Organizations – II. Changes in Directors, Supervisors and Senior Management Members” of this annual report.

(4) Responsibilities of the Board of Supervisors

The Board of Supervisors is a supervising organ of the Bank and accountable to the Shareholders as a whole. The Board of Supervisors shall exercise the following powers:

- (i) to review the Bank’s report periodically prepared by the Board and give written audit opinions;
- (ii) to examine and supervise the Bank’s financial affairs;
- (iii) to monitor the Directors and senior officers in the performance of their duties, make recommendations on the removal of Directors, president and other senior management who violate the laws, administrative regulations, the Articles of Association or the resolutions of the Shareholders’ general meeting;
- (iv) to demand rectification from a Director, president and other senior officers when the acts of such persons are detrimental to the interests of the Bank;
- (v) to review financial information such as the financial reports, operation reports and profit distribution plans proposed to be submitted by the Board to general meetings; if any queries arise, it may authorize the registered certified public accountants and certified public auditors in the name of the Bank for review;
- (vi) to propose to convene an extraordinary general meeting; to convene and preside over the Shareholders’ general meeting when the Board of Directors fails to perform the duties of convening and presiding over the general meeting as set out in the Articles of Association;
- (vii) to make proposal to the Shareholders’ general meeting;
- (viii) to assess and evaluate the Supervisors for performance of their duties and report to the Shareholders’ general meeting;
- (ix) to report to the Shareholders’ general meeting;
- (x) to supervise and require for rectification regarding the Bank’s business decision-making, risk management and internal control;

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- (xi) to supervise the Bank's internal audit;
- (xii) to undertake the resign audit of Directors and senior officers as required;
- (xiii) to negotiate with the Directors or file a lawsuit against the Directors and senior officers on behalf of the Bank in accordance with the provisions of the PRC Company Law;
- (xiv) to investigate any abnormality found in operations of the Bank, and when necessary, to engage such professionals as accountant firms or law firms to assist in the work, at the expense of the Bank;
- (xv) to propose any remuneration (or allowance) arrangement of a Supervisor;
- (xvi) to supervise the Directors and senior management personnel in the performance of the anti-money laundering duties according to law and to evaluate the Directors and senior officers in the performance of the risk management of money laundering, and report to the Shareholders' general meeting; and
- (xvii) other duties and powers as provided in the laws, administrative regulations, and the Articles of Association or conferred by the general meetings.

The Board of Supervisors fulfills their supervisory responsibilities mainly through the following manners:

- convening regular meetings of the Board of Supervisors;
- attending general meetings and the meetings of the Board of Directors;
- attending the relevant meetings of the senior management;
- reviewing various documents and materials provided by the senior management and listening to the work report prepared by the senior management;
- evaluating annual performance of the Directors and senior management;
- conducting on-site inspections of the Bank's branches, sub-branches and subsidiaries; and
- conducting off-office audits of the Bank's executive Directors and senior management.

Through the above works, the Board of Supervisors monitors and evaluates the Bank's operation and management, risk management, internal controls, and the performance of the Board of Directors and senior management.

(5) Meetings of the Board of Supervisors

During the Reporting Period, the Board of Supervisors convened 8 meetings and there was no objection to the matters concerning the supervision of the Board of Supervisors.

The following table sets forth the attendance of Supervisors at meetings during the Reporting Period:

Supervisors	Attendance in person	Attendance through proxy	No. of required attendance
Ms. Tang Lan	8	0	8
Mr. Xu Yongfeng	8	0	8
Mr. Luo Zhenxia	8	0	8
Mr. Liu Yongchong	8	0	8
Mr. Li Yongjun	8	0	8
Mr. Zeng Lehu	7	0	7
Mr. Yang Zhenjun ⁽¹⁾	8	0	8
Mr. Dong Ying	8	0	8
Mr. Luo Yi	8	0	8
Mr. Liu Xiaoyu ⁽²⁾	1	0	1

Notes:

⁽¹⁾ Mr. Yang Zhenjun ("Mr. Yang") tendered his resignation to the Board of Supervisors from his offices as an external Supervisor of the Bank, the chairman of the nomination committee and a member of the audit committee under the Board of Supervisors on October 16, 2019 due to work rearrangement. The Bank is currently identifying a suitable candidate as the replacement of Mr. Yang as an external Supervisor, and will make a further announcement in due course. Mr. Yang will continue to perform his duties as an external Supervisor of the Bank, the chairman of the nomination committee and a member of the audit committee until the new Supervisor is appointed. Mr. Yang's resignation as an external Supervisor of the Bank, the chairman of the nomination committee and a member of the audit committee will take effect from the date when the new external Supervisor of the Bank formally assumes his/her role.

⁽²⁾ Due to work rearrangement, Mr. Liu Xiaoyu ("Mr. Liu"), the former 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, with effect from June 3, 2019.

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During the Reporting Period, the Board of Supervisors had considered and approved the following resolutions: the work report of the Board of Directors for 2018; the work report of the Board of Supervisors for 2018; the financial audit report for 2018; the annual result announcement for 2018; the final financial report for 2018; the profit distribution proposal for 2018; the annual financial budget for 2019; the engagement of external auditing firms for 2019; the general mandates to issue Shares of Bank of Gansu Co., Ltd.; the remuneration distribution and settlement plan for Directors and Supervisors in 2018; the remuneration distribution and settlement plan for senior management in 2018; the plan for authorization to management by the Board; Measures on Equity Management of Bank of Gansu Co., Ltd.; the overall risk report for 2018; the report on material related/connected party transactions; the estimated cap of connected transactions for 2019; the work report on anti-money laundering for 2018; the work report of consumer rights protection for 2018; the plan for non-public issuance of offshore preference shares; the public issuance of undated capital bonds; responsibilities of the office of the Board of Supervisors; the measures for the Board of Supervisors to supervise over the performance of the Directors, the President and other senior managers; the measures for the Board of Supervisors to recommend on the measures for appraisal on performance of duties of Supervisors by the Board of Supervisors; the measures for the management on auditing affair of the Board of Supervisors; inspection system of the Board of Supervisors; the measures for the Board of Supervisors to enquires and hearings; the appointment of Hao Jumei as the vice president of Bank of Gansu; the related-party transactions on proposed acquisition of bonds of Gansu Yasheng Industrial (Group) Co., Ltd (甘肅亞盛實業(集團)股份有限公司); the articles of association for internal audit of Bank of Gansu Co., Ltd.; the measures for management of large-amount risk exposures; the 2018 environmental, social and governance report of Bank of Gansu Co., Ltd.; the 2019 interim report · the overall risk report for the first half of 2019 of Bank of Gansu; the work report of audit for the first half of 2019; the report on particulars of related-party transactions for the first half of 2019; the measures for management on anti-money laundering work of Bank of Gansu (2019 revised); the investment of bonds of Gansu Province State-owned Assets Investment Group Co., Ltd.; rules of procedure for the Board of Supervisors; rules of procedure for nomination committee under the Board of Supervisors; rules of procedure for supervisory committee under the Board of Supervisors; the measures for appraisal on performance of duties of Directors by the Board of Supervisors (Trial); the measures for appraisal on performance of duties of the management and senior management by the Board of Supervisors (Trial); the measures for appraisal on performance of duties of Supervisors by the Board of Supervisors (Trial); the authorization to Lanzhou Central Sub-branch of the PBOC for handling matters related to re-lending of credit asset; the appointment of Chen Jinhui (陳金輝) and Du Jing (杜晶) as the vice presidents; and proposing the establishment of the position of chief business officer.

(6) Attendance at the general meetings

During the Reporting Period, the Board of Supervisors designated representatives to attend the annual general meeting of the Bank. The Board of Supervisors presented its report on work and results of performance appraisal of Supervisors, which were approved at the annual general meeting.

(7) Attendance at the meetings of the Board of Directors and senior management

During the Reporting Period, the Board of Supervisors designated representatives to attend the meetings of the Board of Directors and supervised legal compliance of the meetings, procedures of voting, attendance, speech and voting of the Directors. The Board of Supervisors also designated representatives to attend the relevant meetings of the senior management and supervised implementation of resolutions by the Board of Directors.

(8) Committees under the Board of Supervisors

The Board of Supervisors has established three committees, namely the supervisory committee, the nomination committee and the audit committee. These committees operate in accordance with the rules of procedures formulated by the Board of Supervisors.

Supervisory Committee

The supervisory committee consists of five Supervisors, being Mr. Luo Yi, Ms. Tang Lan, Mr. Li Yongjun, Mr. Liu Yongchong and Mr. Luo Zhenxia. Mr. Luo Yi is the chairman of the Supervisory Committee. The principal responsibilities of the supervisory committee include: supervising the Board of Directors in formulating prudent business philosophies and development strategies; formulating and coordinating the implementation of internal inspection and special audit plans with respect to our business decision-making, financial activities, risk management and internal controls; formulating and coordinating the implementation of investigation plans for major emergencies and risk events based on the authorization of our Board of Supervisors; and communicating with external auditors regarding preparation of the Board's periodic reports and related material adjustments and reporting to the Board of Supervisors.

The supervisory committee convened a total of 7 meetings during the Reporting Period, at which the following resolutions were considered and approved: the work report of the Board of Directors for 2018; the proposal on the general mandates to issue Shares; the engagement of external auditing firms for 2019; the remuneration distribution and settlement plan for Directors and Supervisors in 2018; the remuneration distribution and settlement plan for senior management in 2018; the plan for authorization to management by the Board; Measures on Equity Management of Bank of Gansu Co., Ltd.; the overall risk report for 2018; the report on material related/connected party transactions; the estimated cap of related-party transactions for 2019; the work report on anti-money laundering for 2018; the work report of consumer rights protection for 2018; the plan for non-public issuance of offshore preference shares; the public issuance of capital bonds with no fixed term; the measures for management of large-amount risk exposures; the 2018 environmental, social and governance report; the overall risk report for the first half of 2019; the report on particulars of related-party transactions for the first half of 2019; the measures for management on anti-money laundering work of Bank of Gansu (2019 revised); the investment of bonds of Gansu Province State-owned Assets Investment Group Co., Ltd.; rules of procedure for the Board of Supervisors; rules of procedure for nomination committee under the Board of Supervisors; rules of procedure for supervisory committee under the Board of Supervisors; the authorization to Lanzhou Central Sub-branch of the PBOC for handling matters related to re-lending of credit asset; the appointment of Chen Jinhui (陳金輝) and Du Jing (杜晶) as the vice president; and proposing the establishment of the position of chief business officer.

Nomination Committee

The nomination committee consists of five Supervisors, being Mr. Yang Zhenjun, Ms. Tang Lan, Mr. Luo Yi, Mr. Dong Ying and Mr. Xu Yongfeng. Mr. Yang Zhenjun is the chairman of the nomination committee, who tendered the resignation on October 16, 2019 but will continue to perform his duties as the chairman of the nomination committee until the new Supervisor is appointed. The principal responsibilities of the nomination committee include: formulating procedures and standards concerning election and appointment of Supervisors, conducting preliminary review on the qualifications of candidates for Supervisors, and submitting proposals to the Board of Supervisors; supervising the process of election and appointment of the Directors; performing comprehensive evaluation of Directors, Supervisors and senior management and reporting the results of evaluation to the Board of Supervisors; and supervising the objectivity and reasonableness of the remuneration management systems and policies and remuneration plans for senior management.

The nomination committee held 2 meetings during the Reporting Period, at which the following resolutions were considered and approved: adjustments on certain Supervisors of the Board of Supervisors of Bank of Gansu Co., Ltd.; amendments on the proposal regarding the measures for appraisal on performance of duties of Directors by the Board of Supervisors of Bank of Gansu (Trial); and amendments on the proposal regarding the measures for appraisal on performance of duties of Supervisors by the Board of Supervisors of Bank of Gansu (Trial).

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Audit Committee

The audit committee consists of five Supervisors, being Mr. Dong Ying, Ms. Tang Lan, Mr. Yang Zhenjun (tendered his resignation on October 16, 2019), Mr. Xu Yongfeng, Mr. Liu Xiaoyu (Shareholder Supervisor, retired on March 27, 2019). Mr. Dong Ying is the chairman of the audit committee. The principal responsibilities of the audit committee include: supervising and inspecting the Bank's financial position; reviewing the Bank's annual, semi-annual and quarterly financial and operation reports; and analyzing and evaluating the Bank's budget implementation, asset operation and quality, internal controls and the implementation of major investment decisions.

The audit committee held a total of 2 meetings during the Reporting Period, at which the following resolutions were considered and approved: the internal audit charter of Bank of Gansu Co., Ltd.; the 2019 interim results announcement; and the 2019 interim report (draft).

(9) Work performed by External Supervisors

The chairmen of the supervisory committee, the nomination committee and the audit committee of the Board of Supervisors are served by external Supervisors, which strengthens the role of external Supervisors in performing assessment, internal control and other aspects of independent oversight functions, and plays a positive role in improving the Bank's management quality and governance structure.

During the Reporting Period, external Supervisors actively participated in meetings, carefully studied and actively participated in discussions and decision-making of each issue, considered each issue from the perspective of sustainable development of the Bank and protection of its Shareholders' interests, carefully provided their independent opinions, and fulfilled the responsibilities of external Supervisors in compliance with applicable laws and regulations.

(VI) Senior Management

Under the leadership of the Board of Directors, the president and other senior management of the Bank shall operate and manage the Bank in accordance with the relevant laws and regulations, the Articles of Association and the authorization of Board of Directors. In accordance with the Articles of Association, the president of the Bank shall be nominated, appointed or dismissed by the Board of Directors. Moreover, the Bank has one president and several vice presidents. The vice president and other senior management are nominated by the president, appointed or dismissed by the Board of Directors. The qualifications of the president and other senior management shall be reviewed and approved by the regulatory authority of banking in China.

As at the date of this annual report, the senior management of the Bank includes:

- Mr. Wang Wenyong (President)
- Mr. Qiu Jinhu (Vice President)
- Mr. Wang Zhiyuan (Vice President)
- Ms. Hao Jumei (Vice President, Secretary to the Board)
- Mr. Wang Chunyun (Senior Executive Officer of Internal Control and Compliance)

The president of the Bank shall be responsible to the Board of Directors. The president shall operate and manage the Bank in accordance with the laws, regulations, the Articles of Association and the authorization of the Board of Directors. The vice president shall assist with the president and perform the responsibilities as per the relevant authorizations.

The president of the Bank has the following powers and duties:

- (a) to manage the business operations of the Bank and report work to the Board;
- (b) to implement resolutions of the Board;
- (c) to prepare plans for the establishment of internal management structure of the Bank;
- (d) to establish the basic management system of the Bank and to formulate the Bank's specific rules and regulations;
- (e) to appoint or remove the head of the functional departments and the branches other than those required to be appointed or removed by the Board;
- (f) to propose to the Board for the appointment or removal of the deputy president and other senior officers of the Bank;
- (g) to authorize deputy president and other senior officers, the person in charge of the internal functional departments and branches to be engaged in business management activities;
- (h) to submit to the Board the annual business plan and investment plan of the Bank, the annual financial budget, the final accounting plan and the profit distribution plan of the Bank on behalf of the senior management, and organize the implementation after approval;
- (i) to determine the salary, welfare, reward, punishment and other incentive and restraint programs and implement them after the approval of the Board of Directors;
- (j) to decide on the appointment and dismissal of employees of the Bank other than senior officers;

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- (k) to take urgent measures in the event of a major incident in the Bank and to report immediately to the Board of Directors, the Board of Supervisors and the banking regulatory authorities and the local branches of the PBOC;
- (l) in exceptional circumstances, to propose an extraordinary meeting of the Board of Directors; and
- (m) other powers which are to be exercised by the president in accordance with the laws, regulations and the provisions of the Articles of Association or the power to be exercised by the president as authorized by the Board.

The president and vice presidents who are not Directors shall have no voting rights at the meetings of the Board of Directors.

Remuneration paid to the senior management (excluding the members of senior management who concurrently served as Directors) for the year ended December 31, 2019 is set out as follows:

Remuneration bands	Number of persons
Below RMB1.0 million	5
RMB1.0 million–RMB1.5 million	0

(VII) Chairman of the Board of Directors and the President

The roles and duties of the chairman of the Board of Directors and the president of the Bank are assumed by different persons, with their respective responsibilities clearly delineated and in compliance with the requirements under the Hong Kong Listing Rules.

Mr. Liu Qing was appointed as an executive Director and the chairman of the Board of Directors on December 3, 2018, responsible for the overall strategic planning and management of the Board of Directors to ensure the effective operation of the Board of Directors and that all Directors are aware of the current issues and that each issue could be discussed in a timely and constructively manner. To assist the Board of Directors to discuss all important or other related matters, the chairman of the Board of Directors works with the Bank's senior management to ensure that all Directors receive timely, appropriate, complete and reliable information for their consideration and review.

Mr. Wang Wenyong was appointed as an executive Director and the president of the Bank on December 3, 2018, responsible for the operation of business, the implementation of the strategies and business plans of the Bank. The president of the Bank, being nominated by the chairman of the Board of Directors and appointed by the Board of Directors, reports to the Board of Directors and performs his duties and responsibilities in accordance with the Articles of Association and within the authorization by the Board of Directors.

(VIII) Securities Transactions by Directors, Supervisors and Senior Management

The Bank has adopted, in respect of securities transactions by Directors, Supervisors and senior management members, a code of conduct on terms no less exacting than the required standards set out in the 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 made specific enquiries to all Directors, Supervisors and members of the senior management of the Bank, the Bank confirmed that they complied with the Model Code during the Reporting Period.

(IX) External Auditors and Remuneration of Auditors

The Group engaged Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited as its domestic and international auditors for 2019, respectively. The fees as agreed to be paid by the Group for the audit of the financial statements for the year ended December 31, 2019 are RMB3.3 million.

The audit committee of the Board of Directors was of the view that Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited can complete various engagements of the Bank satisfactorily, stick to the principles of independence, objectiveness and impartiality and comply with the applicable accounting principles and ethical requirements for accountants, and are diligent and responsive when conducting auditing work. During the Reporting Period, there was no occasion where the Board of Directors did not agree with the opinions of the audit committee on the selection and appointment of external auditors.

(X) Company Secretary

Ms. Fok Po Yi was appointed as the company secretary of the Bank on July 9, 2019. 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. Ms. Fok Po Yi took part in relevant professional trainings for no less than 15 hours during the Reporting Period. The main contact person between Ms. Fok Po Yi and the Bank is Ms. Hao Jumei, the secretary to the Board, Ms. Hao Jumei is also required to report significant events to the chairman of the Board.

Regarding the information about resignation of Ms. Ng Wing Yan, the former company secretary of the Bank, please refer to the section headed “Report of the Board of Directors – 44. Company Secretaries” of this annual report.

(XI) Communication with Shareholders

The Bank places great importance on its Shareholders’ opinions and suggestions and has enhanced understanding and interaction with the Shareholders through a wide range of channels such as the general meeting, reception for visitors, on-site visits and telephone consultations.

Corporate Governance Report

General enquiries

For enquiries made to the Board of Directors by the Shareholders and potential investors, please contact:

Office of the Board of Directors, Bank of Gansu Co., Ltd.

Bank of Gansu Tower, No. 525 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC

Telephone: +86 (931) 877 0491

Facsimile: +86 (931) 877 1877

Principal place of business in Hong Kong of the Bank: 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong

Investors may view this annual report on the website of the Bank (www.gsbankchina.com) and the designated website of the Hong Kong Stock Exchange (www.hkexnews.hk).

Enquiries on matters relating to the H Shares

If the Shareholders have any enquiries on matters relating to the H Shares held by them, such as share transfer, change of address, reporting for loss of share certificates and dividend warrants, please send the enquiries in writing to the following address:

Computershare Hong Kong Investor Services Limited

17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Telephone: (852) 2862 8555

Facsimile: (852) 2865 0990

Enquiries on matters relating to the Domestic Shares

If the Shareholders have any enquiries on matters relating to the Domestic Shares held by them, such as share transfer, change of address, reporting for loss of share certificates and dividend warrants, please send the enquiries in writing to the following address:

Office of the Board of Directors, Bank of Gansu Co., Ltd.

Bank of Gansu Tower, No. 525 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC

Telephone: +86 (931) 877 0491

Facsimile: +86 (931) 877 1877

(XII) Information Disclosure

The Board of Directors and senior management of the Bank place great importance on information disclosure. They rely on good corporate governance and internal controls to provide timely, accurate and fair information for the investors. During the Reporting Period and up to the date of this annual report, no insider dealing was identified.

In accordance with the requirement of Measures for the Information Disclosure of Commercial Banks and Notice on the Normative Content of the Annual Report of the Joint-stock Commercial Banks, the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed.

The Bank has also formulated the Information Disclosure Regulations of Bank of Gansu Co., Ltd. (“Information Disclosure Regulations”), which provide for basic principles of information disclosure, including the disclosure principles in the Bank’s prospectus, offering circulars, listing documents, periodic reports and interim reports. The Board of Directors is primarily responsible for the information disclosure of the Bank and the chairman of the Board of Directors is the primary person in charge of the information disclosure of the Bank.

(XIII) Procedures and Regulatory Measures related to Inside Information

The Bank places great importance on insider information management. In order to strengthen relevant confidentiality and protect the legitimate interest of investors by maintaining fairness with regard to information disclosure, the Bank has formulated the Information Disclosure Regulations pursuant to applicable laws, regulations, the Hong Kong Listing Rules and other regulatory requirements. The Information Disclosure Regulations provide for the scope of inside information and the definition of insiders possessing inside information, detailed requirements on management of insiders and inside information, confidentiality of such information and sanction measures for divulgence of inside information.

