



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

2020

INTERIM REPORT



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

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# Chapter 1 Definitions

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

“Articles of Association” or “Articles”	the articles of association of the Bank
“Baiyin City Commercial Bank”	the former Baiyin City Commercial Bank Co., Ltd. (白銀市商業銀行股份有限公司). In May 2011, 25 legal entities, all shareholders of Baiyin City Commercial Bank and all shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“Bank” or “our Bank”	Bank of Gansu Co., Ltd. (甘肅銀行股份有限公司), a joint stock company incorporated in Gansu Province, the PRC on November 18, 2011 with limited liability in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Banking Ordinance”	Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Board of Directors” or “Board”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“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 up

## Chapter 1 Definitions

“Gansu Electric Power Investment”	Gansu Province Electric Power Investment Group Co., Ltd. (甘肅省電力投資集團有限公司), a company incorporated in the PRC on July 15, 1990, and a wholly-owned subsidiary of Gansu State-owned Assets Investment. As of the Latest Practicable Date, Gansu Electric Power Investment held approximately 6.30% of the Shares of 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 Gansu SASAC. As of the Latest Practicable Date, Gansu Highway Aviation Tourism held approximately 12.49% of the Shares of 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 the Latest Practicable Date, it directly held approximately 3.57% of the Shares of the Bank, and indirectly held approximately 12.59% of the Shares of 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
“H Share(s)”	ordinary shares issued by the Bank in Hong Kong pursuant to the global offering, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed and traded on the Hong Kong Stock Exchange
“HK\$, “HKD” or “HK dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“HKMA”	the Hong Kong Monetary Authority
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong 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

## Chapter 1 Definitions

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, International Accounting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“independent third party”	a person or entity not considered a connected person or associate of a connected person of the Bank under the Hong Kong Listing Rules
“Jinchuan Group”	Jinchuan Group Co., Ltd. (金川集團股份有限公司), a company incorporated in the PRC on September 28, 2001, of which Gansu State-owned Assets Investment is its largest shareholder, holding 48.67% of its equity interests. As of the Latest Practicable Date, Jinchuan Group held approximately 6.30% of the Shares of 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 the Latest Practicable Date, Jiuquan Iron & Steel held approximately 6.30% of the Shares of the Bank
“Latest Practicable Date”	August 21, 2020, the latest practicable date for ascertaining certain information in this interim report before its publication
“Listing”	the listing of our H Shares 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
“NPL ratio” or “non-performing loan ratio”	the percentage ratio calculated by dividing non-performing loans by total loans
“NPLs” or “non-performing loans”	loans classified as substandard, doubtful and loss according to the five-category loan classification system of the Bank
“PBoC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pingliang City Commercial Bank”	the former Pingliang City Commercial Bank Co., Ltd. (平涼市商業銀行股份有限公司). In May 2011, 25 legal entities, all shareholders of Baiyin City Commercial Bank and all shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“PRC” or “China”	the People’s Republic of China, but for the purpose of this interim report only, excluding Hong Kong, Macau and Taiwan, unless otherwise specified in the context

## Chapter 1 Definitions

“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 became 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
“provincial city commercial bank(s)”	local city commercial bank(s), whose establishment was promoted by the provincial government
“related party(ies)”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》) promulgated by the CBIRC, the PRC GAAP and/or IFRS
“related party transaction(s)”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders promulgated by the CBIRC, the PRC GAAP and/or IFRS
“Reporting Period”	the six months ended June 30, 2020 (namely from January 1, 2020 to June 30, 2020)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“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)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Supervisor(s)”	the supervisor(s) of the Bank
“three rurals”	rural areas, agriculture and farmers
“United States” or “U.S.”	the United States of America

## Chapter 1 Definitions

“US\$”, “USD” or “U.S. dollar(s)” U.S. dollars, the lawful currency of the United States of America

“we”, “us”, “our”, “Group” or “our Group” the Bank and its subsidiary on a consolidated basis

In this interim report:

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

# Chapter 2 Company Profile

## I. BASIC INFORMATION OF THE COMPANY

Legal Name of the Company in Chinese	:	甘肅銀行股份有限公司
Legal Name of the Company in English	:	Bank of Gansu Co., Ltd.
Legal Representative	:	Liu Qing
Authorized Representatives	:	Liu Qing, Fok Po Yi
Secretary to the Board of Directors	:	Hao Jumei
Company Secretary	:	Fok Po Yi
Registered Address	:	No. 122, Gannan Road, Chengguan District, Lanzhou City, Gansu Province, the PRC
Principal Office Address	:	Gansu Bank Building, 525 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC
Customer Service Hotline	:	+86 400 86 96666
Telephone	:	+86 931 877 0491
Facsimile	:	+86 931 877 1877
Website of the Bank	:	<a href="http://www.gsbankchina.com">www.gsbankchina.com</a>
Principal Place of Business in Hong Kong	:	40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong
H Share Information Disclosure Website	:	<a href="http://www.hkexnews.hk">www.hkexnews.hk</a>
Stock Listing Place, Stock Short Name and Stock Code	:	The Stock Exchange of Hong Kong Limited, BANK OF GANSU, 2139
Domestic Shares trustee agency	:	China Securities Depository and Clearing Corporation Limited
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
Place of Inspection of the Interim Report	:	Office of the Board of the Bank



## Chapter 2 Company Profile

### II. HISTORY OF THE BANK

In light of the lack of provincial city commercial banks in Gansu province and in order to promote the economic development of Gansu province, the People's Government of Gansu Province decided to establish a provincial city commercial bank by building on the foundations of Baiyin City Commercial Bank and Pingliang City Commercial Bank. Therefore, on May 30, 2011, 25 legal entities (including large and medium-sized SOEs in Gansu province and private enterprises in and outside Gansu province) and representatives of all shareholders of both Baiyin City Commercial Bank and Pingliang City Commercial Bank jointly entered into a promoters agreement in respect of Dunhuang Bank Co., Ltd. (敦煌銀行股份有限公司). Pursuant to the agreement, the 25 legal entities contributed cash and all shareholders of both Baiyin City Commercial Bank and Pingliang City Commercial Bank contributed the appraised net assets of Baiyin City Commercial Bank and Pingliang City Commercial Bank, respectively, to jointly incorporate Dunhuang Bank Co., Ltd.. On August 24, 2011, the General Office of the People's Government of Gansu Province approved the change to the name of the Bank to be incorporated from the former "Dunhuang Bank Co., Ltd." to "Bank of Gansu Co., Ltd.". On September 27, 2011, the CBIRC approved the establishment of the Bank. On November 18, 2011, the 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 city commercial bank in Gansu province.

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

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

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

### III. AWARDS OF THE BANK IN THE FIRST HALF YEAR OF 2020

Awards and Honors	Awarding