(XIV) Amendment to the Articles of Association during the Reporting Period

On June 3, 2019, the proposal regarding the amendments to the Articles of Association in respect of the Offshore Preference Shares Issuance was considered and approved at the 2018 annual general meeting. Amended Articles of Association shall become effective upon the completion of the issuance of the first tranche of offshore preference shares. During the Reporting Period and up to the Latest Practical Date, the Bank has not issued any offshore preference shares, and therefore such Articles of Association remains effective. Investors may review the existing and effective Articles of Association on the website of the Bank (www.gsbankchina.com) and the designated website of the Hong Kong Stock Exchange (www.hkexnews.hk).

Corporate Governance Report

(XV) Rights of Shareholders

(1) Convening of extraordinary general meeting at the request of Shareholders

The Shareholders (the "Proposal Shareholders") of the Bank who individually or jointly hold 10% or more (calculated based on the shareholding from the date when such written request is made by such Shareholders) of the total voting Shares of the Bank may request in writing to convene an extraordinary general meeting. The following procedures shall be followed if the Proposal Shareholders request an extraordinary general meeting or class meeting:

- (i) Two or more Shareholders jointly holding the shares carrying more than 10% (inclusive) of the voting rights in the meeting to be held can execute one or several copies of written requirements in the same format for requiring the Board of Directors to convene the extraordinary general meeting or class meeting and clarify the meeting subject. The Board shall respond in writing to decide to convene such meeting or not within ten days upon receipt of such written proposal in accordance with the laws, rules and regulations and the Articles of Association. The number of shares aforesaid shall be calculated from the date when such written request is made by the Shareholders.

Where the Board agrees to convene an extraordinary general meeting, a notice of the general meeting shall be given within five days after the Board makes such resolution, in which the consent of the Proposal Shareholder requesting to convene the extraordinary general meeting shall be obtained in respect of any changes to the original proposals.

- (ii) Where the Board does not agree to convene an extraordinary general meeting or does not respond within ten days upon receipt of the request, the Shareholders who individually or jointly hold more than 10% of the Shares of the Bank shall have the right to propose to the Board of Supervisors to convene an extraordinary general meeting and make such proposal in writing to the Board of Supervisors.

Where the Board of Supervisors agrees to convene an extraordinary general meeting, a notice of the general meeting shall be given within five days upon receipt of such request, in which the consent of the Proposal Shareholder requesting to convene the extraordinary general meeting shall be obtained in respect of any changes to the original proposal.

Where the Board of Supervisors fails to give a notice of the general meeting in specified period, the Board of Supervisors shall be deemed not to agree to convene and preside over the general meeting. The Shareholders individually or jointly holding more than 10% of the Shares of the Bank for over 90 consecutive days (the "Convening Shareholder") may convene and preside over a general meeting.

Where the Board fails to respond to the request of the Shareholder to hold a general meeting, any reasonable expenses incurred by the Shareholder to convene and preside over such meeting shall be borne by the Bank and deducted from any sums owed by the Bank to the Directors who have defaulted on their duties.

If the Board of Supervisors or Shareholders decide to convene the general meeting, it shall notify the Board of Directors in writing, and report to and file with the banking regulatory authority of the place where the Bank is located. The content of the notice of convening the extraordinary general meeting shall comply with the following requirements:

- (A) The proposal shall not be added with the new content; or otherwise the Proposal Shareholders shall make a new request to the Board of Directors to convene a general meeting in accordance with the aforesaid procedures;
- (B) The meeting shall be held at the venue where the Bank is located.

For the general meeting convened and presided over by Shareholders on their own initiatives, the shareholding proportion of the Convening Shareholders before the announcement of the resolutions passed at the general meeting shall not be less than 10%. The Board of Supervisors or Convening Shareholders shall submit the relevant evidentiary materials to the local banking regulatory authorities in the jurisdiction in which the Bank is situated upon the issuance of the notice of a general meeting or the announcement of the resolution of a general meeting.

(2) Proposing resolutions at Shareholders' general meetings

Shareholders who individually or jointly hold 3% or more of the total voting Shares of the Bank may submit provisional proposals to the conveners in writing 10 days before the date of the general meeting. The conveners shall issue a supplemental notice of general meeting setting out the contents of the provisional proposals within two days upon receiving the proposals.

Shareholders who individually or jointly hold 3% or more of the total voting Shares of the Bank may nominate candidates for Directors and Supervisors to the Board of Directors and Board of Supervisors.

Shareholders who individually or jointly hold 1% or more of the total voting Shares of the Bank may nominate candidates for independent Directors. One Shareholder can only nominate one candidate for independent Director and a Shareholder who has nominated a candidate for Director shall not nominate any candidate for independent Director. The qualifications of the nominated candidates for independent Director shall be reviewed by the Nomination and Remuneration Committee under the Board of Directors, wherein the key points of review shall include the independence, expertise, experience, capabilities. The nominators for independent Director shall obtain the consent of the nominee before nomination and the nominating Shareholder shall be fully aware of the occupation, academic experiences, professional qualifications, detailed work experiences, all spare-time jobs and other information of the nominee and shall express opinions on the qualification and independence of the nominee as independent Director. In case the Board of Directors has the different views on the particulars of the nominee, written opinions of Board of Directors shall be issued.

(3) Making inquiries to the Board of Directors

Shareholders of the Bank are entitled to supervise the business activities of the Bank, and make recommendations or inquiries to the Board of Directors.

Corporate Governance Report

(4) Inspection rights of the Shareholders

Shareholders are entitled to access the following information in accordance with the applicable laws, regulations, departmental rules, normative documents, regulations promulgated by the securities regulatory authorities of the place where the Bank's Shares are listed and the Articles of Association, including:

- (i) to obtain a copy of the Articles of Association after its cost has been paid;
- (ii) to have access to and copy the following documents after a reasonable fee has been paid:
 - (A) the Shareholder register;
 - (B) the personal information of Directors, Supervisors, president and other senior management of the Bank;
 - (C) status of the share capital of the Bank;
 - (D) reports on the aggregate par value, number of Shares, and highest and lowest prices of each class of Shares in relation to any repurchase by the Bank of its own Shares since the last accounting year, as well as all the expenses paid by the Bank in relation to such repurchases;
 - (E) minutes of the general meetings;
 - (F) special resolutions of the Bank;
 - (G) the latest audited financial statements and the Board reports, auditor's reports and the Board of Supervisors' Reports of the Bank;
 - (H) the copy of the latest annual return submitted to the State Administration for Market Regulation or other competent authorities for filing.

In accordance with the requirements of Hong Kong Listing Rules, the Bank shall make the documents above (save for item (B) above) available for free inspection by the public and Shareholders of H Shares at the address of the Bank in Hong Kong, of which the documents referred to in item (E) shall be available for inspection by Shareholders only.

If any Shareholder makes a request to obtain a copy of the relevant documents from the Bank, the Bank shall send a copy of the requested documents within seven days upon the receipt of a reasonable fee. The Bank may refuse to provide any documents if such documents or the copies thereof requested involve any business secrets and/or include sensitive information about share price of the Bank.

Risk Management, Internal Control and Internal Audit

I. OVERVIEW

The Bank emphasizes prudent business management and believes that effective risk management and internal control are critical to its sustainable business growth:

- The Bank has established a comprehensive risk management, internal control reporting, announcement and appraisal system. In particular, the Bank has set up a vertical risk management structure by establishing risk management departments and positions at its head office and at each branch and sub-branch.
- The Bank has developed different risk management strategies based on the nature and characteristics of major risk categories. It also provides regular risk management training to its employees by conducting bank-wide on-site training and inviting law firms and professional institutions to provide training.

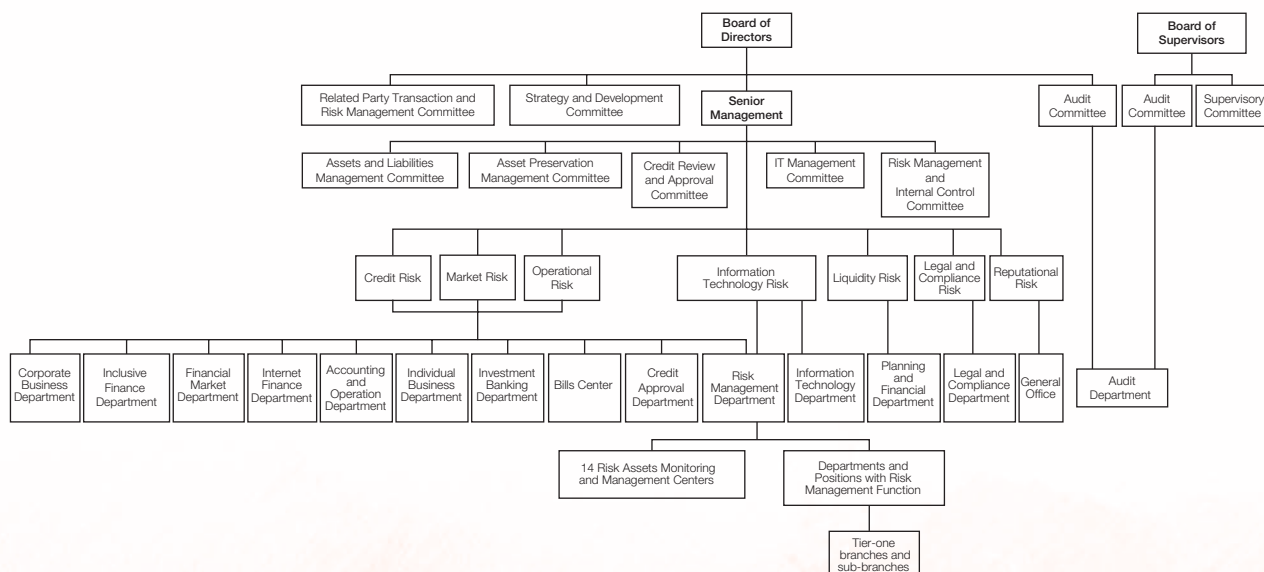
The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Bank has implemented prudent risk management and internal control to ensure good asset quality. As of December 31, 2016, 2017, 2018 and 2019, the Bank's non-performing loan ratio was 1.81%, 1.74%, 2.29% and 2.45%, respectively; and the Bank's provision coverage ratio was 192.72%, 222.00%, 169.47% and 135.87%, respectively.

II. RISK MANAGEMENT AND INTERNAL CONTROL OF THE BANK

(I) Organizational System

As of the date of this annual report, the organizational structure of the Bank's risk management is as follows:



Risk Management, Internal Control and Internal Audit

(1) Board of Directors and Special Committees of the Board of Directors

The Board of Directors is ultimately responsible for the Bank's risk management and internal control. The Board is primarily responsible for (i) cultivating the Bank's risk management culture, philosophy, values and code of conduct; (ii) formulating risk management strategies; (iii) determining the Bank's overall risk appetite and risk limits; (iv) reviewing and approving risk management policies and procedures; (v) supervising the performance of risk management responsibilities by the Bank's senior management; (vi) reviewing risk management reports; (vii) reviewing and approving disclosures regarding the Bank's exposure to major risks and overall risk exposure; and (viii) appointing the Bank's chief risk officer. The Bank has established a related party transaction and risk management committee, strategy and development committee and audit committee under its Board of Directors.

Related Party Transaction and Risk Management Committee

The Bank's related party transaction and risk management committee is primarily responsible for (i) supervising the control of risks by the Bank's senior management; (ii) evaluating the Bank's risk profile; (iii) making recommendations regarding the Bank's risk management and internal controls, discussing risk management with senior management, and ensuring that management has performed their duties of establishing effective systems; (iv) conducting research on key investigation results relating to risk management matters and management responses to investigation results; (v) reviewing and approving related party transaction filings within the committee's authorized scope as determined by the Board; and (vi) reviewing related party transactions and submitting transactions to the Board for approval.

Audit Committee

The Bank's audit committee is primarily responsible for: (i) reviewing the Bank's accounting policies, financial position, financial reports and risk and compliance conditions; (ii) proposing the engagement or replacement of external auditing firms; (iii) supervising the Bank's internal audit system and the implementation of this system; (iv) coordinating internal and external audits; and (v) ensuring the truthfulness, accuracy and completeness of the Bank's audited financial information.

According to the regulatory requirements, the Board of Directors conducts self-evaluation on the effectiveness of risk management and internal control on an annual basis. During the Reporting Period, the Bank maintained effective risk management and internal control in all material respects, and the Board of Directors was not aware of any significant or material defects in relation to the risk management and internal control. The Board of Directors has conducted a review of the effectiveness of the risk management and internal control systems of the Bank and its subsidiary and considered them effective and adequate.

(2) Board of Supervisors and its Special Committees

The Board of Supervisors shall be accountable to the Shareholders' general meeting, and supervises the Bank's financial position and the legality and compliance of the performance of Directors, presidents and other senior management members in accordance with the laws, regulations and responsibilities prescribed in the Articles of Association, in order to safeguard the legal rights of the Bank and its Shareholders.

There are the supervisory committee, nomination committee and audit committee under the Bank's Board of Supervisors, and the Board of Supervisors has established effective mechanisms for communication with such committees.

Supervisory Committee

The Bank has established a supervisory committee under the Board of Supervisors, which is primarily responsible for (i) supervising the Board of Directors in formulating prudent business philosophies and development strategies; (ii) formulating and coordinating the implementation of internal inspection and special audit plans with respect to the Bank's business decision making, financial activities, risk management and internal controls; (iii) formulating and coordinating plans for major emergencies and risk events based on the authorization by the Board of Supervisors; and (iv) communicating with external auditors regarding the preparation of the Board's periodic reports and related material adjustments and reporting to the Board of Supervisors.

Nomination Committee

The Bank's nomination committee under the Board of Supervisors is primarily responsible for (i) preparing the selection procedures and criteria for Supervisors; making preliminary assessment on the service qualifications and conditions of the candidate for Supervisors, and making recommendations to the Board of Supervisors; (ii) supervising the selection procedure of Directors; (iii) conducting comprehensive assessment on the performance of Directors, Supervisors and senior management and report to the Board of Supervisors; (iv) supervising on whether the compensation system and policy of the Bank and the compensation plan of the senior management are scientific and reasonable; and (v) other matters authorized by the Board of Supervisors.

Audit Committee

The Bank's audit committee under the Board of Supervisors is primarily responsible for (i) supervising and inspecting the Bank's financial position; (ii) reviewing the Bank's annual, semi-annual and quarterly financial and operating reports; and (iii) analyzing and evaluating the Bank's budget implementation, asset operation and quality, internal controls and the implementation of major investment decisions.

(3) Senior Management and its Special Committees

The Bank's senior management implements the risk management policies, strategies and plans set by the Board of Directors. It is primarily responsible for (i) establishing a management structure based on comprehensive risk management strategies, delineating risk management responsibilities among various departments, and developing a coordinated checks-and-balances mechanism among departments; (ii) formulating clear execution and accountability systems for the effective communication and implementation of risk management strategies, preferences and limits; (iii) formulating and implementing overall risk limits based on the Bank's overall risk appetites determined by the Board, based on the relevant industry, region, customer and product; (iv) formulating and adjusting risk management policies and procedures and conducting periodic evaluations; (v) evaluating the Bank's overall risk profile and exposure to specific risks and reporting to the Board; (vi) establishing information management and data quality control systems; and (vii) monitoring breaches of risk appetite limits or violations of risk management policies and procedures, and taking corresponding measures based on the Board's authorization.

The Bank has established five special committees with risk management responsibilities under its senior management: the risk management and internal control committee, asset preservation and management committee, IT management committee, credit review and approval committee, and assets and liabilities management committee.

Risk Management, Internal Control and Internal Audit

Risk Management and Internal Control Committee

The Bank's risk management and internal control committee is primarily responsible for (i) formulating risk management and internal control plans and policies as well as risk evaluations to ensure the effective operation of the Bank's risk management and internal control systems; (ii) formulating risk identification, quantification, assessment, monitoring, control and mitigation measures; (iii) formulating plans or proposals to evaluate the sufficiency, compliance and effectiveness of risk management and internal control systems; (iv) overseeing business departments in establishing, improving and implementing internal control systems; (v) conducting feasibility studies with respect to risks associated with the Bank's major business activities; (vi) handling material risk events; (vii) reviewing proposals regarding risk classifications and provisioning for impairments; (viii) reviewing accountability for incidents of employee non-compliance; (ix) submitting risk reports to the related party transaction and risk management committee; and (x) ensuring the implementation of risk management policies and resolutions of the related party transaction and risk management committee.

Asset Preservation and Management Committee

The Bank's asset preservation and management committee is primarily responsible for (i) reviewing asset preservation plans and strategies; (ii) reviewing and approving proposals relating to the collection and disposition of collateral; (iii) reviewing and approving dispositions of non-credit assets; (iv) reviewing and approving proposals for the restructuring of non-performing loans; (v) reviewing and approving proposals of branches and sub-branches for the write-offs of credit and bad debts; (vi) reviewing and approving proposals for asset restructurings, mergers and acquisitions and bankruptcies; and (vii) advising on the protection of creditors' rights and preservation of loan assets, and overseeing the implementation of such advice.

IT Management Committee

The Bank's IT management committee is primarily responsible for (i) formulating the Bank's IT strategic objectives and planning; (ii) supervising the Bank's IT-related work and regularly reporting IT strategic plans, IT budget and IT expenditures to the Board and senior management; (iii) reviewing the Bank's annual IT budget, adjusting IT project priorities and coordinating relevant resources; (iv) considering the Bank's IT policies, systems, standards and principles and urging relevant departments to establish an internal IT management system; (v) implementing the Bank's information safety management decisions and addressing significant information safety incidents; and (vi) supervising the implementation by IT departments of the IT budget and expenditures, IT strategies, standards and flows, IT internal controls, the operation, maintenance and upgrading of IT systems and infrastructure, information safety management, disaster recovery planning as well as IT outsourcing.

Credit Review and Approval Committee

The Bank's credit review and approval committee is primarily responsible for (i) independently performing review and approval duties on matters relating to the Bank's credit business on the basis of the reporting entity's due diligence report and credit business review analysis opinion; and (ii) assessing and reviewing the feasibilities and risks regarding the technology, market and finance relating to the Bank's credit business, paying attention to various factors that may affect credit safety, effectively identifying various risks, and generating review and approval opinions after a comprehensive appraisal of revenue and risks.

Assets and Liabilities Management Committee

The Bank's assets and liabilities management committee is primarily responsible for determining the Bank's asset and liability management policies, to ensure that the Bank maintains reasonable capital adequacy ratios and liquidity and realizes its desired operating results under the changing economic environment and financial markets.

(4) Risk Management Department

The Bank has established a centralized and vertical risk management structure. A number of the Bank's business departments at the head office, such as Risk Management Department, Corporate Banking Department, Financial Service Center of the Retail Banking Department and Personal Banking Department, are involved in the Bank's daily risk management. These departments are mainly responsible for (i) formulating the Bank's overall risk management policies, covering credit authorizations and policies, credit reviews and approvals, management of non-performing assets and review and approval of loan disbursements; (ii) reviewing and approving the credit business by branches and sub-branches; and (iii) guiding branches and sub-branches in formulating credit policies based on their scale of business, target customers and local economic conditions.

Each of the Bank's branches and sub-branches has established its own risk management department and positions. The Bank has also appointed risk officers for its larger branches, such as the business department of its head office, Pingliang branch, Baiyin branch and Qingyang branch. The risk management departments and positions at the Bank's branches and sub-branches are mainly responsible for (i) implementing the risk management policies of the Bank's head office; (ii) monitoring and staying alert of and supervising the risks associated with the Bank's business activities; and (iii) reporting major risk events to the management of the branch or sub-branch and the risk management department of the Bank's head office.

(II) Management of Different Types of Risks

(1) Credit Risk Management

Overview

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. The Bank also considers its asset and liability structure and trends in deposit and loan growth. The Bank 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. The Bank 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, the Bank may issue notices of adjustments to credit policy guidelines in response to changes in government policies, the economic environment and its risk preferences.

The Bank categorizes the industries in which a loan applicant operates into different categories and adopts a different credit policy for each industry category. 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. The Bank generally updates these policies on an annual basis.

Risk Management, Internal Control and Internal Audit

Credit Risk Management of Corporate Loans

The Bank manages credit risks related to its corporate loans through five procedures, including pre-loan investigation, credit review and approval, loan disbursement management, post-disbursement management, and non-performing loan management.

Credit Risk Management for Retail Loans

The Bank's credit risk management procedures for retail loans include pre-loan investigation, credit review and approval, loan disbursement management and post-disbursement management.

Credit Risk Management for Financial Market Operations

The Bank's financial market operations include money market transactions, investment business and wealth management business. The Bank has established various mechanisms to manage credit risks arising from its financial market operations.

Credit Risk Management for Money Market Transactions

The credit management department at the Bank's head office leads the review and approval of credit limits granted to inter-bank customers and adjusts credit limits based on a customer's operating conditions. To timely respond to risk event alerts, the Bank closely monitors changes in the operations of the actual bearers of credit risks and any external factors that could affect their ability to honor contractual obligations.

Credit Risk Management for Standard Investments and Non-Standard Credit Assets Investments

The Bank primarily invests in (i) standard investments such as debt securities issued by the PRC government, PRC policy banks, PRC commercial banks and other financial institutions and corporate issuers, and public funds managed by fund companies, and (ii) non-standard credit assets, such as trust plans, asset management plans, wealth management products.

In terms of debt securities investments, (i) the Bank has formulated strict counterparty selection criteria for its bond investments; and (ii) it only invests in standard debt financing instruments with corporate or facility credit ratings of AA or above, with a focus on bonds issued by state-owned or state-controlled enterprises. The Bank has also established similar risk management procedures for investment funds as those for loans.

The Bank manages credit risks related to its non-standard credit assets investments primarily through procedures including counterparty screening, due diligence, review and approval, classifications and record keeping. In particular, the Bank has established similar risk management procedures for asset management plans and trust plans as those for loans. The Bank also implements strict standards for investment in non-principal-protected wealth management products.

Credit Risk Management for the Wealth Management Business

The Bank manages risks associated with the issuance of wealth management products primarily through measures such as establishing a wealth management team under the investment banking department at the Bank's head office, conducting evaluations of counterparty's eligibility, pre-investment due diligence investigations, risk assessments and post-investment risk management for wealth management products, performing market forecasts and analyses to select appropriate investment targets for wealth management products, and timely disclosing the relevant information to investors, etc.

Credit Risk Management for the Bank's Bill Discounting Business

The Bank has published management measures and procedures for its bill discounting business. The Bank provides discounting of bank acceptance bills and commercial acceptance bills. It manages risks arising from the discounting of bank acceptance bills primarily by verifying the authenticity of the bills and the items recorded on the bills. The measures and procedures adopted by the Bank for commercial bill discounting mainly include approval by corporate credit approval authorizations, verification of the accuracy of the underlying transactions and risk classification by the risk management department based on repayment status.

Credit Risk Management for the Bank's Off-Balance-Sheet Business

The Bank strictly reviews the business backgrounds of off-balance-sheet transactions and verifies the authenticity of the related documentation. The Bank also requires strict compliance with its internal procedures to ensure that the deposit amounts, margin ratios and guarantee measures meet its requirements.

Credit Risk Management for Related Party Transactions

In order to control risks arising from related party transactions and ensure compliance with relevant laws and regulations, the Bank has specified in its Articles and internal policies the standards for identifying related parties, the review and approval procedures for related party transactions and the reporting and registration requirements for such transactions.

The Bank rigorously enforces these internal procedures throughout the Bank to identify business relationships between related parties and the Bank and maintain centralized monitoring and management of related party transactions.

Credit Risk Management IT System

The Bank seeks to improve its credit risk management with advanced IT systems. It has improved and upgraded the credit management system to analyze customer data. The system consists of a credit evaluation module, a risk management module, a post-disbursement management module, a credit reporting module and an asset preservation module in accordance with the Bank's internal policies related to the extension of credit and provision of loans.

The Bank's risk management department collects and reports feedback from the Bank's credit business departments to the Bank's senior management and IT department. The Bank has set employee authorization limits to ensure data security and prevent employees from using system functions not related to their duties. Changes in authorization limits for employees at branches must be approved by authorized persons in the risk management department at the relevant branch. Changes in authorization limits for head office employees must be approved by authorized persons in the risk management department at the Bank's head office.

The Bank has also developed a credit risk big data alert system that measures credit risk by analyzing data of its credit businesses, data in the PBOC Credit Reference System and data from third party sources, such as the Internet and media.

(2) 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 Bank's liquidity include the term structure of its assets and liabilities and changes to financial industry policies, such as changes in the requirements relating to the Bank's 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 of its cash flow positions.

Risk Management, Internal Control and Internal Audit

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

The organizational framework of the Bank's liquidity risk management focuses on formulating, implementing and supervising the separation of duties in relation to liquidity risk management policies and procedures. The Board of Directors is the ultimate decision-making institution for liquidity risk management and assumes ultimate responsibility for the Bank's liquidity risk management. Senior management is responsible for liquidity risk management, and the Bank's assets and liabilities management committee is responsible for implementing liquidity risk management policies and procedures. The Bank's 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 Bank's daily liquidity risk management.

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 analyses, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

(3) 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. The Bank is exposed to market risks primarily through its banking book and trading book. The market risks associated with the banking book include interest rate risk and exchange rate risk. The primary market risks in the Bank's trading book arise from fluctuations in the value of financial instruments due to changes in interest and exchange rates.

The Bank formulates and adjusts interest rates based on studies and forecasts of interest rate trends in financial markets. It 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.

The Bank also 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, the Bank endeavors to reduce the number of transactions involving high exchange rate risks, monitor major indicators, and inspect the positions of major foreign currencies on a daily basis.

The Bank employs a number of risk management techniques to monitor and control market risks in its financial market operations, including monitoring open positions, stop-loss limits and value-at-risk of the Bank's trading book on a daily basis. The Bank analyzes its potential market risks through various methods, including duration analysis, sensibility analysis, scenario analysis and value-at-risk analysis.

(4) 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, failures of risk, implementation, settlement and procedure management systems relating to customers, products and operations, as well as errors or malfunctions in IT systems.

The Bank's Board of Directors is ultimately responsible for ensuring the effectiveness of the Bank's operational risk management. The Bank's senior management is responsible for coordinating operational risk management through its risk management and internal control committee. The Bank's risk management department formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of the Board and senior management. The Bank's 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 also established a GRC system for managing internal control and operational risks.

The Bank manages operation risk primarily through measures including: (i) collecting and analyzing data on operational risk related loss to identify operational risks; (ii) re-assessing risk points for products and businesses which involve frequent occurrences of operational risk events or may incur significant losses from potential operational risk events; (iii) monitoring operational risks, and establishing an alert system to control the frequency of risk events that are likely to result in uncontrollable losses as well as reduce the potential losses from these events; (iv) establishing a comprehensive operational risk reporting system to analyze and report operational risks in a timely manner; and (v) enhancing internal training on operational risk management.

(5) Reputational 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. The Bank's reputational risk management measures primarily include (i) formulating detailed reputational risk management policies and guidelines for identifying, reporting and managing significant reputational incidents; (ii) supervising employees' performance of duties in minimizing negative risk events; (iii) analyzing public opinion, investigating reputational risks and analyzing the dissemination channels of reputational risks and related incidents; and (iv) enhancing internal training on reputational risk management.

(6) IT Risk Management

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

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

The Bank has adopted a variety of measures to manage IT risk, including (i) establishing systems, procedures and implementation rules for managing IT risks in accordance with relevant regulatory requirements; (ii) setting up an IT outsourcing risk management system with defined outsourcing management principles and strategies to eliminate outsourcing risks; and (iii) enhancing internal training on IT risks.

Risk Management, Internal Control and Internal Audit

(7) Legal and 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.

The legal and compliance department at the Bank's head office is in charge of managing the Bank's overall legal and compliance risks. In addition, the Bank has established discipline inspection, legal and compliance departments at the tier-one branches and sub-branches in charge of the matters in respect of legal compliance and risk management.

The Bank's risk management and internal control committee supervises and leads its legal and compliance work. The Bank systematically manages its internal control compliance and legal affairs by building a management system for internal control compliance and operational risks. The Bank manages legal and compliance risks primarily through measures including (i) formulating our rules, systems and annual plans, and leading and urging the formulation and amendment thereof; (ii) enhancing the compliance review mechanism to identify and evaluate compliance risks associated with our business activities; (iii) uniformly managing standard contracts and other legal documents; (iv) managing and tracking our legal proceedings; (v) formulating an annual compliance management plan, stipulating the focus and plans for annual compliance work; (vi) managing related parties and related party transactions to control related party transactions in advance; (vii) optimizing the management mechanism for rectifications upon inspection, and enhancing the supervision and management of our rectifications upon inspection; (viii) closely monitoring regulatory changes and reporting compliance information and risks to our senior management and the relevant business lines; and (ix) enhancing internal training on legal and compliance, and issuing compliance alerts and reminders to employees through compliance proposals and internal publications.

(8) 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 other applicable regulations of the PBOC.

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

The Bank has established anti-money laundering steering groups at its head office, branches and sub-branches. The group is led by the president of the Bank with the vice president of the Bank as deputy directors. The group consists of responsible persons from different departments of the Bank including legal compliance department, financial planning department, risk management department, etc.

The Bank conducts due diligence on its customers in accordance with anti-money laundering laws and regulations. The Bank reports large-scale and suspicious transactions to the China Anti-Money Laundering Monitoring and Analyzing Center through the anti-money laundering information reporting management system of the People's Bank of China. The Bank also reports major reasonably suspected money laundering activities and material money laundering cases on the basis of "reasonable suspicion" to the local branch of the PBOC and cooperates with their investigations, and reports to local public security units when necessary.

The Bank provides bank-wide anti-money laundering training on a regular basis based on employees' position and seniority. It also requires all new employees to participate in mandatory anti-money laundering training before commencing employment.

(III) Internal Audits

The Bank believes internal audits are essential to its stable operations and achievement of business objectives. The Bank 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 optimize internal control compliance and its corporate governance structure, in an effort to improve its operations. The Bank adheres to the principles of independence, importance, prudence, objectiveness and relevance.

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 its head office.

The Bank has formulated internal audit rules and systems that contain articles of association and criteria for internal audit. The audit department of its head office formulates annual internal audit plans based on regulatory requirements as well as its operation, management and business profile. The plans may be implemented after being approved by the audit committee of the Board of Directors.

The Bank has also established an audit management system, which may, through standard internal audit methods and procedures, audit its operation and management, information systems, risk profile and performance of employees of key positions, evaluate the effectiveness of its internal controls and corporate governance, and conduct follow-up audits on a timely basis.

III. REGULATION OF THE BANK'S INSIDE INFORMATION

The Bank attaches great importance to information disclosure and insider information management. In order to strengthen the insider information and confidentiality work, safeguard the fairness of information disclosure and protect the legitimate rights and interests of investors, the Bank has formulated Measures for Information Disclosure of Bank of Gansu Co., Ltd. (《甘肅銀行股份有限公司信息披露辦法》) in accordance with PRC Company Law, PRC Securities Laws, the Hong Kong Listing Rules, and other applicable laws, regulations and normative documents.

The Bank has also formulated the Rules of Registration of Insiders and Confidentiality (《內幕信息知情人登記管理及保密制度》) which provide clear regulations for various aspects, including the coverage of the information that involves the Bank's operation and finance, or that may have significant impact on the market prices of the Bank's Shares and that has not been publicly disclosed on the information disclosure media designated by securities regulatory authorities, and the scope of insiders. In addition, the Bank has specified in detail management of insiders and confidentiality and the penalties for violating the internal measures governing insiders and inside information.

Independent Auditor's Report



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

TO THE SHAREHOLDERS 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)

OPINION

We have audited the consolidated financial statements of Bank of Gansu Co., Ltd (the "Bank") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 179 to 316, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

- Expected credit losses of loans and advances to customers
- Consolidation of structured entities
- Valuation of financial instruments

Independent Auditor's Report

Expected credit losses of loans and advances to customers

Refer to note 22 to the consolidated financial statements and the accounting policies on pages 197 to page 202.

The key audit matter	How the matter was addressed in our audit
<p>Impairment allowances represent management's best estimate of the expected credit losses ("ECL") for the loan portfolios at the balance sheet date.</p> <p>They are assessed based on whether the credit risk has increased significantly since initial recognition and the Group's historical credit loss experience adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.</p> <p>The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.</p> <p>Management estimations and judgements are required to determine whether there are significant increase in credit risk, the probability of default, loss given default, forward-looking information and the expected future cash flows related to each loan within the loan portfolios.</p> <p>We identified the ECL on loans and advances to customers as a key audit matter due to the significant balances amounted to approximately RMB164,766,836,000 (net of accumulated impairment losses of RMB5,682,405,000) as at the end of the reporting period and the subjective nature of the judgement, estimation and calculation.</p>	<p>Our procedures were designed to review the management assessment on the ECL model and challenge the reasonableness of the methods and assumptions used to estimate the ECL of loans and advances to customers.</p> <p>We have discussed the judgement in relation to the recognition of 12 months and life time ECL of loans and advances under the 3 different stages and assessed the appropriateness of the modelling policy, assumptions and methodology used for material portfolios independently by reference to the accounting standards and market practices, and model calculations were tested through re-performance.</p> <p>We have challenged the assumptions, critical judgement and statistical models used by the management by assessing the reliability of the management's past estimates and future forecast.</p> <p>For the collectively assessed ECL, we assessed the reasonableness of the Group's ECL models, including the model input, model design, model performance for significant portfolios. We assessed the reasonableness of the Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment. We challenged whether historical experience is representative of current circumstances and of the recent losses incurred in the portfolios and assessed the reasonableness of forward-looking adjustments, including the economic variables and assumptions used in each of the economic scenarios and their probability weightings. Where changes had been made in model parameters and assumptions, we evaluated the appropriateness of such changes. We also assessed and tested the sensitivity of the credit loss provisions to changes in modelling assumptions.</p> <p>For a sample of exposures that was subject to an individual impairment assessment, we specifically reviewed the Group's assumptions on the expected future cash flows, including forward-looking information and the value of realisable collateral based on available market information.</p> <p>For both collectively and individually assessed ECL, we have also assessed the financial statement disclosures relating to the Group's exposure to credit risk.</p>

Independent Auditor's Report

Consolidation of structured entities

Refer to note 44 to the consolidated financial statements and the significant accounting policies on page 191.

The key audit matter	How the matter was addressed in our audit
<p>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing trust plans, asset management plans, wealth management products and investment funds.</p> <p>The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking consideration of power arising from rights, variable returns, and link between power and returns.</p> <p>The assessment of the Group's control over structured entities involves significant judgment and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. We identified consolidation of structured entities as a key audit matter due to the key judgement exercised by the management of the Group in assessing and concluding whether the Group, as an investor, controlled the structured entities.</p>	<p>We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities.</p> <p>Furthermore, we tested the design and operating effectiveness of the Group's controls over its structured entities, and assessed the adequacy of disclosures being made in the consolidated financial statements required under applicable accounting standards for these consolidated or unconsolidated structured entities.</p>

Independent Auditor's Report

Valuation of financial instruments

Refer to note 50 to the consolidated financial statements and the accounting policies on page 217.

The key audit matter	How the matter was addressed in our audit
<p>The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, in particularly those required significant unobservable inputs, usually involve subjective judgment and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p> <p>As at December 31, 2019, financial assets measured at fair value amounted to approximately RMB51,811,346,000 representing 15% of total assets. Financial instruments which required either directly (i.e. as prices) or indirectly (i.e. derived from prices) inputs were categorised within level 2 of the fair value hierarchy while financial instruments which are not based on observable market inputs were categorised within level 3 of the fair value hierarchy. We identified valuation of financial instruments as a key audit matter due to the significance of financial instruments measured at fair value, and judgements and estimations involved in valuation.</p>	<p>Our procedures were designed to assess and test the design and operating effectiveness of the Group's controls over valuation of financial instruments, including to test the relevant data quality of the IT systems involved, and we assessed the adequacy of the disclosure being made in the consolidated financial statements required under applicable accounting standards for valuation of financial instrument.</p> <p>We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.</p>



Independent Auditor's Report

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

RESPONSIBILITIES OF DIRECTORS OF THE BANK AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibilities towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Bank.
- Conclude on the appropriateness of the Bank's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Chuen Fai.

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

Hong Kong
March 30, 2020

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
Interest income		14,379,993	15,327,061
Interest expenses		(9,092,094)	(8,199,277)
Net interest income	6	5,287,899	7,127,784
Fee and commission income		357,626	362,673
Fee and commission expenses		(104,370)	(196,618)
Net fee and commission income	7	253,256	166,055
Net trading gains	8	1,489,821	1,089,241
Net gains arising from investment securities	9	131,183	42,689
Net exchange gains		68,888	388,230
Other operating income, net	10	2,275	58,240
Operating income		7,233,322	8,872,239
Operating expenses	11	(2,356,503)	(2,271,097)
Impairment losses on assets, net of reversals	14	(4,311,984)	(1,962,374)
Operating profit		564,835	4,638,768
Share of result of an associate		(68)	(960)
Profit before tax		564,767	4,637,808
Income tax expense	15	(53,393)	(1,198,164)
Profit for the year		511,374	3,439,644

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
Profit for the year		511,374	3,439,644
Other comprehensive income/(expenses) for the year:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
– Remeasurement of defined benefit obligations		1,010	(4,550)
– Income tax relating to remeasurement of defined benefit obligations that will not be reclassified subsequently		(253)	1,138
		757	(3,412)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Debt instruments at fair value through other comprehensive income			
– Movement of provision for impairment losses	24	1,513	(45,198)
– Change in fair value recognised in investment revaluation reserve		(56,922)	391,898
– Income tax relating to item that may be reclassified subsequently		13,451	(97,975)
		(41,958)	248,725
Other comprehensive (expense) income for the year, net of income tax		(41,201)	245,313
Total comprehensive income for the year		470,173	3,684,957
Profit for the year attributable to:			
– Owners of the Bank		509,111	3,435,278
– Non-controlling interests		2,263	4,366
		511,374	3,439,644
Total comprehensive income for the year attributable to:			
– Owners of the Bank		467,910	3,680,591
– Non-controlling interests		2,263	4,366
		470,173	3,684,957
Earnings per share			
– Basic and diluted (RMB cents)	16	5.06	34.52

Consolidated Statement of Financial Position

At December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
Assets			
Cash and deposits with the central bank	17	25,274,278	31,536,912
Deposits with banks	18	3,967,542	12,927,702
Financial assets held under resale agreements	19	16,263,996	19,523,812
Financial assets at amortised cost	20	61,697,396	45,066,288
Interests receivables	21	2,202,105	1,891,235
Loans and advances to customers	22	164,766,836	154,633,858
Financial assets at fair value through profit or loss	23	36,729,899	42,560,973
Financial assets at fair value through other comprehensive income	24	15,081,447	15,249,097
Interest in an associate	25	8,902	8,970
Property and equipment	27	2,825,257	3,006,860
Right-of-use assets	28	345,173	–
Deferred tax assets	29	1,643,070	1,719,546
Other assets	30	4,238,584	497,118
Total assets		335,044,485	328,622,371
Liabilities and equity			
Liabilities			
Borrowings from the central bank	32	2,316,353	11,650,851
Deposits from banks and other financial institutions	33	13,621,889	15,513,772
Placements from banks and other financial institutions	34	890,000	3,300,000
Financial assets sold under repurchase agreements	35	5,398,580	11,716,985
Deposits from customers	36	236,868,657	210,723,317
Accrued staff costs	37	505,487	478,344
Taxes payable		2,969	491,170
Interests payable	38	8,761,501	6,418,933
Debts securities issued	39	39,459,173	41,576,773
Deferred tax liabilities	29	97,243	135,263
Lease liabilities	28	283,931	–
Other liabilities	40	2,149,700	1,369,372
Total liabilities		310,355,483	303,374,780

Consolidated Statement of Financial Position

At December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
Equity			
Share capital	41	10,069,791	10,069,791
Capital reserve	42	4,660,417	4,658,314
Defined benefit plan reserve		(3,399)	(4,156)
Investment revaluation reserve		219,469	261,427
Surplus reserve	42	1,560,835	1,510,052
General reserve	42	4,471,044	4,423,117
Retained earnings		3,678,816	4,297,780
Total equity attributable to the owners of the Bank		24,656,973	25,216,325
Non-controlling interests		32,029	31,266
Total equity		24,689,002	25,247,591
Total liabilities and equity		335,044,485	328,622,371

The consolidated financial statements on pages 179 to 316 were approved and authorised for issue by the board of directors of the Bank on March 30, 2020 and are signed on its behalf by:

Mr. Liu Qing
Director

Mr. Wang Wen Yong
Director

Consolidated Statement of Changes In Equity

For the year ended December 31, 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 year	-	-	-	-	-	-	509,111	509,111	2,263	511,374
Other comprehensive income/ (expenses) for the year	-	-	757	(41,958)	-	-	-	(41,201)	-	(41,201)
Total comprehensive income/(expenses) for the year	-	-	757	(41,958)	-	-	509,111	467,910	2,263	470,173
Shareholders' injection (Note 42)	-	2,103	-	-	-	-	-	2,103	-	2,103
Appropriation of profits										
- Appropriation to surplus reserve	-	-	-	-	50,783	-	(50,783)	-	-	-
- Appropriation to general reserve	-	-	-	-	-	47,927	(47,927)	-	-	-
Dividends paid (Note 43)	-	-	-	-	-	-	(1,029,365)	(1,029,365)	-	(1,029,365)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,500)	(1,500)
At December 31, 2019	10,069,791	4,660,417	(3,399)	219,469	1,560,835	4,471,044	3,678,816	24,656,973	32,029	24,689,002

Consolidated Statement of Changes In Equity

For the year ended December 31, 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 (Audited)	7,525,991	1,767,659	(744)	(125,323)	892,953	3,631,670	2,889,067	16,581,273	31,766	16,613,039
Change in accounting policy	-	-	-	138,025	(61,310)	-	(556,709)	(479,994)	(2,916)	(482,910)
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 year	-	-	-	-	-	-	3,435,278	3,435,278	4,366	3,439,644
Other comprehensive (expenses)/ income for the year	-	-	(3,412)	248,725	-	-	-	245,313	-	245,313
Total comprehensive (expenses)/income for the year	-	-	(3,412)	248,725	-	-	3,435,278	3,680,591	4,366	3,684,957
Shareholders' injection (Note 42)	-	500	-	-	-	-	-	500	-	500
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	-	-	-	-	678,409	-	(678,409)	-	-	-
- Appropriation to general reserve	-	-	-	-	-	791,447	(791,447)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,950)	(1,950)
At December 31, 2018	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

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit before tax	564,767	4,637,808
Adjustments for:		
Depreciation of property and equipment	386,957	329,589
Depreciation of right-of-use assets	113,443	–
Amortisation of intangible assets	4,379	1,241
Amortisation of long term deferred expenses and land use rights	–	12,370
Impairment losses on assets, net of reversals	4,311,984	1,962,374
Interest expense on lease liabilities	6,617	–
Interest expense on debts securities issued	1,579,603	1,566,339
Loss on disposal of property and equipment	2,703	159
Unrealised losses/(gains) from debt securities	95,160	(262,821)
Net gains arising from investment securities	(131,183)	(42,689)
Government grants	(5,708)	(23,775)
Interest income on investments	(3,320,437)	(3,812,326)
Share of result of an associate	68	960
	3,608,353	4,369,229
Changes in operating assets		
Net decrease in deposits with the central bank	4,382,237	353,157
Net decrease in deposits with banks	4,129,000	23,296,018
Net decrease/(increase) in financial assets at fair value through profit or loss	6,535,998	(32,268,292)
Net increase in loans and advances to customers	(14,560,604)	(31,425,805)
Net increase in other operating assets	(6,416,006)	(2,595,100)
	(5,929,375)	(42,640,022)
Changes in operating liabilities		
Net (decrease)/increase in borrowings from central bank	(9,334,498)	6,360,441
Net decrease in deposits and placements from banks and other financial institutions	(4,301,883)	(2,414,601)
Net (decrease)/increase in financial assets sold under repurchase agreements	(6,318,405)	5,899,459
Net increase in deposits from customers	26,145,340	18,492,714
Net increase in other operating liabilities	3,169,950	2,720,516
	9,360,504	31,058,529
Cash generated from/(used in) operations	7,039,482	(7,212,264)
Income tax paid	(489,940)	(1,323,896)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	6,549,542	(8,536,160)

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES		
Proceeds from disposal and redemption of investments	67,179,777	135,094,122
Interest income received from financial investments	2,972,680	3,538,423
Proceeds from disposal of property and equipment	79,895	3,756
Payments on acquisition of investments	(81,558,348)	(132,123,913)
Payments on acquisition of property and equipment and intangible assets	(296,213)	(1,401,927)
Deposits paid for acquisition of premises	(45,689)	(200,087)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(11,667,898)	4,910,374
FINANCING ACTIVITIES		
Shareholders' injection	2,103	500
Government grants received	5,708	23,775
Proceeds from capital contribution by equity shareholders	-	5,602,442
Shares issue expense	-	(168,487)
Net proceeds from issue of new debt securities	33,992,480	45,922,603
Repayment of debt securities issued	(36,560,000)	(28,740,000)
Repayment of lease liabilities	(147,051)	-
Interest paid on debts securities issued	(1,130,619)	(1,086,709)
Interest paid on lease liabilities	(6,617)	-
Dividends paid	(1,012,230)	(141)
Dividends paid to non-controlling interests	(1,500)	(1,950)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(4,857,726)	21,552,033
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(9,976,082)	17,926,247
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	35,147,129	17,220,882
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 46)	25,171,047	35,147,129
Interest received	14,718,402	15,242,101
Interest paid (excluding interest expense on debts securities issued and lease liabilities)	(5,162,370)	(6,591,231)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

1. GENERAL

Bank of Gansu Co., Ltd (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 and principal place of business is No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province.

As at December 31, 2019, the Bank has a head office, 12 branches, 190 sub-branches, 5 micro-to-small enterprise sub-branches, 2 community sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (hereinafter 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 consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Bank and its subsidiary.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, 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 – Interpretation 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 consolidated financial statements as summarised below.

The application of other new and amendments to IFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

2.1 Impacts on adoption of IFRS 16 Leases

IFRS 16 Lease

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 3. 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. Comparative information has not been restated and continues to be reported 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 IFRIC - Interpretation 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 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.

The Group as lessor

The accounting policies applicable to the Group as lessor remain substantially unchanged from those under IAS 17.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

2.1 Impacts on adoption of IFRS 16 Leases (Continued)

IFRS 16 Lease (Continued)

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	Impact on adoption of IFRS 16 RMB'000	As at January 1, 2019 RMB'000
Right-of-use assets	(a) (b)	–	277,820	277,820
Lease liabilities	(a)	–	250,186	250,186
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 RMB250,186,000, represented leased premises which is equal to the lease liabilities included in the “Lease liabilities” line item of approximately RMB250,186,000. There is no impact to the opening balance of retained earnings.
- b) Land use rights included in the “Right-of-use assets” line item of approximately RMB27,634,000 as at December 31, 2018 were reclassified to right-of-use assets which represented the upfront payments for leasehold lands in the PRC as at January 1, 2019. There is no impact to the opening balance of retained earnings.

In the consolidated statement of cash flow, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. The total cash flows are unaffected. The adoption of IFRS 16 has no material impact in presentation of cash flows within the cash flow statement.

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 commitments 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)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

2.2 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 IFRIC - Interpretation 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.
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts ⁶
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to IFRS 3	Definition of a Business ⁵
Amendments to IAS 1 and IAS 8	Definition of Material ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ¹
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting ¹

¹ Effective for annual periods beginning on or after January 1, 2020.

² Effective for annual periods beginning on or after January 1, 2021.

³ Effective for annual periods beginning on or after January 1, 2022.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.

⁶ The new standard is currently mandatorily effective for annual periods beginning on or after January 1, 2021, however in March 2020, IASB deferred the effective date for annual period beginning on or after January 1, 2023.

The directors of the Bank anticipate that, the application of the above new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB on the historical cost basis except for certain financial instruments that are measured at fair values and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price), regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (i.e. its subsidiary). Control is achieved where the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of the subsidiary are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiary is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in a subsidiary

Investment in a subsidiary is included in the Bank's statement of financial position at cost less accumulated impairment losses, if any.

Translation of foreign currencies

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

A spot exchange rate is quoted by The People's Bank of China (the "PBOC"), the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for exchange differences arising on the translation of non-monetary financial investments in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Cash and cash equivalents

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investment in an associate are accounted for in the consolidated financial statements using the equity method. Under the equity method, investment in an associate are initially recognised at cost. The Group's share of the profit or loss of the associates is recognised in profit or loss after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate.

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether there is an objective evidence that the net investment in the associate is impaired. The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, that forms part of the carrying amount of the net investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

(i) Amortised cost and effective interest method (Continued)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the “Net interest income” line item (Note 6).

Financial assets at FVTOCI (debt instruments)

The Group measures financial assets subsequently at FVTOCI if both of the following conditions are met:

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

The Group’s debt instruments classified at FVTOCI includes investment in debt securities. Fair value is determined in the manner described in Note 50. Debt instruments are initially measured at fair value plus transaction costs. Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, impairment gains or loss, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The gain or loss recognised in profit or loss excludes interest earned on the financial assets and is included in the “Unrealised (losses)/gains” of “Net trading gains” line item. Fair value is determined in the manner described in Note 50.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL (Continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including loans and advances to customers, deposits with the central bank, deposits with banks, financial assets held under resale agreements, financial assets at amortised cost, debt instruments at FVTOCI, interest receivables, other receivables, credit commitments and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument (for stage 2 and stage 3). In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date (for stage 1). Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions, including time value of money where appropriate.

Stage 1 is where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, entities are required to recognise 12-month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

Stage 2 is where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2 entities are required to recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

Stage 3 is where the financial asset is credit-impaired. For financial assets in stage 3, entities will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

The Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial instrument to have low credit risk when it has an external credit rating of 'investment grade' as per globally understood definitions or if an external rating is not available, the asset has an internal rating of 'Normal'. Normal means that the counterparty can honour the terms of their loans with no reason to doubt their ability to repay principal and interest in full on a timely basis.

For credit commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a credit commitment, the Group considers changes in the risk of a default occurring on the loan to which a credit commitment relates; for the financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts and credit commitments, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For undrawn credit commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the credit commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of ECL (Continued)

Except for investments in debt instruments that are measured at FVTOCI, credit commitments and financial guarantees contracts, the Group recognises an impairment gain or loss in profit or loss for all other financial instruments by adjusting their carrying amount where the corresponding adjustment is recognised through a loss allowance account.

For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these debt instruments.

For financial guarantee contracts and credit commitments, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL are subsequently measured at amortised cost using the effective interest method.

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the amortised cost of a financial liability.

Financial guarantee contracts

Financial guarantee contract are contracts that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Credit commitment

Credit commitment is provided by the Group to the customer to extend loans to the customer within the commitment period on the agreed term of the contract. The Group normally does not lend at below-market rate or provide customer with credit commitments to be settled in cash or the Group shows the impairment provision for the financial guarantee contracts and credit commitment in provision on a net basis through the delivery or issuance of other financial instruments. Credit commitment recognises impairment losses in accordance with IFRS 9.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised to depict the transfer of promised services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the services underlying the particular performance obligations is transferred to customers.

A performance obligation represents a service (or a bundle of services) that is distinct or a series of distinct services that are substantially the same. For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

The Group recognised revenue under IFRS 15 from the following major sources:

- Wealth management service fees
- Bank acceptance bills service fees
- Agency services fees
- Settlement and clearing fees
- Letter of guarantee service fees

Fee and commission income is recognised at the specific point of time or for a certain period of time on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Fee and commission income charged for performance obligations performed at specific point of time are recognised when customer obtains control of relevant services, mainly including bank acceptance bills, settlement and clearing and letter of guarantee.

Fee and commission income charged for performance obligations performed during a certain period of time are recognised according to the progress of the performance during that period, mainly including, wealth management service fees and agency services fees.

In current year, the Group's revenue mainly includes interest income and fee and commission income, among which fee and commission income will be within the scope of IFRS 15, while interest income is within the scope of IFRS 9.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Accounting policy applicable on or after January 1, 2019

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

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date. 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 liabilities comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liabilities are presented as a separate line in the consolidated statement of financial position.

The lease liabilities are 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

Accounting policy applicable on or after January 1, 2019 (Continued)

The Group as lessee (Continued)

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, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

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 estimated useful life of the underlying asset.

The Group presents right-of-use assets as a separate line in the 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.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to certain premises. Leases for which the Group is a lessor are classified as operating leases.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

Accounting policy applicable prior to January 1, 2019

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “land use rights” included in “other assets” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as other assets.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial assets held under resale and sold under repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the consolidated statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the consolidated statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Property and equipment

Property and equipment use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. They are held by the Group for operation and administration purposes with useful lives over one year.

Depreciation is recognised so as to write off their costs, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognised impairment loss in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (Continued)

The estimated residual value rates and useful lives of each class of property and equipment, other than construction in progress, are as follows:

Classes	Estimated residual value rates	Useful lives
Premises	5%	20 years
Electronic equipment	3%	5 years
Motor vehicles	3%	5 years
Leasehold improvement	0%	Shorter of 5 years or economic useful lives
Computer software	0%	Shorter of 3 years or economic useful lives
Office equipment	3%	5 years

Land use rights included in "other assets"

Accounting policy applicable prior to January 1, 2019

Land use rights are classified in other assets and amortised over a straight-line basis over their authorised useful lives.

Intangible assets included in "other assets"

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Repossessed assets included in "other assets"

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Employee benefits

Payments to defined contribution plan and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are not reclassified. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Defined benefit costs are categorised as:

- service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurements.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Salaries and allowances

Salaries and allowances are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Contributions from employees or third parties to defined benefit plans

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the measurement of the net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Other social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees' salaries and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Other long-term employee benefits

The Group's net obligation in respect of other long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in respect of their services in the current and prior periods.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in a subsidiary and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Fiduciary activities

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

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

Expenses recognition

Other expenses

Other expenses are recognised on an accrual basis.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the state and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group include, but are not limited to:

- (a) the Bank's subsidiary;
- (b) investors that exercise significant influence over the Group;
- (c) key management personnel of the Group and close family members of such individuals;
- (d) other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, and close family members of such individuals.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as a subsequent event.

Fair value measurement

When measuring fair value except for the Group's leasing transactions, value in use of property and equipment, right-of-use assets/land use rights, intangible assets and interest in an associate for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Bank are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Bank have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required. Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed. When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as whether the principal amount may change over the life of the financial asset (for example, if there are repayments of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgement in applying accounting policies (Continued)

Significant influence over an associate

As per Note 25, the directors of the Bank considered Gansu Jingchuan CDB Village Bank* (“甘肅涇川國開村鎮銀行股份有限公司”, “Gansu Jingchuan”), in which the Group has 16.67% equity interest in, as an associate of the Group.

The Group considered that it has the practical ability to exercise significant influence over Gansu Jingchuan even through it owns less than 20% of the ownership interest and voting control after taking into account 1) the Group's ownership interest is significant relative to other shareholders due to the wide dispersion of shareholding interests; 2) the representation or rights to appoint/nominate directors for the board of directors of the associates; and 3) the rights to participate in the policy-making process, including dividends and other distribution.

Consolidation of structured entities

Management applies its judgement to determine whether the control indicators indicate that the Group controls a non-principal guaranteed wealth management products and an asset management plans.

The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such structured entities usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Group, the Group's aggregate economic interest in each case is not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Group has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 44.

Legal title of premises

As detailed in Note 27, certain of the Group's premises as at December 31, 2019 and 2018 of which title deeds were not yet finalised by the Group. Although the Group had not obtained the relevant legal titles, the premises were recognised in the consolidated statement of financial position as at December 31, 2019 and 2018 based on the legal opinion that the Group is in substance controlling these premises.

At December 31, 2019, the premises with carrying values of approximately RMB1,890,994,000 was in the process of finalising title deeds (2018: approximately RMB1,915,117,000).

* The English translation is for identification only.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

ECL on major financial assets

The Bank has adopted IFRS 9 to measure and account for financial instruments. For deposits with banks, financial assets held under resale agreements, loans and advances to customers, financial assets at amortised cost, provision for bank acceptances and letters of guarantees and credit commitments, the measurement of ECL uses complex models and a large number of assumptions. These models and assumptions relate to future macroeconomic conditions and borrowers' credit behavior (e.g. the probability of default and the corresponding losses).

According to the requirements of accounting standards, the measurement of ECL involves many critical judgements. For example:

- Judge the standard of significant increase in credit risk;
- Select proper models and assumptions of measurement of ECL;
- For different types of financial instruments, determine the number and weight of forward-looking scenarios to be used in measuring ECL;
- Divide the measurement of ECL into groups by characteristics of financial instruments, and the items with similar credit risk characteristics are grouped into one combination.

As at December 31, 2019, the carrying amount of deposits with banks, financial assets held under resale agreements, loans and advances to customers and financial assets at amortised costs were approximately RMB3,967,542,000, RMB16,263,996,000, RMB164,766,836,000 and RMB61,697,396,000 respectively (2018: approximately RMB12,927,702,000, RMB19,523,812,000, RMB154,633,858,000 and RMB45,066,288,000 respectively), net of accumulated impairment losses of nil, nil, RMB5,682,405,000 and RMB1,326,885,000 (2018: RMB4,709,000, nil, RMB6,251,454,000 and RMB2,729,400,000 respectively).

As at December 31, 2019, the carrying amount of provision for bank acceptances and letters of guarantees under financial liabilities were approximately RMB26,354,000 (2018: approximately RMB61,454,000).

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

ECL on major financial assets (Continued)

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns probabilities of default to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probabilities of default, exposures at default and losses given default
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Valuation of financial instruments

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

As at December 31, 2019, the financial assets that are measured at fair value on a recurring basis is approximately RMB51,811,346,000 (2018: approximately RMB57,810,070,000).

Impairment of non-financial assets

Non-financial assets (i.e., property and equipment, repossessed assets, deposits paid for acquisitions of premises, land use rights, right-of-use assets, intangible assets and interest in an associate) are reviewed when impairment indicators once occurred to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

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

As at December 31, 2019, the carrying amount of non-financial assets was approximately RMB3,453,182,000 (2018: approximately RMB3,262,559,000), net of accumulated impairment loss of nil (2018: nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Depreciation and amortisation

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

As at December 31, 2019, the carrying amount of property and equipment was approximately RMB2,825,257,000 (2018: approximately RMB3,006,860,000), net of accumulated depreciation of approximately RMB1,250,324,000 (2018: approximately RMB871,504,000).

As at December 31, 2019, the carrying amount of right-of-use assets was approximately RMB345,173,000 (January 1, 2019: approximately RMB277,820,000), net of accumulated depreciation of approximately RMB113,443,000 (January 1, 2019: nil).

As at December 31, 2019, the carrying amount of intangible assets was approximately RMB22,890,000 (2018: approximately RMB19,008,000), net of accumulated amortisation of approximately RMB9,040,000 (2018: approximately RMB4,661,000).

Impairment of interest in an associate

In determining whether the interest in an associate are impaired, the directors of the Bank assesses the recoverable amount of the interest in an associate which is the higher of its fair value less costs of disposal and its value in use. An impairment loss is made if the carrying amount of interest in an associate exceeds its recoverable amount. In determining the recoverable amount of the interest in an associate, the directors of the Bank require an estimation of the future cash flows expected to arise from the expected dividend yield from the associates in order to determine the value in use of the interests in associates.

As at December 31, 2019, the carrying amount of interest in an associate was approximately RMB8,902,000 (2018: approximately RMB8,970,000). No impairment loss was recognised as at December 31, 2019 and 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) **Urban maintenance and construction tax**

Urban maintenance and construction tax is calculated as 5%-7% of business tax and value added tax.

(b) **Education surcharge**

Education surcharge is calculated as 3% of business tax and value added tax.

(c) **Local education surcharge**

Local education surcharge is calculated as 2% of business tax and value added tax.

(d) **Income tax**

The income tax is calculated on taxable income. The statutory income tax rate is 15%-25%.

(e) **Value added tax**

Pursuant to the "Circular regarding the Pilot Program on Comprehensive Implementation of Value Added Tax Reform" issued by the Ministry of Finance of the PRC (the "MOF") and the State Administration of Taxation, the Group is required to pay value added tax instead of business tax from May 1, 2017. Value added tax and related underlying value of the invoice for value added taxable income and expenses shall be stated and accounted for separately.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

6. NET INTEREST INCOME

	2019 RMB'000	2018 RMB'000
Interest income arising from		
– Deposits with the central bank	392,837	434,322
– Deposits with banks	244,144	692,630
– Placements with banks and other financial institutions	25	4,778
– Loans and advances to customers:		
Corporate loans and advances	7,103,516	7,194,282
Personal loans and advances	1,888,784	1,757,676
Discounted bills	978,435	1,019,428
– Financial assets held under resale agreements	451,815	411,619
– Financial assets at fair value through other comprehensive income	663,302	506,749
– Financial assets at amortised cost	2,657,135	3,305,577
	14,379,993	15,327,061
Less: Interest expenses arising from		
– Borrowings from the central bank	(177,173)	(261,055)
– Deposits from banks and other financial institutions	(483,009)	(1,017,503)
– Placements from banks and other financial institutions	(71,817)	(194,796)
– Deposits from customers:		
Corporate customers	(2,126,295)	(1,933,660)
Individual customers	(4,456,770)	(2,989,641)
– Financial assets sold under repurchase agreements	(190,810)	(236,283)
– Debts securities issued	(1,579,603)	(1,566,339)
– Lease liabilities	(6,617)	–
	(9,092,094)	(8,199,277)
	5,287,899	7,127,784

Note:

All the interest income and interest expense for the years ended December 31, 2019 and 2018 are calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

7. NET FEE AND COMMISSION INCOME

	2019 RMB'000	2018 RMB'000
Fee and commission income		
- Wealth management service fees	36,251	48,020
- Bank acceptance bills service fees	27,567	19,812
- Agency services fees	120,624	207,307
- Settlement and clearing fees	146,431	68,399
- Letter of guarantee service fees	2,480	4,333
- Others	24,273	14,802
	<hr/>	<hr/>
	357,626	362,673
	<hr/>	<hr/>
Fee and commission expenses		
- Settlement and clearing fees	(13,060)	(5,470)
- Bank card service fees	(63,345)	(184,852)
- Others	(27,965)	(6,296)
	<hr/>	<hr/>
	(104,370)	(196,618)
	<hr/>	<hr/>
	253,256	166,055

All fee and commission income and expenses are related to financial assets or financial liabilities which are not designated at FVTPL.

8. NET TRADING GAINS

	2019 RMB'000	2018 RMB'000
Financial assets at FVTPL		
- Realised gains from debt securities	935,702	277,313
- Unrealised (losses)/gains from debt securities	(95,160)	262,821
Interest income arising from financial asset at FVTPL	649,279	549,107
	<hr/>	<hr/>
	1,489,821	1,089,241

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

9. NET GAINS ARISING FROM INVESTMENT SECURITIES

	2019 RMB'000	2018 RMB'000
Net gains on disposal of financial assets at fair value through other comprehensive income	131,183	42,689

10. OTHER OPERATING INCOME, NET

	2019 RMB'000	2018 RMB'000
Government grants (Note)	5,708	23,775
Loss on disposal of property and equipment	(2,703)	(159)
Rental income	7,804	40,791
Other operating expenses	(8,534)	(6,167)
	2,275	58,240

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

11. OPERATING EXPENSES

	2019 RMB'000	2018 RMB'000
Staff costs (including directors' and supervisors' emoluments)		
– Salaries and bonuses	905,229	909,916
– Staff welfares	49,857	35,467
– Social insurance	218,995	209,234
– Housing allowances	67,057	57,057
– Labor union and staff education expenses	22,541	23,466
– Long term staff welfare expenses	552	510
– Others	7,883	4,873
	1,272,114	1,240,523
Premises and equipment expenses		
– Depreciation of property and equipment	386,957	329,589
– Depreciation of right-of-use assets	113,443	–
– Amortisation of long term deferred expenses	–	11,058
– Amortisation of land use rights	–	1,312
– Amortisation of intangible assets	4,379	1,241
– Rental and property management expenses	60,207	179,866
	564,986	523,066
Business tax and surcharges	76,069	77,684
Other general and administrative expenses (Note)	443,334	429,824
	2,356,503	2,271,097

Note: Auditor's remuneration for the year ended December 31, 2019 was approximately RMB3,300,000 (2018: approximately RMB3,000,000).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax of directors and supervisors of the Bank paid and/or payable by the Group during the years ended December 31, 2019 and 2018 are set out below:

	For the year ended December 31, 2019				
	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors					
LIU Qing ^{(7), (13), (15)}	–	251	158	424	833
WANG Wenyong ^{(7), (14), (15)}	–	242	154	407	803
Non-executive directors					
WU Changhong ⁽¹⁶⁾	–	–	–	–	–
GUO Jirong ⁽¹⁶⁾	–	–	–	–	–
ZHANG Youda ⁽¹⁶⁾	–	–	–	–	–
ZHANG Hongxia ⁽¹⁶⁾	143	–	–	–	143
LIU Wanxiang ^{(7), (16)}	–	–	–	–	–
Independent non-executive directors					
TANG Xiuli ⁽¹⁶⁾	143	–	–	–	143
LUO Mei ⁽¹⁶⁾	143	–	–	–	143
WONG Sincere ⁽¹⁶⁾	143	–	–	–	143
DONG Ximiao ^{(7), (16)}	119	–	–	–	119
Supervisors					
XU Yongfeng	–	220	154	346	720
LUO Zhenxia	–	169	132	273	574
LIU Yongchong	–	–	–	–	–
LI Yongjun	–	–	–	–	–
ZENG Lehu ⁽¹⁾	–	–	–	–	–
YANG Zhenjun	–	–	–	–	–
DONG Ying	–	–	–	–	–
LUO Yi ⁽⁶⁾	143	–	–	–	143
TANG Lan ^{(6), (12)}	–	241	154	405	800
	834	1,123	752	1,855	4,564

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	For the year ended December 31, 2018				
	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Discretionary bonuses RMB'000	Total RMB'000
Executive directors					
LI Xin ^{(5), (10), (15)}	–	460	123	275	858
LIU Qing ^{(7), (13), (15)}	–	197	41	48	286
WANG Wenyong ^{(7), (14), (15)}	–	62	14	15	91
LEI Tie ^{(5), (11), (15)}	–	467	123	203	793
Non-executive directors					
WU Changhong ⁽¹⁶⁾	–	–	–	–	–
LI Hui ^{(4), (16)}	–	–	–	–	–
GUO Jirong ⁽¹⁶⁾	–	–	–	–	–
ZHANG Youda ⁽¹⁶⁾	–	–	–	–	–
ZHANG Hongxia ⁽¹⁶⁾	143	–	–	–	143
LIU Wanxiang ^{(7), (16)}	–	–	–	–	–
Independent non-executive directors					
CHEN Aiguo ^{(5), (16)}	131	–	–	–	131
TANG Xiuli ⁽¹⁶⁾	143	–	–	–	143
LUO Mei ⁽¹⁶⁾	143	–	–	–	143
WONG Sincere ⁽¹⁶⁾	143	–	–	–	143
DONG Ximiao ^{(7), (16)}	–	–	–	–	–
Supervisors					
YANG Qian ⁽⁹⁾	–	243	72	149	464
XU Yongfeng	–	388	159	491	1,038
LUO Zhenxia	–	365	144	230	739
LIU Yongchong	–	–	–	–	–
LIU Xiaoyu ⁽²⁾	–	–	–	–	–
LI Yongjun	–	–	–	–	–
ZHU Xingjie ⁽³⁾	–	–	–	–	–
YANG Zhenjun	–	–	–	–	–
DONG Ying	–	–	–	–	–
LUO Yi ⁽⁶⁾	83	–	–	–	83
TANG Lan ^{(8), (12)}	–	125	25	30	180
	786	2,307	701	1,441	5,235

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

- (1) Appointed on June 3, 2019.
- (2) Resigned on March 27, 2019.
- (3) Resigned on June 1, 2018.
- (4) Resigned on August 31, 2018.
- (5) Resigned on December 3, 2018.
- (6) Appointed on June 1, 2018.
- (7) Appointed on December 3, 2018.
- (8) Appointed on November 12, 2018.
- (9) Ceased to be Chief Supervisor of the Bank under the direction of the People's Government of Gansu Province from March 2018, and resigned as employee representative Supervisor and Chief Supervisor of the Bank since April 2018.
- (10) Ceased to be Chairman of the Bank under the direction of the People's Government of Gansu Province from October 2018, and resigned as Executive Director and Chairman of the Bank since December 2018.
- (11) Ceased to be Vice President of the Bank under the direction of the People's Government of Gansu Province from October 2018, and resigned as Executive Director and Vice President of the Bank since December 2018.
- (12) Appointed as member of the Party committee of the Bank under the direction of the People's Government of Gansu Province and received emolument since November 2018; appointed as Chief Supervisor of the Bank since December 2018.
- (13) Appointed as secretary to the Party committee of the Bank under the direction of the People's Government of Gansu Province and received emolument from October 2018; appointed as Executive Director and Chairman of the Bank since December 2018.
- (14) Appointed as deputy secretary to the Party committee of the Bank under the direction of the People's Government of Gansu Province from October 2018; appointed as Executive Director, President of the Bank and received emolument since December 2018.
- (15) The emolument represent the payments to the directors in respect of their service in connection with management affair of the Group.
- (16) The emolument represent the payments to the directors in respect of their service as a director.

Mr. LIU Qing is also the chief executive of the Bank and his emoluments disclosed above include those for services rendered by him as the chief executive.

No directors of the Bank waived or agreed to waive any emolument paid by the Group during the years ended December 31, 2019 and 2018. No emoluments were paid by the Group to the directors of the Bank as an incentive payment for joining the Group or as compensation for loss of office during the years ended December 31, 2019 and 2018.

Discretionary bonus was determined with reference to the Group's operating results, individual performance and comparable market statistics for such financial year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors or supervisors of the Group whose emolument are disclosed in Note 12 above are the five individuals with the highest emoluments for the years ended December 31, 2019 and 2018.

The emoluments of the five individuals with the highest emoluments in the Group for the years ended December 31, 2019 and 2018 were as follows:

	2019 RMB'000	2018 RMB'000
Salaries and allowances	1,797	1,705
Retirement benefits scheme contributions	780	746
Discretionary bonuses	3,896	3,151
	6,473	5,602

Their emoluments were within the following bands:

	2019 No. of employees	2018 No. of employees
RMB1,000,001–1,500,000	5	5
RMB1,500,001–2,000,000	–	–
RMB2,000,001–2,500,000	–	–
RMB2,500,001–3,000,000	–	–
RMB4,500,000–5,000,000	–	–
RMB7,000,000–7,500,000	–	–

No emoluments were paid by the Group to the five individuals with the highest emoluments of the Bank as an incentive payment for joining the Group or as compensation for loss of office during the year ended December 31, 2019 (2018: nil).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

14. IMPAIRMENT LOSSES ON ASSETS, NET OF REVERSALS

	2019 RMB'000	2018 RMB'000
Impairment losses, net of reversals on:		
Financial assets at FVTOCI	1,513	(45,198)
Financial assets at amortised cost	675,784	(11,962)
Other receivables	76,229	7,507
Loans and advances to customers	3,598,267	1,994,432
Deposits with banks	(4,709)	254
Financial assets held under resale agreements	–	(62)
Bank acceptances and letters of guarantees	(35,100)	17,403
	4,311,984	1,962,374

15. INCOME TAX EXPENSE

(a) Income tax:

	2019 RMB'000	2018 RMB'000
Current tax:		
– PRC Enterprise Income Tax	1,739	1,242,210
Deferred tax (note 29)		
– Current year	51,654	(44,046)
	53,393	1,198,164

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% for the years ended December 31, 2019 and 2018.

* The English translation is for identification only.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

15. INCOME TAX EXPENSE (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
Profit before tax	564,767	4,637,808
Tax at domestic income tax rate of 25% (2018: 25%)	141,192	1,159,452
Tax effect of share of result of an associate	17	240
Tax effect of expenses not deductible for tax purpose (note i)	40,859	55,502
Tax effect of income that are not taxable for tax purpose (note ii)	(127,931)	(15,701)
Income tax on concessionary rate	(744)	(1,329)
Income tax expense	53,393	1,198,164

Notes:

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

Details of the deferred taxation are set out in Note 29.

16. 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:

	2019 RMB'000	2018 RMB'000
Profit for the year attributable to owners of the Bank (RMB'000)	509,111	3,435,278
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	10,069,791	9,951,313

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the years ended December 31, 2019 and 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

17. CASH AND DEPOSITS WITH THE CENTRAL BANK

	2019 RMB'000	2018 RMB'000
Cash on hand	405,812	432,435
Deposits with the central bank		
– Statutory deposit reserve (Note a)	20,306,857	24,682,677
– Surplus deposit reserve (Note b)	4,533,697	6,387,471
– Fiscal deposits	27,912	34,329
	24,868,466	31,104,477
	25,274,278	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 December 31, 2019 and 2018, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2019	2018
Reserve ratio for RMB deposits	8.5%	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.

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For the year ended December 31, 2019

18. DEPOSITS WITH BANKS

Analysed by type and location of counterparty

	2019 RMB'000	2018 RMB'000
Deposits in Mainland China – Banks	3,703,727	12,626,836
Deposits outside Mainland China – Banks	263,815	305,575
	3,967,542	12,932,411
Less: Provision for impairment losses (Notes a, b)	–	(4,709)
	3,967,542	12,927,702

Notes:

a) Provision for impairment losses:

	At December 31, 2019				Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000		
Gross deposits with banks	3,967,542	–	–		3,967,542
Less: Provision for impairment losses	–	–	–		–
	3,967,542	–	–		3,967,542

	At December 31, 2018				Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000		
Gross deposits with banks	12,932,411	–	–		12,932,411
Less: Provision for impairment losses	(4,709)	–	–		(4,709)
	12,927,702	–	–		12,927,702

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

18. DEPOSITS WITH BANKS (CONTINUED)

Notes: (Continued)

b) Movement of provision for impairment losses:

Provision for impairment losses – Deposit with banks	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2018	4,455	–	–	4,455
Changes in the provision for impairment losses – Charge to profit or loss	254	–	–	254
Provision for impairment losses at December 31, 2018 and January 1, 2019	4,709	–	–	4,709
Changes in the provision for impairment losses – Credit to profit or loss	(4,709)	–	–	(4,709)
Provision for impairment losses at December 31, 2019	–	–	–	–

19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	2019 RMB'000	2018 RMB'000
In Mainland China		
– Banks	11,520,213	11,435,057
– Other financial institutions	4,743,783	8,088,755
	16,263,996	19,523,812

(b) Analysed by type of security held

	2019 RMB'000	2018 RMB'000
Debt securities		
– Government	5,220,318	4,705,553
– Banks and other financial institutions	11,043,678	14,818,259
	16,263,996	19,523,812

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19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(c) Provision for impairment losses:

	At December 31, 2019				Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000		
Gross financial assets held under resale agreements	16,263,996	–	–		16,263,996
Less: Provision for impairment losses	–	–	–		–
	16,263,996	–	–		16,263,996

	At December 31, 2018				Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000		
Gross financial assets held under resale agreements	19,523,812	–	–		19,523,812
Less: Provision for impairment losses	–	–	–		–
	19,523,812	–	–		19,523,812

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(d) Movement of provision for impairment losses:

Provision for impairment losses – Financial assets held under resale agreements	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2018	62	–	–	62
Changes in the provision for impairment losses – Credit to profit or loss	(62)	–	–	(62)
Provision for impairment losses at December 31, 2018 and December 31, 2019	–	–	–	–

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For the year ended December 31, 2019

20. FINANCIAL ASSETS AT AMORTISED COST

	2019 RMB'000	2018 RMB'000
Financial asset measured at amortised cost		
Debt securities issued by the following institutions in Mainland China		
– Government	14,906,774	5,238,228
– Banks and other financial institutions	11,937,294	7,348,088
– Corporations	4,385,172	5,831,434
Trust plans	17,786,844	11,977,738
Asset management plans	13,948,670	17,020,474
Asset-backed securities issued by bank and other institutions	59,527	379,726
	63,024,281	47,795,688
Less: Provision for impairment losses (Note a, b)	(1,326,885)	(2,729,400)
	61,697,396	45,066,288
Analysed as:		
Listed outside Hong Kong	27,541,473	18,321,494
Unlisted outside Hong Kong	34,155,923	26,744,794
	61,697,396	45,066,288
Fair value	62,143,647	45,163,984

At December 31, 2019 and 2018, parts of debt securities were pledged as security for repurchase agreement (Note 31(a)).

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For the year ended December 31, 2019

20. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Notes:

a) Provision for impairment losses of financial assets at amortised cost:

	At December 31, 2019			Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	
Gross financial assets at amortised cost	54,869,681	2,686,300	5,468,300	63,024,281
Less: Provision for impairment losses	(390,005)	(115,209)	(821,671)	(1,326,885)
	54,479,676	2,571,091	4,646,629	61,697,396

	At December 31, 2018			Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	
Gross financial assets at amortised cost	38,296,642	6,478,015	3,021,031	47,795,688
Less: Provision for impairment losses	(314,661)	(1,147,068)	(1,267,671)	(2,729,400)
	37,981,981	5,330,947	1,753,360	45,066,288

b) Movements of provision for impairment losses of financial assets at amortised cost

Provision for impairment losses– financial assets at amortised cost	Stage 1	Stage 2	Stage 3	Total RMB'000
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL- credit impaired RMB'000	
Provision for impairment losses at January 1, 2018	684,077	603,524	1,453,761	2,741,362
Changes in the provision for impairment losses				
– Transfer to stage 1	41,734	(41,734)	–	–
– Transfer to stage 3	–	(2,581)	2,581	–
– Charge (reversal) to profit or loss	(411,150)	587,859	(188,671)	(11,962)
Provision for impairment losses at December 31, 2018 and January 1, 2019	314,661	1,147,068	1,267,671	2,729,400
Changes in the provision for impairment losses				
– Transfer to stage 2	(13,735)	13,735	–	–
– Transfer to stage 3	(84,819)	(110,215)	195,034	–
– Write off and others	–	(866,151)	(1,212,148)	(2,078,299)
– Charge (reversal) to profit or loss	173,898	(69,228)	571,114	675,784
Provision for impairment losses at December 31, 2019	390,005	115,209	821,671	1,326,885

Notes to the Consolidated Financial Statements

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21. INTERESTS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Interests receivables arising from:		
– Investments	1,403,309	1,055,552
– Loans and advances to customers	780,285	779,388
– Financial assets held under resale agreements	6,764	17,177
– Deposits with banks	2,488	26,002
– Deposits with the central bank	9,259	13,116
	<u>2,202,105</u>	<u>1,891,235</u>

22. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	2019 RMB'000	2018 RMB'000
Gross loans and advances to customers		
Corporate loans and advances	111,292,030	113,204,179
Personal loans and advances		
– Personal business loans	6,997,942	7,580,060
– Personal consumption loans	10,196,924	7,647,686
– Residential and commercial mortgage loans	17,070,660	12,797,435
	<u>34,265,526</u>	<u>28,025,181</u>
Discounted bills	24,891,685	19,655,952
	<u>170,449,241</u>	<u>160,885,312</u>
Less: Provision for impairment losses	<u>(5,682,405)</u>	<u>(6,251,454)</u>
	<u>164,766,836</u>	<u>154,633,858</u>

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For the year ended December 31, 2019

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector

	At December 31, 2019		Loans and advances secured by collaterals RMB'000
	Amount RMB'000	Percentage	
Gross loans and advances to customers			
Corporate loans and advances			
– Manufacturing	21,035,981	12.34%	10,838,846
– Wholesale and retail	17,757,934	10.42%	8,746,152
– Real estate	14,860,110	8.72%	14,645,929
– Construction	10,461,046	6.14%	5,996,761
– Mining	7,279,374	4.27%	2,881,280
– Agriculture, forestry, animal husbandry and fishery	7,605,069	4.46%	3,224,948
– Leasing and business services	8,815,458	5.17%	5,164,545
– Water, environment and public facility management	3,078,705	1.81%	2,251,613
– Cultural, sports and entertainment	2,914,537	1.71%	2,313,245
– Accommodation and catering	2,666,921	1.56%	2,148,825
– Electricity, gas and water production and supply	3,512,299	2.06%	717,054
– Transportation, storage and postal services	3,247,806	1.91%	1,237,900
– Health and social services	1,876,521	1.10%	725,888
– Education	1,591,820	0.93%	258,393
– Finance	2,996,500	1.76%	–
– Scientific research, technical services and geological prospecting	913,100	0.54%	882,110
– Resident and other services	555,069	0.33%	264,866
– Information transmission, computer services and software	103,780	0.06%	61,580
– Public administration, social security and social organisations	20,000	0.01%	–
	111,292,030	65.30%	62,359,935
Personal loans and advances	34,265,526	20.10%	17,610,468
Discounted bills	24,891,685	14.60%	–
	170,449,241	100%	79,970,403
Less: Provision for impairment losses	(5,682,405)		
	164,766,836		

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For the year ended December 31, 2019

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector (Continued)

	At December 31, 2018		
	Amount RMB'000	Percentage	Loans and advances secured by collaterals RMB'000
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		

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22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector (Continued)

As at December 31, 2019 and 2018, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	At December 31, 2019						
	Gross impaired loans and advances RMB'000	Stage 1 RMB'000	ECL			Charge for the year RMB'000	Written-off during the year RMB'000
			Stage 2 RMB'000	Stage 3 RMB'000			
- Wholesale and retail	821,059	211,467	683,535	293,527	461,105	396,116	
- Manufacturing	759,210	308,865	285,027	237,598	1,136,614	281,543	

	At December 31, 2018						
	Gross impaired loans and advances RMB'000	Stage 1 RMB'000	ECL			Charge for the year RMB'000	Written-off during the year RMB'000
			Stage 2 RMB'000	Stage 3 RMB'000			
- Wholesale and retail	1,468,511	402,164	524,177	858,087	651,663	253,110	
- Manufacturing	1,779,957	525,897	741,318	579,389	656,576	219,225	

(c) Analysed by type of collateral

	2019 RMB'000	2018 RMB'000
Gross loans and advances to customers		
Unsecured loans	18,456,262	17,842,633
Guaranteed loans	60,326,353	54,814,533
Collateralised loans	79,970,403	77,917,726
Pledged loans	11,696,223	10,310,420
	170,449,241	160,885,312
Less: Provision for impairment losses	(5,682,405)	(6,251,454)
	164,766,836	154,633,858

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22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue year

	At December 31, 2019				
	Overdue within three months (inclusive) RMB'000	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Unsecured loans	225,022	439,277	113,243	4,029	781,571
Guaranteed loans	3,390,339	1,453,936	373,417	74,080	5,291,772
Collateralised loans	7,565,110	1,074,833	189,530	58,061	8,887,534
Pledged loans	509,244	100,348	44,751	30,754	685,097
	11,689,715	3,068,394	720,941	166,924	15,645,974

As a percentage of gross
loans and advances to
customers

6.86% 1.80% 0.42% 0.10% 9.18%

	At December 31, 2018				
	Overdue within three months (inclusive) RMB'000	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Unsecured loans	1,439,129	57,441	41,569	340	1,538,479
Guaranteed loans	1,825,668	1,097,223	412,040	74,497	3,409,428
Collateralised loans	1,979,333	1,929,763	506,652	130,544	4,546,292
Pledged loans	769,478	716,266	57,831	250	1,543,825
	6,013,608	3,800,693	1,018,092	205,631	11,038,024

As a percentage of gross
loans and advances to
customers

3.74% 2.36% 0.63% 0.13% 6.86%

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

Notes to the Consolidated Financial Statements

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22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advances and provision for impairment losses

	At December 31, 2019			Total RMB'000
	Stage 1	Stage 2	Stage 3	
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL- credit impaired RMB'000	
Gross loans and advances to customers	155,960,637	10,306,481	4,182,123	170,449,241
Less: Provision for impairment losses	(1,760,988)	(2,163,408)	(1,758,009)	(5,682,405)
	154,199,649	8,143,073	2,424,114	164,766,836

	At December 31, 2018			Total RMB'000
	Stage 1	Stage 2	Stage 3	
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL- credit impaired RMB'000	
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

The Group conducts internal stratified management of asset risk characteristics according to the quality status of assets. Financial assets included in the ECL are further classified into “Normal”, “Special mention”, “Substandard”, “Doubtful” and “Loss” within each stage according to internal rating scales and overdue days, the results of this layered management are used by the Bank for internal credit risk management purposes.

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22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advances and provision for impairment losses (Continued)

As at December 31, 2019 and 2018, an analysis of the gross amount of loans and advances to customers with the grading of the loan is as follows:

	At December 31, 2019				Total RMB'000
	Stage 1	Stage 2	Stage 3	Lifetime ECL- credit impaired RMB'000	
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL- credit impaired RMB'000		
Normal	155,126,861	1,913,748	–	–	157,040,609
Special mention	833,776	8,392,733	–	–	9,226,509
Substandard	–	–	1,270,132	–	1,270,132
Doubtful	–	–	2,609,561	–	2,609,561
Loss	–	–	302,430	–	302,430
Gross carrying amount	155,960,637	10,306,481	4,182,123	–	170,449,241
Less: Provision for impairment losses	(1,760,988)	(2,163,408)	(1,758,009)	–	(5,682,405)
Net carrying amount	154,199,649	8,143,073	2,424,114	–	164,766,836
	At December 31, 2018				Total RMB'000
	Stage 1	Stage 2	Stage 3	Lifetime ECL- credit impaired RMB'000	
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL- credit impaired RMB'000		
Normal	146,085,553	1,703,700	–	–	147,789,253
Special mention	–	8,061,316	1,345,989	–	9,407,305
Substandard	–	–	1,330,164	–	1,330,164
Doubtful	–	–	1,773,216	–	1,773,216
Loss	–	–	585,374	–	585,374
Gross carrying amount	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)
Net carrying amount	144,344,159	7,684,797	2,604,902	–	154,633,858

Notes to the Consolidated Financial Statements

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22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of provision for impairment losses

Provision for impairment losses – Loans and advances to customers	Stage 1	Stage 2	Stage 3	Total
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL- credit impaired RMB'000	
Provision for impairment losses at January 1, 2018	1,659,282	1,309,521	2,112,354	5,081,157
Changes 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)	(813,460)	(824,838)
– Charge to profit or loss	100,454	860,621	1,033,357	1,994,432
– Recoveries of loans and advances previously written off	–	–	703	703
Provision for impairment losses at December 31, 2018 and January 1, 2019	1,741,393	2,080,219	2,429,842	6,251,454
Changes in the provision for impairment losses				
– Transfer to stage 1	98,314	(93,737)	(4,577)	–
– Transfer to stage 2	(105,349)	145,629	(40,280)	–
– Transfer to stage 3	(26,542)	(144,698)	171,240	–
– Write-offs and others	–	–	(4,204,126)	(4,204,126)
– Charge to profit or loss	53,172	175,995	3,369,100	3,598,267
– Recoveries of loans and advances previously written off	–	–	36,810	36,810
Provision for impairment losses at December 31, 2019	1,760,988	2,163,408	1,758,009	5,682,405

(g) 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.

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23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Financial assets held for trading (Note (i))	1,210,450	8,811,736
Trust plans	4,305,588	263,294
Asset management plans	24,013,317	25,341,432
Investment funds	6,887,405	6,970,953
Other debt securities (Note (ii))	313,139	1,173,558
	36,729,899	42,560,973
Analysed as:		
Listed outside Hong Kong	1,210,450	8,811,736
Unlisted outside Hong Kong	35,519,449	33,749,237
	36,729,899	42,560,973

Notes:

(i) Financial assets held for trading:

	2019 RMB'000	2018 RMB'000
Debt securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	1,160,051	8,556,552
– Corporations	50,399	255,184
	1,210,450	8,811,736

As at December 31, 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.

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24. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Debt instruments classified at FVTOCI		
Debt securities issued by the following institutions in Mainland China		
– Government	4,186,930	4,869,958
– Banks and other financial institutions	10,231,910	10,037,993
– Corporations	347,513	341,146
	14,766,353	15,249,097
Unlisted equity investments designated at FVTOCI	315,094	–
	15,081,447	15,249,097
Analysed as:		
Listed in Hong Kong	347,513	–
Listed outside Hong Kong	14,418,840	15,249,097
Unlisted outside Hong Kong	315,094	–
	15,081,447	15,249,097

At December 31, 2019 and 2018, parts of debt securities were pledged as security for repurchase agreement (Note 31 (a)).

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC. These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

Notes:

Movement of provision for impairment losses:

Provision for impairment losses – Debt instruments at fair value through other comprehensive income	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2018	46,810	–	–	46,810
– Movement during the year	(45,198)	–	–	(45,198)
Provision for impairment losses at December 31, 2018 and January 1, 2019	1,612	–	–	1,612
– Movement during the year	1,513	–	–	1,513
Provision for impairment losses at December 31, 2019	3,125	–	–	3,125

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For the year ended December 31, 2019

25. INTEREST IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Cost of investment in an associate, unlisted	3,000	3,000
Share of post-acquisition profits	5,902	5,970
	8,902	8,970

As at December 31, 2019 and 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	Limited liability	The 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 considered that it has the practical ability to exercise significant influence over Gansu Jingchuan even though it owns less than 20% of the ownership interest and voting control after taking into account 1) the Group's ownership interest is significant relative to other shareholders due to the wide dispersion of shareholding interests; 2) the representation or rights to appoint/nominate directors for the board of directors of the associate; and 3) the rights to participate in the policy-making process, including dividends and other distribution.

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

	2019 RMB'000	2018 RMB'000
The Group's share of loss and total comprehensive expense for the year	(68)	(960)
	8,902	8,970

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26. PARTICULARS OF A SUBSIDIARY

Name of subsidiary	Place of establishment/ operation	Class of shares held	Kind of legal entity	Registered and fully paid capital (RMB'000)		Proportion of ownership interest held by the Bank		Proportion of voting power held by the Bank		Principal activity
				At December 31, 2018	2019	2018	2019	2018	2019	
Jingning Chengji Rural Bank	The PRC	Ordinary	Joint stock company with limited liability	40,250	40,250	62.73%	62.73%	62.73%	62.73%	Corporate and retail banking

The subsidiary is directly held by the Bank and has no material non-controlling interests to the Group for the years ended December 31, 2019 and 2018.

None of the subsidiaries had issued any debt securities during both years and at the years ended December 31, 2019 and 2018.

27. PROPERTY AND EQUIPMENT

	Construction in progress RMB'000	Premises (Buildings) 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	10,359	14,530	49,619	2,244	118,035	84,939	8,226	287,952
Transfers in/(out) of construction in progress	(134,845)	134,845	-	-	-	-	-	-
Disposals	-	(79,002)	(3,481)	(846)	-	(516)	(6,890)	(90,735)
At December 31, 2019	238,838	2,338,159	568,523	49,781	419,969	353,723	106,588	4,075,581

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

27. PROPERTY AND EQUIPMENT (CONTINUED)

	Construction in progress RMB'000	Premises (Buildings) 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								
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 year	-	120,784	119,184	3,728	69,021	59,534	14,706	386,957
Eliminated on disposals	-	(3,274)	(3,393)	(820)	-	(60)	(590)	(8,137)
At December 31, 2019								
At December 31, 2019	-	343,313	422,846	43,914	247,609	122,809	69,833	1,250,324
Carrying value								
At December 31, 2019	238,838	1,994,846	145,677	5,867	172,360	230,914	36,755	2,825,257
At December 31, 2018	363,324	2,041,983	215,330	7,377	123,346	205,965	49,535	3,006,860

At December 31, 2019, the carrying values of premises of which title deeds were not yet finalised by the Group were approximately RMB1,890,994,000 (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 rights certificates were approximately RMB121,178,000 (2018: approximately RMB53,482,000).

The aforementioned premises are located in the PRC with medium term leases (10–50 years).

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28. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

i) Right-of-use assets

	31/12/2019 RMB'000	1/1/2019 RMB'000
Premises	318,851	250,186
Land use rights in the PRC	26,322	27,634
	<u>345,173</u>	<u>277,820</u>

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 rights located in the PRC of approximately RMB27,634,000 (Note 2).

For the year ended December 31, 2019, the Group entered into a number of lease agreements for office premises. The leases contain minimum lease payment terms during the contract period. On the lease commencement date, the Group recognised right-of-use assets of approximately RMB180,796,000.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

28. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

ii) Lease liabilities

Upon adoption of IFRS 16, on January 1, 2019, the Group recognised lease liabilities of approximately RMB250,186,000 (note 2). As at December 31, 2019, the carrying amount of lease liabilities was approximately RMB283,931,000.

For the year ended December 31, 2019, the Group entered into a number of new lease agreements for office premises and recognised lease liability of approximately RMB180,796,000.

Amounts payable under lease liabilities	2019 RMB'000
Within one year	101,392
After one year but within two years	83,312
After two year but within five years	97,143
After five years	2,084
	<hr/>
	283,931

iii) Amount recognised in profit or loss

	2019 RMB'000
Depreciation expense of premises	112,131
Depreciation expense of land use rights	1,312
Interest expense on lease liabilities	6,617
Expense relating to short-term leases	57,748

iv) Others

For the year ended December 31, 2019, the total cash outflow for leases amount to approximately RMB211,416,000.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

29. DEFERRED TAX ASSETS

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets	1,643,070	1,719,546
Deferred tax liabilities	(97,243)	(135,263)
	1,545,827	1,584,283

The following are the major deferred tax assets/(liabilities) recognised and movements thereon in the years ended December 31, 2019 and 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	Tax losses RMB'000 Note (iii)	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	(65,703)	1,945	–	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	(135,263)	25,644	–	1,584,283
(Charge)/credit to profit or loss	(343,390)	23,788	7,879	260,069	(51,654)
(Charge)/credit to other comprehensive income	(781)	14,232	(253)	–	13,198
At December 31, 2019	1,349,731	(97,243)	33,270	260,069	1,545,827

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

29. DEFERRED TAX ASSETS (CONTINUED)

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 December 31, 2019 and 2018. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets as at December 31, 2019 and 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.
- (iii) At December 31, 2019, the Group has unused tax losses of approximately RMB1,040,276,000 (2018: nil), available for offset against future profits. A deferred tax asset has been recognised in respect of such losses. Such tax losses can be carried forward for five years from the year in which the respective loss arose.

30. OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Other receivables and prepayments (Note (i))	3,964,479	250,189
Deposits paid for acquisitions of premises	245,776	200,087
Land use rights (Note (ii))	–	27,634
Intangible assets (Note (iii))	22,890	19,008
Repossessed assets (Note (iv))	5,184	–
Other	255	200
	4,238,584	497,118

Notes:

- (i) Other receivables and prepayments:

	2019 RMB'000	2018 RMB'000
Other receivables and prepayments	4,065,139	274,620
Less: Provision for impairment losses	(100,660)	(24,431)
	3,964,479	250,189

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

30. OTHER ASSETS (CONTINUED)

Notes: (Continued)

(i) Other receivables and prepayments: (Continued)

Movements of provision for impairment losses:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	24,431	16,924
Impairment losses recognised	76,229	7,507
At the end of the year	100,660	24,431

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

(ii) Movements of land use rights:

	2019 RMB'000	2018 RMB'000
Cost		
At the beginning of the year	34,415	34,415
Reclassification (Note 2)	(34,415)	-
At the beginning of the year and at the end of the year	-	34,415
Accumulated amortisation		
At the beginning of the year	6,781	5,469
Reclassification (Note 2)	(6,781)	-
Amortisation for the year	-	1,312
At the beginning and at the end of the year	-	6,781
Carrying amounts		
At the end of the year	-	27,634

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

Upon adoption of IFRS 16 on January 1, 2019, the carrying amount of land use rights of approximately RMB27,634,000 was reclassified to right-of-use assets.

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For the year ended December 31, 2019

30. OTHER ASSETS (CONTINUED)

Notes: (Continued)

(iii) Movements of intangible assets:

	2019 RMB'000	2018 RMB'000
Cost		
At the beginning of the year	23,669	5,002
Additions	8,261	18,667
At the end of the year	31,930	23,669
Accumulated amortisation		
At the beginning of the year	4,661	3,420
Amortisation for the year	4,379	1,241
At the end of the year	9,040	4,661
Carrying amounts		
At the end of the year	22,890	19,008

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

(iv) Repossessed assets

No impairment loss has been recognised for repossessed assets for the year ended December 31, 2019.

31. PLEDGED ASSETS

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities or contingent liabilities mainly include debt securities, which is for repurchase agreements. The carrying amounts of the financial assets pledged as collaterals as at December 31, 2019 are approximately RMB7,560,126,000 (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.

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32. BORROWINGS FROM THE CENTRAL BANK

	2019 RMB'000	2018 RMB'000
Borrowings	704,000	9,070,000
Re-discounted bills	1,612,353	2,580,851
	<u>2,316,353</u>	<u>11,650,851</u>

33. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	2019 RMB'000	2018 RMB'000
Deposits from the following institutions operating in Mainland China		
– Banks	10,993,658	8,987,200
– Other financial institutions	1,863,758	5,566,589
	<u>12,857,416</u>	<u>14,553,789</u>
Deposits from the following institutions operating outside Mainland China		
– Banks	764,473	959,983
	<u>13,621,889</u>	<u>15,513,772</u>

34. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	2019 RMB'000	2018 RMB'000
Placements from the following institutions operating in Mainland China		
– Banks	890,000	3,300,000

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

35. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	2019 RMB'000	2018 RMB'000
In Mainland China		
– Banks	5,168,580	10,873,965
– Other financial institutions	230,000	843,020
	<hr/>	<hr/>
	5,398,580	11,716,985

(b) Analysed by collateral

	2019 RMB'000	2018 RMB'000
Debt securities	5,398,580	11,716,985

(c) Transfer of financial assets

In daily operating activities, the Group entered into repurchase agreements with certain counterparties. As at December 31, 2019, there are debt securities with carrying amount of RMB5,398,580,000 under these agreements measured at amortised cost (2018: RMB11,716,985,000). The proceeds from selling such debt securities totalling RMB5,398,580,000 as at December 31, 2019 (2018: RMB11,716,985,000).

As stipulated in the repurchase agreements, there is no transfer of the legal ownership of these debt securities to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these debt securities and therefore has not derecognised from the consolidated financial statements but regarded as “collateral” for the secured lending from the counterparties.

Notes to the Consolidated Financial Statements

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36. DEPOSITS FROM CUSTOMERS

	2019 RMB'000	2018 RMB'000
Demand deposits		
– Corporate customers	52,256,807	54,381,432
– Individual customers	26,216,993	24,114,642
	78,473,800	78,496,074
Time deposits		
– Corporate customers	19,771,679	18,058,452
– Individual customers	110,243,641	83,018,474
	130,015,320	101,076,926
Pledged deposits		
– Acceptances	10,308,646	12,936,171
– Guarantees and letters of guarantees	176,072	87,232
– Others	3,499,758	3,476,734
	13,984,476	16,500,137
Others	14,395,061	14,650,180
	236,868,657	210,723,317

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37. ACCRUED STAFF COSTS

	2019 RMB'000	2018 RMB'000
Salary and bonus payable	444,004	397,749
Social pension schemes payable	8,148	18,615
Other social insurances payable	9,995	17,960
Supplementary retirement benefits payable (Note (i))	36,470	35,150
Other long-term staff welfare payable (Note (ii))	6,870	8,870
	505,487	478,344

Notes:

(i) Supplementary retirement benefits ("SRB"):

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were assessed using projected unit credit actuarial cost method by an external independent actuary, Wills Towers Watson (a member of Society of Actuaries in America).

The balances of SRB of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Present value of SRB obligation	36,470	35,150

Movements of SRB of the Group are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	35,150	27,230
Service cost	2,490	2,010
Interest cost	1,240	1,170
Past service cost	–	1,350
Actuarial (gains)/losses	(1,010)	4,550
Payment made	(1,400)	(1,160)
At the end of the year	36,470	35,150

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For the year ended December 31, 2019

37. ACCRUED STAFF COSTS (CONTINUED)

Notes: (Continued)

(i) Supplementary retirement benefits ("SRB"): (Continued)

Principal actuarial assumptions of the Group are as follow:

	2019	2018
Discount rate	3.50%	3.50%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

Sensitivity analysis:

	Effect on SRB 2019 RMB'000	2018 RMB'000
Discount rate (increase by 1%)	(641)	(610)
Discount rate (decrease by 1%)	930	882

Although the analysis does not take account of the full distribution of cash flows expected under the SRB, it does provide an approximation of the sensitivity of the assumptions shown.

(ii) Other long-term staff welfare payable

The Group pays compensation for termination benefits of eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of other long-term staff welfare payable were assessed using projected unit credit actuarial cost method by an external independent actuary (a member of Society of Actuaries in America) of Wills Towers Watson.

The balances of other long-term staff welfare payable of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Present value of other long-term staff welfare payable obligation	6,870	8,870

Movements of other long-term staff welfare payable of the Group are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	8,870	11,230
Service cost	400	510
Payment made	(2,400)	(2,870)
At the end of the year	6,870	8,870

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37. ACCRUED STAFF COSTS (CONTINUED)

Notes: (Continued)

(ii) Other long-term staff welfare payable (Continued)

Principal actuarial assumptions of the Group are as follow:

	2019 RMB'000	2018 RMB'000
Discount rate	2.5%	2.75%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

Sensitivity analysis:

	Effect on long-term staff welfare payable	
	2019 RMB'000	2018 RMB'000
Discount rate (increase by 1%)	(16)	(23)
Discount rate (decrease by 1%)	17	24

Although the analysis does not take account of the full distribution of cash flows expected under other long-term staff welfare payable, it does provide an approximation of the sensitivity of the assumptions shown.

38. INTERESTS PAYABLE

	2019 RMB'000	2018 RMB'000
Deposits from customers	8,381,387	5,825,504
Deposits from banks and other financial institutions	184,333	374,091
Borrowings from the central bank	588	21,905
Debts securities issued	186,382	187,318
Others	8,811	10,115
	8,761,501	6,418,933

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39. DEBT SECURITIES ISSUED

	2019 RMB'000	2018 RMB'000
Fixed rates financial bonds (Note (i))	5,998,191	5,996,352
Fixed rate tier-two capital bonds issued (Note (ii))	3,197,198	3,194,430
Interbank deposits (Note (iii))	30,263,784	32,385,991
	39,459,173	41,576,773

Notes:

(i) Fixed rates financial bonds

- (a) Fixed rates financial bonds for "three rurals" (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 December 31, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,656,000 (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 December 31, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,576,000 (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 December 31, 2019, the outstanding balance of this fixed rate financial bonds issued is RMB999,714,000 (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 December 31, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,499,483,000 (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 December 31, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,499,762,000 (2018: RMB1,499,054,000).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

39. DEBT SECURITIES ISSUED (CONTINUED)

Notes: (Continued)

(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 December 31, 2019, the outstanding balance of this fixed rate tier-two capital bonds issued is approximately RMB3,197,198,000 (2018: approximately RMB3,194,430,000).

(iii) Interbank deposits

(a) During the year ended December 31, 2019, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB34,310,000,000 and duration between 6 months to 1 year. As at December 31, 2019, the outstanding balance of interbank deposits issued is approximately RMB30,263,784,000. The ranges of effective interest rates per annum on the Group's interbank deposits issued are 2.97% to 3.50%.

(b) During the year ended December 31, 2018, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB45,090,000,000 and duration between 6 months 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%. The balance was fully settled in 2019.

40. OTHER LIABILITIES

	2019 RMB'000	2018 RMB'000
Other payable and accrued expenses	273,114	406,822
Clearance of inter-bank accounts	1,569,011	480,300
Agency business liabilities	37,499	80,762
Dividend payable	25,695	8,560
Other tax payables	129,109	214,873
Fiscal deposits	16,094	12,059
Provision for bank acceptances and letters of guarantees (note)	26,354	61,454
Others	72,824	104,542
	<u>2,149,700</u>	<u>1,369,372</u>

Notes to the Consolidated Financial Statements

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40. OTHER LIABILITIES (CONTINUED)

Note:

Movement of provision for bank acceptances and letters of guarantees:

	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	Total RMB'000
Provision for bank acceptances and letters of guarantees at January 1, 2018	44,051	–	–	44,051
Changes in the provision for impairment losses – Charge to profit or loss	17,403	–	–	17,403
Provision for bank acceptances and letters of guarantees at December 31, 2018 and January 1, 2019	61,454	–	–	61,454
Changes in the provision for impairment losses – Credit to profit or loss	(35,100)	–	–	(35,100)
Provision for bank acceptances and letters of guarantees at December 31, 2019	26,354	–	–	26,354

41. SHARE CAPITAL

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

	2019 RMB'000	2018 RMB'000
Registered, issued and fully paid ordinary shares of RMB1 each:		
– Ordinary shares	10,069,791	10,069,791
At the beginning of the year	10,069,791	7,525,991
Issuance of shares (Notes i)	–	2,543,800
At the end of the 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, 2019) at par value RMB1 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.

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41. SHARE CAPITAL (CONTINUED)

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

	Domestic shareholders	H shareholders	Total
As 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 December 31, 2019	7,525,991	2,543,800	10,069,791

42. RESERVES

(a) Capital reserve

	2019 RMB'000	2018 RMB'000
Share premium	4,339,584	4,339,584
Shareholders' injection (Note)	320,279	318,176
Changes in ownership in a subsidiary without change in control	554	554
	4,660,417	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. During the year, net proceed of approximately RMB2,103,000 (2018: RMB500,000) were received as shareholders' injection. As at December 31, 2019, approximately RMB320,279,000 has been recorded as capital reserve (2018: approximately RMB318,176,000).

(b) Surplus reserve

The surplus reserve at December 31, 2019 and 2018 represented statutory surplus reserve fund and other surplus reserve. The statutory surplus reserve fund of the Group as at December 31, 2019 were approximately RMB1,560,835,000 (2018: approximately RMB1,510,052,000).

The Bank and its subsidiary are required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(c) General reserve

With effect from July 1, 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by 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.

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43. DIVIDENDS

	2019 RMB'000	2018 RMB'000
2018 final dividend (Note)	1,029,365	-

Note:

Pursuant to the resolution of the shareholders meeting held on June 4, 2019, the Bank declared final cash dividends in respect of the year ended December 31, 2018 of approximately RMB0.1022 per share (tax included) based on approximately 10,069,791,000 shares held amounting to approximately RMB1,029,365,000 during the year ended December 31, 2019.

Subsequent to the end of the reporting period, no final dividend in respect of the year ended December 31, 2019 per share has been proposed by the directors of the Bank.

44. 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 December 31, 2019, the amount of assets held by the consolidated principal-guaranteed wealth management products sponsored by the Bank amounted to approximately RMB314,176,000 (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-back securities and wealth management products issued by 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 December 31, 2019 and 2018:

	Financial assets at FVTPL RMB'000	As at December 31, 2019		
		Financial assets at amortised cost RMB'000	Carrying amount RMB'000	Maximum exposure RMB'000
Trust plans	4,305,588	17,786,844	22,092,432	22,092,432
Asset management plans	24,013,317	13,948,670	37,961,987	37,961,987
Asset-backed securities issued by bank and other financial institutions	-	59,527	59,527	59,527
Investment funds	6,887,405	-	6,887,405	6,887,405
	35,206,310	31,795,041	67,001,351	67,001,351

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44. STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities (Continued)

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

	December 31, 2018			
	Financial assets at FVTPL RMB'000	Financial assets at amortised cost RMB'000	Carrying amount RMB'000	Maximum exposure RMB'000
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 December 31, 2019 and 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 December 31, 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 December 31, 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are approximately RMB21,351,716,000 (2018: approximately RMB20,368,883,000).

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

During the year ended December 31, 2019, 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 RMB22,764,165,000.

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 RMB40,995,686,000.

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45. 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 and 2018 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% for the years ended December 31, 2019 and 2018, 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 statutory financial statements prepared in accordance with PRC GAAP. During the years ended December 31, 2019 and 2018 the Group has complied with all its externally imposed capital requirements.

The Group's overall strategies towards the capital management remain unchanged from prior years.

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45. CAPITAL MANAGEMENT (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
Total core tier-one capital		
Share capital	10,069,791	10,069,791
Qualifying portion of capital reserve	4,660,417	4,658,314
Defined benefit plan reserve	(3,399)	(4,156)
Investment revaluation reserve	219,469	261,427
Surplus reserve	1,560,835	1,510,052
General reserve	4,471,044	4,423,117
Retained earnings	3,678,816	4,297,780
Qualifying portions of non-controlling interests	17,548	17,232
Core tier-one capital deductions (Note)	(253,804)	(224,973)
Net core tier-one capital	24,420,717	25,008,584
Eligible portion of non-controlling interests	2,340	2,298
Net tier-one capital	24,423,057	25,010,882
Tier-two capital		
Qualifying portion of tier-two capital instruments issued	3,197,198	3,194,430
Surplus provision for loan impairment	1,500,281	2,562,700
Eligible portion of non-controlling interests	4,680	4,703
Net capital base	29,125,216	30,772,715
Total risk weighted assets	246,207,977	227,144,084
Core tier-one capital adequacy ratio	9.92%	11.01%
Tier-one capital adequacy ratio	9.92%	11.01%
Capital adequacy ratio	11.83%	13.55%

Note: Core tier-one capital deductions primarily include computer software included in line item "property and equipment" and intangible assets included in line item "other assets".

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46. CASH AND CASH EQUIVALENTS

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

	2019 RMB'000	2018 RMB'000
Cash on hand (Note 17)	405,812	432,435
Deposits with the central bank (Note 17)	4,533,697	6,387,471
Deposits with banks (Note 18)	3,967,542	8,803,411
Financial assets held under resale agreements (Note 19)	16,263,996	19,523,812
Total	25,171,047	35,147,129

47. 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:

	2019	2018
Gansu Province Highway Aviation Tourism Investment Group Co., Ltd.	12.49%	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%

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47. 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 47(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 its subsidiary

The subsidiary of the Bank is its related party. 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

	2019 RMB'000	2018 RMB'000
Transactions during the year		
Interest income	43,214	33,187
Interest expense	72,707	25,099

	2019 RMB'000	2018 RMB'000
Balances at end of the year		
Loans and advances to customers	800,000	–
Interests receivable	–	8,859
Deposits from customers	2,610,132	2,532,081
Financial assets at FVTOCI	347,513	341,146
Interests payable	11,471	31,448

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47. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

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

	2019 RMB'000	2018 RMB'000
Transactions during the year		
Interest income	248,723	240,430
Interest expense	139,726	93,680

	2019 RMB'000	2018 RMB'000
Balances at end of the year		
Loans and advances to customers	5,463,865	3,935,525
Deposits from customers	4,382,043	1,664,214
Deposits from banks and other financial institutions	597,971	106,510
Interests payable	2,928	17,969

(c) Key management personnel

The key management personnel are those people 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.

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

(i) Transactions between the Group and key management personnel

	2019 RMB'000	2018 RMB'000
Transactions during the year		
Interest income	260	–
Interest expense	9	–

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47. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel (Continued)

(i) Transactions between the Group and key management personnel (Continued)

	2019 RMB'000	2018 RMB'000
Balances at end of the year		
Loans and advances to customers	2,065	–
Deposits from customers	3,727	14

(ii) Key management personnel compensation

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

	2019 RMB'000	2018 RMB'000
Salaries and allowances	2,065	4,499
Retirement benefits scheme contributions	1,355	1,292
Discretionary bonuses	3,436	2,580
	6,856	8,371

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

During the year ended December 31, 2019, there are loans and advances to directors, supervisors and officers of the Group amounting to RMB2,065,000 (2018: nil).

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48. 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, with the exception of deferred tax assets and liabilities and dividend payable. Segment income and expenses, assets and liabilities 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 and intangible assets.

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48. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities

	Year ended December 31, 2019				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/ (expense)	4,977,220	(2,567,987)	2,878,666	-	5,287,899
Internal net interest (expense)/ income	(1,874,016)	3,963,142	(2,089,126)	-	-
Net interest income	3,103,204	1,395,155	789,540	-	5,287,899
Net fee and commission income	135,165	66,251	27,567	24,273	253,256
Net trading gains	-	-	1,489,821	-	1,489,821
Net gains arising from investment securities	-	-	131,183	-	131,183
Net exchange gains	-	-	-	68,888	68,888
Other operating income, net	-	-	-	2,275	2,275
Operating income	3,238,369	1,461,406	2,438,111	95,436	7,233,322
Operating expenses	(1,055,020)	(476,108)	(794,306)	(31,069)	(2,356,503)
Impairment losses on assets	(3,193,421)	(404,847)	(677,298)	(36,418)	(4,311,984)
Operating (loss)/profit	(1,010,072)	580,451	966,507	27,949	564,835
Share of result of associate	-	-	-	(68)	(68)
(Loss) /profit before tax	(1,010,072)	580,451	966,507	27,881	564,767
Segment assets	110,799,219	34,861,870	187,318,644	421,682	333,401,415
Deferred tax assets	-	-	-	1,643,070	1,643,070
Total assets	110,799,219	34,861,870	187,318,644	2,064,752	335,044,485
Segment liabilities	87,806,823	144,295,260	78,092,012	38,450	310,232,545
Deferred tax liabilities	-	-	-	97,243	97,243
Dividend payable	-	-	-	25,695	25,695
Total liabilities	87,806,823	144,295,260	78,092,012	161,388	310,355,483
Other segment information					
- Depreciation and amortisation	166,577	50,478	282,676	5,048	504,779
- Capital expenditure	97,750	29,621	165,879	2,963	296,213

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48. SEGMENT REPORTING (CONTINUED)

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

	Year ended December 31, 2018				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/ (expense)	5,264,351	(1,231,966)	3,095,399	–	7,127,784
Internal net interest (expense)/ income	(708,266)	2,238,762	(1,530,496)	–	–
Net interest income	4,556,085	1,006,796	1,564,903	–	7,127,784
Net fee and commission income	87,028	19,222	51,338	8,467	166,055
Net trading gains	–	–	1,089,241	–	1,089,241
Net gains arising from investment securities	–	–	42,689	–	42,689
Net exchange gains	–	–	–	388,230	388,230
Other operating income, net	–	–	–	58,240	58,240
Operating income	4,643,113	1,026,018	2,748,171	454,937	8,872,239
Operating expenses	(1,190,262)	(262,898)	(702,142)	(115,795)	(2,271,097)
Impairment losses on assets	(1,386,171)	(287,740)	(263,360)	(25,103)	(1,962,374)
Operating profit	2,066,680	475,380	1,782,669	314,039	4,638,768
Share of result of associate	–	–	–	(960)	(960)
Profit before tax	2,066,680	475,380	1,782,669	313,079	4,637,808
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
Other segment information					
– Depreciation and amortisation	188,760	44,616	106,392	3,432	343,200
– Capital expenditure	880,655	208,157	496,370	16,009	1,601,191

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48. SEGMENT REPORTING (CONTINUED)

(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 in the PRC and therefore revenue is derived from activities in Gansu Province of the PRC.

(c) Information about major customers

During the years ended December 31, 2019 and 2018, no operating income from a customer contributes over 10% of the total operating income of the Group.

49. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios.

As at December 31, 2019 and 2018, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL.

Loans and advances to customers and financial assets at amortised cost

The Group has applied the general approach in IFRS 9 to measure ECL. The Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Debt instrument at FVTOCI

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of investment securities measured at FVTOCI is at Stage 1 of which the loss allowance is measured at 12-month ECL.

Deposits with banks

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of deposits with banks is at Stage 1 of which the loss allowance is measured at 12-month ECL.

Deposits with the central bank

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of deposits with central banks is at stage 1 of which the loss allowance is measured at 12-month ECL.

Financial assets held under resale agreements

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of financial assets held under resale agreements is at Stage 1 of which the loss allowance is measured at 12-month ECL.

Credit commitments and financial guarantees

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of financial guarantees and credit commitments is at Stage 1 of which the loss allowance is measured at 12-month ECL.

Other financial assets

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of other financial assets is at Stage 1 of which the loss allowance is measured at 12-month ECL.

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Other financial assets (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third party guarantees or credit enhancements
- significant increase in credit risk on other financial instruments of the borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

In order to minimise credit risk, the Group has tasked to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit grading information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgment. The nature of the exposure and the type of counterparty are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Other financial assets (Continued)

The five categories classifications in which the Group classifies major financial assets, including loans and advances to customers at amortised cost and trust beneficiary rights and asset management plans measured at amortised cost are set out below:

Category	Description	Basis for recognising ECL
Normal	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.	12-month ECL Lifetime ECL – not credit impaired (Only if more than 30 days past due)
Special mention	Borrowers are able to repay their loans currently, although repayment may be adversely affected by specific factors.	12-month ECL Lifetime ECL – not credit impaired (only if more than 30 days past due) Lifetime ECL – credit impaired (Only if more than 90 days past due)
Substandard	Borrowers' ability to repay their loans is in question and they cannot rely entirely on normal operational revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.	Lifetime ECL – credit impaired
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.	Lifetime ECL – credit impaired
Loss	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.	Lifetime ECL – credit impaired

The internal credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases, the difference in risk of default between grades changes. Each exposure is allocated to a credit's risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The Group uses credit risk grades as a primary input into the determination of the term structure of the probability of default ("PD") for exposures. The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative information that are indicative of risk of default.

The carrying amount of the Group's financial assets at FVTPL as disclosed in Note 23 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The Group established a credit risk management structure which includes the president, chief officers and the risk management committee of the head office, persons-in-charge and risk officers of branches and sub-branches, credit approval committees or groups and the risk management, business, marketing and internal audit departments. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies and authorisation proposals for credit business. Legal and Compliance Department is responsible for formulating the authorisation proposals for credit business. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments such as the Corporate Business Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks. Customer relationship managers and risk managers work independently to manage the key risk points throughout the process of credit business.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to overdue loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

Notes to the Consolidated Financial Statements

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit rating

The Group adopts a credit rating approach in managing the credit risk of the listed debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at December 31, 2019 and 2018 are as follows:

	2019 RMB'000	2018 RMB'000
Neither overdue nor impaired		
Ratings		
– AAA- to AAA+	10,343,424	17,368,294
– AA- to AA+	1,271,780	9,101,052
– A- to A+	345,991	–
– Lower than A	–	949,882
– unrated (Note)	35,233,295	14,963,099
	<hr/> 47,194,490	<hr/> 42,382,327

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit rating (Continued)

The following tables represent an analysis of the carrying value of listed debt securities by credit or issuer rating and credit risk characteristic:

	As at December 31, 2019			Total
	Stage 1	Stage 2	Stage 3	
Ratings				
– AAA- to AAA+	10,346,411	–	–	10,346,411
– AA- to AA+	1,272,992	–	–	1,272,992
– A- to A+	347,513	–	–	347,513
– Lower than A	–	–	–	–
– Unrated (Note)	35,239,127	–	–	35,239,127
	47,206,043			47,206,043
Provision for impairment loss	(11,553)			(11,553)
	47,194,490			47,194,490

	As at December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
Ratings				
– AAA- to AAA+	17,370,397	–	–	17,370,397
– AA- to AA+	9,105,621	–	–	9,105,621
– A- to A+	–	–	–	–
– Lower than A	1,039,466	–	–	1,039,466
– Unrated (Note)	14,963,099	–	–	14,963,099
	42,478,583	–	–	42,478,583
Provision for impairment loss	(96,256)	–	–	(96,256)
	42,382,327	–	–	42,382,327

Note: Debt securities held by the Group mainly issued by the Mainland China government and policy banks which are creditworthy issuers in the market, but not rated by independent rating agencies.

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial market operations. The board assumes ultimate responsibility for management of market risk. The senior management implements market risk management strategies and policies as approved by the board of the Bank. The Group's business departments implement market risk management measures in their daily operations.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk

Repricing risk, which is also known as “maturity mismatch risk”, is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The planning and finance department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury’s investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios’ fair value given a 100 basis points (1%) movement in the interest rates.

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

Trading interest rate risk (Continued)

(i) The following tables indicate the assets and liabilities as at December 31, 2019 and 2018 by the expected next repricing dates or by maturity dates, depending on which is earlier:

	Total RMB'000	At December 31, 2019				
		Non- interest bearing RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000
Assets						
Cash and deposits with the central bank	25,274,278	405,811	24,868,467	-	-	-
Deposits with banks	3,967,542	-	3,967,542	-	-	-
Financial assets held under resale agreement	16,263,996	-	16,263,996	-	-	-
Interests receivable	2,202,105	2,202,105	-	-	-	-
Loans and advances to customers	164,766,836	9,071,806	22,595,395	96,704,734	35,457,950	936,951
Investments (Note)	113,508,742	-	26,953,398	18,554,764	60,192,307	7,808,273
Others	9,060,986	9,060,986	-	-	-	-
	335,044,485	20,740,708	94,648,798	115,259,498	95,650,257	8,745,224
Liabilities						
Borrowing from the central bank	2,316,353	-	1,902,988	413,365	-	-
Deposits from banks and other financial institutions	13,621,889	54,406	7,177,483	6,390,000	-	-
Placements from banks and other financial institutions	890,000	-	580,000	310,000	-	-
Financial assets sold under repurchase agreements	5,398,580	-	5,398,580	-	-	-
Deposits from customers	236,868,657	-	92,738,992	24,280,784	119,848,881	-
Interests payable	8,761,501	8,761,501	-	-	-	-
Debt securities issued	39,459,173	-	10,030,256	23,732,944	999,515	4,696,458
Others	3,039,330	2,755,399	14	101,378	180,455	2,084
	310,355,483	11,571,306	117,828,313	55,228,471	121,028,851	4,689,542
Asset-liability gap	24,689,002	9,169,402	(23,179,515)	60,031,027	(25,378,594)	4,046,682

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

Trading interest rate risk (Continued)

(i) The following tables indicate the assets and liabilities as at December 31, 2019 and 2018 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)

	At December 31, 2018					
	Total RMB'000	Non- interest bearing RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000
Assets						
Cash and deposits with the central bank	31,536,912	432,435	31,104,477	-	-	-
Deposits with banks	12,927,702	-	8,903,411	4,024,291	-	-
Financial assets held under resale agreement	19,523,812	-	19,523,812	-	-	-
Interests receivable	1,891,235	1,891,235	-	-	-	-
Loans and advances to customers	154,633,858	5,777,801	67,559,132	55,280,850	24,044,670	1,971,405
Investments (Note)	102,876,358	-	32,099,392	21,347,164	40,491,623	8,938,179
Others	5,232,494	5,232,494	-	-	-	-
	328,622,371	13,333,965	159,190,224	80,652,305	64,536,293	10,909,584
Liabilities						
Borrowing from the central bank	11,650,851	-	4,835,821	6,815,030	-	-
Deposits from banks and other financial institutions	15,513,772	57,428	5,786,344	9,170,000	500,000	-
Placements from banks and other financial institutions	3,300,000	-	-	3,300,000	-	-
Financial assets sold under repurchase agreements	11,716,985	-	11,716,985	-	-	-
Deposits from customers	210,723,317	-	99,502,880	20,943,041	85,410,833	4,866,563
Interests payable	6,418,933	6,418,933	-	-	-	-
Debt securities issued	41,576,773	-	10,516,225	21,869,766	5,993,685	3,197,097
Others	2,474,149	2,474,149	-	-	-	-
	303,374,780	8,950,510	132,358,255	62,097,837	91,904,518	8,063,660
Asset-liability gap	25,247,591	4,383,455	26,831,969	18,554,468	(27,368,225)	2,845,924

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

Trading interest rate risk (Continued)

- (i) *The following tables indicate the assets and liabilities as at December 31, 2019 and 2018 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)*

Note: Investments include financial assets at fair value through profit or loss, financial assets at amortised cost, financial assets at fair value through other comprehensive income.

- (ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity.

The following tables demonstrate the sensitivity as at December 31, 2019 and 2018, assuming other variables remain unchanged, an increase in estimated interest rate, of the Group's net profit and equity.

	Effect on net profit	
	2019	2018
	RMB'000	RMB'000

Change in basis points

Increase 100 basis points	60,379	151,115
Decrease 100 basis points	(60,379)	(151,115)

	Effect on equity	
	2019	2018
	RMB'000	RMB'000

Change in basis points

Increase 100 basis points	(675,885)	(419,579)
Decrease 100 basis points	675,885	419,579

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Interest rate risk (Continued)

Trading interest rate risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at December 31, 2019 and 2018 apply to non-derivative financial instruments of the Group.
- At December 31, 2019 and 2018, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months.
- There is a parallel shift in the yield curve with the changes in interest rates.
- There are no other changes to the assets and liabilities portfolio.
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Foreign currency risk

The Group's foreign currency risk mainly arises from exchange rate fluctuation on its foreign exchange exposures. The Group manages foreign currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies and monitoring its foreign currency exposures on daily basis.

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Foreign currency risk (Continued)

The Group's currency exposures as at December 31, 2019 and 2018 are as follows:

	RMB'000	At December 31, 2019		Total (RMB'000 equivalent)
		USD (RMB'000 equivalent)	Others (RMB'000 equivalent)	
Assets				
Cash and deposits with the central bank	25,274,260	10	8	25,274,278
Deposits with banks	3,602,394	229,682	135,466	3,967,542
Financial assets held under resale agreements	16,263,996	-	-	16,263,996
Financial assets at fair value through profit or loss	36,729,899	-	-	36,729,899
Interests receivables	2,138,705	54,742	8,658	2,202,105
Loans and advances to customers	164,766,836	-	-	164,766,836
Financial assets at fair value through other comprehensive income	14,732,411	349,036	-	15,081,447
Financial assets at amortised cost	58,018,056	3,482,580	196,760	61,697,396
Others	9,060,986	-	-	9,060,986
	330,587,543	4,116,050	340,892	335,044,485
Liabilities				
Borrowing from the central bank	2,316,353	-	-	2,316,353
Deposits from banks and other financial institutions	13,567,483	-	54,406	13,621,889
Financial assets sold under repurchase agreements	5,398,580	-	-	5,398,580
Placements from banks and other financial institutions	890,000	-	-	890,000
Deposits from customers	236,864,932	3,723	2	236,868,657
Interests payable	8,761,501	-	-	8,761,501
Debt securities issued	39,459,173	-	-	39,459,173
Others	3,039,330	-	-	3,039,330
	310,297,352	3,723	54,408	310,355,483
Net position	20,290,191	4,112,327	286,484	24,689,002
Off-balance sheet credit commitments	24,981,465	18,338	-	24,999,803

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Foreign currency risk (Continued)

The Group's currency exposures as at December 31, 2019 and 2018 are as follows: (Continued)

	RMB'000	At December 31, 2018		Total (RMB'000 equivalent)
		USD (RMB'000 equivalent)	Others (RMB'000 equivalent)	
Assets				
Cash and deposits with the central bank	31,536,904	3	5	31,536,912
Deposits with banks	12,453,738	216,983	256,981	12,927,702
Financial assets held under resale agreements	19,523,812	–	–	19,523,812
Financial assets at fair value through profit or loss	42,560,973	–	–	42,560,973
Interests receivables	1,846,904	43,413	918	1,891,235
Loans and advances to customers	154,633,858	–	–	154,633,858
Financial assets at fair value through other comprehensive income	15,249,097	–	–	15,249,097
Financial assets at amortised cost	41,630,920	3,435,368	–	45,066,288
Others	5,232,494	–	–	5,232,494
	324,668,700	3,695,767	257,904	328,622,371
Liabilities				
Borrowing from the central bank	11,650,851	–	–	11,650,851
Deposits from banks and other financial institutions	15,456,344	2,801	54,627	15,513,772
Financial assets sold under repurchase agreements	11,716,985	–	–	11,716,985
Placements from banks and other financial institutions	3,300,000	–	–	3,300,000
Deposits from customers	210,722,407	908	2	210,723,317
Interests payable	6,418,933	–	–	6,418,933
Debt securities issued	41,576,773	–	–	41,576,773
Others	2,474,149	–	–	2,474,149
	303,316,442	3,709	54,629	303,374,780
Net position	21,352,258	3,692,058	203,275	25,247,591
Off-balance sheet credit commitments	27,498,842	–	–	27,498,842

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

Foreign currency risk (Continued)

The table below indicates the potential effect of 100 basis points appreciation or depreciation of RMB spot and forward exchange rates against all other currencies on net profit based on the assumption of foreign currency exchange rate movements over the next 12 months.

	Effect on net profit	
	2019	2018
	RMB'000	RMB'000
Change in basis points		
Increase 100 basis points	32,991	29,215
Decrease 100 basis points	(32,991)	(29,215)

The impact on net profit arises from the effects of movement in RMB exchange rate on the net positions of foreign currency monetary assets and monetary liabilities. Changes in foreign currency exchange rate will not affect other comprehensive income.

The effect on net profit is calculated based on the assumption that the Group's net foreign currency exposure at the end of each reporting period remains unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximisation and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The planning and finance department is responsible for the development of liquidity risk management strategies, policies, procedures and limits, and routine supervision and monitoring of liquidity risks. It establishes and implements internal control systems relating to liquidity risk management, such as Liquidity Risk Management Measures (流動性風險管理辦法) and Contingency Plan for Liquidity Risks (流動性風險應急預案). The planning and finance department is also responsible for setting annual liquidity management objectives and liquidity management profile plans. It also monitors and adjusts these plans on a quarterly basis in order to maintain a reasonable assets and liabilities structure.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at December 31, 2019 and 2018:

	At December 31, 2019						
	Indefinite (Note) RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000	Total RMB'000
Assets							
Cash and deposits with the central bank	20,334,769	4,939,509	-	-	-	-	25,274,278
Deposits with banks	-	3,895,784	71,758	-	-	-	3,967,542
Financial assets held under resale agreements	-	-	16,263,996	-	-	-	16,263,996
Financial assets at fair value through profit or loss	-	-	14,657,871	3,193,190	17,991,752	887,086	36,729,899
Interests receivables	27,149	26,090	626,477	1,031,169	398,399	92,821	2,202,105
Loans and advances to customers	4,075,163	4,996,644	19,538,053	63,138,222	50,620,127	22,398,627	164,766,836
Financial assets at fair value through other comprehensive income	-	-	495,673	2,832,224	7,667,065	4,086,485	15,081,447
Financial assets at amortised cost	4,646,629	760,000	6,393,224	12,529,350	34,533,491	2,834,702	61,697,396
Others	5,569,820	-	-	-	3,491,166	-	9,060,986
	34,653,530	14,618,027	58,047,052	82,724,155	114,702,000	30,299,721	335,044,485
Liabilities							
Borrowings from the central bank	-	-	1,902,988	413,365	-	-	2,316,353
Deposits from banks and other financial institutions	-	601,889	6,630,000	6,390,000	-	-	13,621,889
Placements from banks and other financial institutions	-	-	580,000	310,000	-	-	890,000
Financial assets sold under repurchase agreements	-	-	5,398,580	-	-	-	5,398,580
Deposits from customers	-	82,717,263	10,021,729	24,280,784	119,848,881	-	236,868,657
Interests payable	-	8,381,652	135,542	155,082	35,205	54,020	8,761,501
Debts securities issued	-	-	10,030,256	23,732,944	999,515	4,696,458	39,459,173
Others	26,355	1,994,236	734,822	101,378	180,455	2,084	3,039,330
	26,355	93,695,040	35,433,917	55,383,553	121,064,056	4,752,562	310,355,483
Long/(short) position	34,627,175	(79,077,013)	22,613,135	27,340,602	(6,362,056)	25,547,159	24,689,002

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For the year ended December 31, 2019

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at December 31, 2019 and 2018: (Continued)

	At December 31, 2018						Total RMB'000
	Indefinite (Note) RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000	
Assets							
Cash and deposits with the central bank	24,717,006	6,819,906	-	-	-	-	31,536,912
Deposits with banks	-	4,038,582	4,864,829	4,024,291	-	-	12,927,702
Financial assets held under resale agreements	-	-	19,523,812	-	-	-	19,523,812
Financial assets at fair value through profit or loss	-	-	24,428,874	8,262,845	8,654,058	1,215,196	42,560,973
Interests receivables	-	13,261	558,885	1,214,680	104,408	1	1,891,235
Loans and advances to customers	3,586,265	2,191,560	18,517,127	65,564,757	46,074,447	18,699,702	154,633,858
Financial assets at fair value through other comprehensive income	-	-	299,662	8,451,771	6,497,664	-	15,249,097
Financial assets at amortised cost	-	-	7,420,514	13,034,661	23,385,794	1,225,319	45,066,288
Others	5,053,374	-	-	-	179,120	-	5,232,494
	33,356,645	13,063,309	75,613,703	100,553,005	84,895,491	21,140,218	328,622,371
Liabilities							
Borrowings from the central bank	-	-	4,835,821	6,815,030	-	-	11,650,851
Deposits from banks and other financial institutions	-	1,093,772	4,750,000	9,170,000	500,000	-	15,513,772
Placements from banks and other financial institutions	-	-	-	3,300,000	-	-	3,300,000
Financial assets sold under repurchase agreements	-	-	11,716,985	-	-	-	11,716,985
Deposits from customers	-	81,896,474	17,606,406	20,943,041	85,410,833	4,866,563	210,723,317
Interests payable	-	5,873,309	124,021	400,377	21,226	-	6,418,933
Debts securities issued	-	-	10,516,225	21,869,766	5,993,685	3,197,097	41,576,773
Others	61,455	1,093,044	1,319,650	-	-	-	2,474,149
	61,455	89,956,599	50,869,108	62,498,214	91,925,744	8,063,660	303,374,780
Long/(short) position	33,295,190	(76,893,290)	24,744,595	38,054,791	(7,030,253)	13,076,558	25,247,591

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at December 31, 2019 and 2018: (Continued)

Note: Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial assets at amortised cost represents impaired investments or those overdue more than one month.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments at December 31, 2019 and 2018:

	At December 31, 2019						
	Contractual	Repayable on	Less than	Between	Between	More than	
	undiscounted	demand	three months	three months	one year	five years and	
Carrying amount	cash flow		three months	and one year	and five years	indefinite	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Non-derivative financial liabilities							
Borrowings from the central bank	2,316,353	2,327,766	-	1,911,200	416,566	-	-
Deposits from banks	13,621,889	13,985,163	601,889	6,763,194	6,620,080	-	-
Placements from bank and other financial institutions	890,000	913,747	-	595,275	318,472	-	-
Financial assets sold under repurchase agreements	5,398,580	5,398,580	-	5,398,580	-	-	-
Deposits from customers	236,868,657	244,374,683	82,717,264	10,109,724	26,164,455	125,383,240	-
Debts securities issued	39,459,173	39,645,555	-	10,068,639	23,791,717	1,034,721	4,750,478
Other liabilities	3,012,976	3,032,152	1,994,235	734,822	104,256	196,217	2,622
	301,567,628	309,677,646	85,313,388	35,581,434	57,415,546	126,614,178	4,753,100
Off-balance sheet credit commitments	24,999,803	24,999,803	890,776	9,984,163	13,171,546	666,160	287,158

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments at December 31, 2019 and 2018: (Continued)

	Carrying amount RMB'000	Contractual undiscounted cash flow RMB'000	At December 31, 2018				
			Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years and indefinite RMB'000
Non-derivative financial liabilities							
Borrowings from the central bank	11,650,851	11,805,665	-	4,899,614	6,906,051	-	-
Deposits from banks	15,513,772	16,049,647	1,141,577	4,898,085	9,501,659	508,326	-
Placements from bank and other financial institutions	3,300,000	3,373,494	-	-	3,373,494	-	-
Financial assets sold under repurchase agreements	11,716,985	11,732,522	-	11,732,522	-	-	-
Deposits from customers	210,723,317	215,448,790	81,896,473	17,794,480	21,351,735	89,534,184	4,871,918
Debt securities issued	41,576,773	43,547,206	-	10,563,574	22,284,396	7,170,753	3,528,483
Other liabilities	2,412,695	2,412,695	2,412,695	-	-	-	-
	296,894,393	304,370,019	85,450,745	49,888,275	63,417,335	97,213,263	8,400,401
Off-balance sheet credit commitments	27,498,842	27,498,842	359,224	12,218,314	299,866	14,336,602	284,836

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

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49. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, settlement, intermediary business and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

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50. 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 investments

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) Unlisted equity investments

Fair values of unlisted equity investment are determined with reference to the present value of the discounted cash flows model to be derived from the ownership of the investee, based on an appropriate discount rate.

(iii) 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 December 31, 2019 and December 31, 2018.

(iv) 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 December 31, 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 December 31, 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, loans and advances to customers, financial assets at amortised cost, financial assets at FVTPL and financial assets at FVTOCI.

Deposits with the central bank and receivables with banks 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 is disclosed in Note 20.

The fair value of financial assets at FVTPL and FVTOCI are disclosed in Note 23 and Note 24 respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair value measurement (Continued)

(ii) Financial liabilities

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

The financial liabilities recorded at amortised cost are disclosed in Note 33, Note 35 and Note 39 respectively. Accordingly, the carrying amounts approximate the fair values.

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the consolidated statement 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.

Notes to the Consolidated Financial Statements

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50. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

	At December 31, 2019			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVTPL				
– debt securities held for trading	–	1,210,450	–	1,210,450
– trust plans	–	4,305,588	–	4,305,588
– asset management plans	–	24,013,317	–	24,013,317
– investment funds	–	6,887,405	–	6,887,405
– other debt securities	–	313,139	–	313,139
Financial assets at FVTOCI				
– Debt instruments at FVTOCI	–	14,766,353	–	14,766,353
– Unlisted equity investments measured at FVTOCI	–	–	315,094	315,094
	–	51,496,252	315,094	51,811,346
At December 31, 2018				
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
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 FVTOCI				
– debt securities	–	15,249,097	–	15,249,097
	–	57,810,070	–	57,810,070

During the year ended December 31, 2019, there were no significant transfers among each level (2018: nil).

Notes to the Consolidated Financial Statements

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50. 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)	Significant unobservable input(s)		Relationship of key inputs and significant unobservable inputs to fair value
	December 31, 2019 RMB'000	December 31, 2018 RMB'000			input(s)	Range	
Financial assets at FVTPL							
Debt securities – listed	1,210,450	8,811,736	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model	N/A	N/A	N/A
Trust plans	4,305,588	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	N/A	N/A	N/A
Asset management plans	24,013,317	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	N/A	N/A	N/A
Investment funds	6,887,405	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	N/A	N/A	N/A
Other debt securities	313,139	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	N/A	N/A	N/A

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

- (ii) The valuation techniques and input used in the fair value measurements of financial instruments as set out below: (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of key inputs and significant unobservable inputs to fair value
	December 31, 2019 RMB'000	December 31, 2018 RMB'000				
Financial assets at FVTOCI						
Debt securities – listed	14,766,353	15,249,097	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model	N/A	N/A
Unlisted equity investments measured at FVTOCI	315,094	-	Level 3	Income approach – By reference to the present value of the discounted cash flows model to be derived from the ownership of the investee, based on an appropriate discount rate	The Weighted average cost of capital ("WACC") 5.05%.	The higher the weighted average cost of capital, the lower the fair value (Note)

Note:

A 5% increase in weighted average cost of capital used in isolation would result in a decrease in fair value measurement of unlisted equity investments at FVTOCI by approximately RMB2,077,000 and vice versa.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

Reconciliation of Level 3 fair value measurements of financial assets:

	Unlisted equity investment designated at financial assets at FVTOCI RMB'000
At January 1, 2018 and December 31, 2018	–
Additions	315,094
At December 31, 2019	315,094

There is no change in fair value for the year ended December 31, 2019.

51. 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 consolidated statement of financial position. Surplus funding is accounted for as deposits from customers.

	2019 RMB'000	2018 RMB'000
Entrusted loans	4,250,235	3,739,920
Entrusted funds	4,250,250	3,739,920

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52. COMMITMENTS

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, letters of credit and financial guarantees and unused credit card commitment.

The Group provides letters of guarantees and letters of credit 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. The amounts disclosed in respect of unused credit card commitments are under the assumption that the amounts will be fully advanced.

	2019 RMB'000	2018 RMB'000
Bank acceptances	22,576,503	26,418,071
Letters of guarantees	1,510,474	721,547
Unused credit card commitment	872,439	359,224
Letters of credit	40,387	–
	<u>24,999,803</u>	<u>27,498,842</u>

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.

(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

	2018 RMB'000
Within one year	142,223
In the second to fifth years inclusive	165,992
Over five years	11,847
	<u>320,062</u>

The Group is the lessee in respect of a number of premises which the leases were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to these leases (see note 2). From January 1, 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3, and the details regarding the Group's future lease payments are disclosed in Note 28.

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For the year ended December 31, 2019

52. COMMITMENTS (CONTINUED)

(c) Capital commitments

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

The Group

	2019 RMB'000	2018 RMB'000
Purchase of property and equipment – Contracted for but not provided	15,979	38,655

53. CONTINGENT LIABILITIES

The Bank and its subsidiary are involved as defendants in certain lawsuits arising from their normal business operations. As at December 31, 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.

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54. 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 consolidated statement of cash flows from financing activities.

	January 1, 2019	Financing cash flows	Non-cash change			December 31, 2019
			New lease arrangement entered (Note 56(i))	Dividends declared	Finance cost incurred	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities						
Debts securities issued (Note 39)	41,576,773	(2,567,520)	-	-	449,920	39,459,173
Interests payable on debts securities issued (Note 38)	187,318	(1,130,619)	-	-	1,129,683	186,382
Lease liabilities (Note 28)	250,186	(153,668)	180,796	-	6,617	283,931
Dividend payable (Note 40)	8,560	(1,012,230)	-	1,029,365	-	25,695
	42,022,837	(4,864,037)	180,796	1,029,365	1,586,220	39,955,181

	January 1, 2018	Financing cash flows	Non-cash change		December 31, 2018
			Finance cost incurred		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities					
Debts securities issued (Note 39)	23,960,759	17,182,603	433,411		41,576,773
Interests payable on debts securities issued (Note 38)	141,099	(1,086,709)	1,132,928		187,318
Dividend payable (Note 40)	8,701	(141)	-		8,560
	24,110,559	16,095,753	1,566,339		41,772,651

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55. STATEMENTS OF FINANCIAL POSITION OF THE BANK

	Note	2019 RMB'000	2018 RMB'000
Assets			
Cash and deposits with the central bank		25,127,215	31,319,576
Deposits with banks		3,968,473	12,736,474
Financial assets held under resale agreements		16,263,996	19,523,812
Financial assets at amortised cost		61,697,396	45,066,288
Interests receivables		2,199,834	1,889,604
Loans and advances to customers		164,078,542	154,013,523
Financial assets at fair value through profit or loss		36,729,899	42,560,973
Financial assets at fair value through other comprehensive income		15,081,447	15,249,097
Interest in an associate		8,902	8,970
Investment in a subsidiary	26	29,250	29,250
Property and equipment		2,753,188	2,998,248
Right-of-use assets		345,173	–
Deferred tax assets		1,636,766	1,713,615
Other assets		4,295,151	492,220
Total assets		334,215,232	327,601,650

Notes to the Consolidated Financial Statements

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55. STATEMENTS OF FINANCIAL POSITION OF THE BANK (CONTINUED)

	Note	2019 RMB'000	2018 RMB'000
Liabilities and equity			
Liabilities			
Borrowings from the central bank		2,312,353	11,580,851
Deposits from banks and other financial institutions		13,973,784	15,679,876
Placements from banks and other financial institutions		890,000	3,300,000
Financial assets sold under repurchase agreements		5,398,580	11,716,985
Deposits from customers		235,774,122	209,681,708
Accrued staff costs		503,428	477,901
Taxes payable		–	486,788
Interests payable		8,743,335	6,406,429
Debts securities issued		39,459,173	41,576,773
Deferred tax liabilities		97,243	135,263
Other liabilities		2,431,208	1,366,433
Total liabilities		309,583,226	302,409,007
Equity			
Share capital		10,069,791	10,069,791
Capital reserve	(i)	4,659,863	4,657,760
Defined benefit plan reserve	(i)	(3,399)	(4,156)
Investment revaluation reserve	(i)	219,469	261,427
Surplus reserve	(i)	1,560,835	1,510,052
General reserve	(i)	4,446,325	4,399,431
Retained earnings	(i)	3,679,122	4,298,338
Total equity		24,632,006	25,192,643
Total liabilities and equity		334,215,232	327,601,650

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

55. STATEMENTS OF FINANCIAL POSITION OF THE BANK (CONTINUED)

(i) Reserve of the Bank

	Capital reserve (Note) RMB'000	Defined benefit plan reserve RMB'000	Investment revaluation reserve RMB'000	Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2019	4,657,760	(4,156)	261,427	1,510,052	4,399,431	4,298,338	15,122,852
Profit for the year	-	-	-	-	-	507,826	507,826
Other comprehensive income/(expenses) for the year	-	757	(41,958)	-	-	-	(41,201)
Total comprehensive income/(expenses) for the year	-	757	(41,958)	-	-	507,826	466,625
Shareholders' injection (Note 42)	2,103	-	-	-	-	-	2,103
Appropriation of profits	-	-	-	50,783	-	(50,783)	-
- Appropriation to surplus reserve	-	-	-	-	46,894	(46,894)	-
- Appropriation to general reserve	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(1,029,365)	(1,029,365)
At December 31, 2019	4,659,863	(3,399)	219,469	1,560,835	4,446,325	3,679,122	14,562,215

Note:

The amount represented share premium and shareholders' injection included in Note 42.

	Capital reserve RMB'000	Defined benefit plan reserve RMB'000	Investment revaluation reserve RMB'000	Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2018	1,767,105	(744)	(125,323)	892,953	3,614,058	2,882,706	9,030,755
Change in accounting policy	-	-	138,025	(61,310)	-	(551,796)	(475,081)
At January 1, 2018	1,767,105	(744)	12,702	831,643	3,614,058	2,330,910	8,555,674
Profit for the year	-	-	-	-	-	3,431,210	3,431,210
Other comprehensive expenses for the year	-	(3,412)	248,725	-	-	-	245,313
Total comprehensive (expenses)/income for the year	-	(3,412)	248,725	-	-	3,431,210	3,676,523
Shareholders' injection (Note 42)	500	-	-	-	-	-	500
Change in share capital	-	-	-	-	-	-	-
Capital contributed by equity shareholders	3,058,642	-	-	-	-	-	3,058,642
Share issue expenses	(168,487)	-	-	-	-	-	(168,487)
- Appropriation of profits	-	-	-	678,409	-	(678,409)	-
- Appropriation to surplus reserve	-	-	-	-	785,373	(785,373)	-
- Appropriation to general reserve	-	-	-	-	-	-	-
At December 31, 2018	4,657,760	(4,156)	261,427	1,510,052	4,399,431	4,298,338	15,122,852

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

56. MAJOR NON-CASH TRANSACTIONS

- i) During the year ended December 31, 2019, the Group entered into new arrangements in respect of office premises. Right-of-use assets and lease liabilities of approximately RMB180,796,000 were recognised at the commencement of the leases (2018: nil).
- ii) During the year ended December 31, 2019, amounts of approximately RMB800,084,000 of financial assets at FVTPL and approximately RMB315,094,000 of unlisted equity investment designated at FVTOCI were arising from financing restructuring of loan and advance to customers and financial assets at amortised cost (2018: nil).

57. EVENT AFTER THE REPORTING PERIOD

The COVID-19 outbreak would have an impact on the operating condition of the entities in some provinces (including Hubei province) and cities and certain industries and overall economic situation, which may in turn affect the quality or returns of the Bank's credit assets and investment assets to the extent of which could not be estimated as at the date of these financial statements. Such extent will depend on the development of the prevention and control measures, duration and implementation of various control policies.

The Bank will continue to pay close attention to the development of the COVID-19 outbreak, evaluate and proactively respond to its impact on the financial condition, results of operations and other aspects of the Bank.

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 December 31, 2019	Average for the year ended December 31, 2019
Liquidity coverage ratio (RMB and foreign currency)	199.59%	194.49%

	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 December 31, 2019
Leverage Ratio (RMB and foreign currency)	6.82%

Pursuant to the Measures for the Administration of the Leverage Ratio of Commercial Banks issued by the China Banking Regulatory Commission ("CBRC") with effect from April 1, 2015, a minimum leverage ratio of 4% is required.

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

Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

2. CURRENCY CONCENTRATIONS

	At December 31, 2019		
	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	4,120,996.9	341,272.8	4,462,269.7
Spot liabilities	(47,460.1)	(55,347.9)	(102,807.9)
Net position	4,073,536.8	285,924.9	4,359,461.8

	At December 31, 2018		
	USD (RMB equivalent)	Others (RMB equivalent)	Total (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 CBIRC. The Group has no structured position as at December 31, 2019 and 2018.

Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

3. INTERNATIONAL CLAIMS

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

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

A country or geographical area is reported where it accounts for 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer occurs only 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 December 31,	
	2019	2018
Deposits with banks		
Asia Pacific excluding mainland China	263,815	305,575
Europe	–	–
	<hr/>	<hr/>
	263,815	305,575

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

	At December 31,	
	2019	2018
Gansu Region	2,995,809	3,625,765
Mainland China excluding Gansu Region	960,451	1,398,652
	<hr/>	<hr/>
Total	3,956,260	5,024,417

Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

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

	At December 31,	
	2019	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)	1,046,565	2,486,766
– Between six months and one year (inclusive)	2,021,829	1,313,927
– Between one year and three years	720,941	1,018,092
– Over three years	166,925	205,631
Total	3,956,260	5,024,416
As a percentage of total loans and advances		
– Between three months and six months (inclusive)	0.61%	1.55%
– Between six months and one year (inclusive)	1.19%	0.81%
– Between one year and three years	0.42%	0.63%
– Over three years	0.10%	0.13%
Total	2.32%	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 December 31, 2019 and 2018, substantial amounts of the Bank's exposures arose from businesses with mainland China entities or individuals.



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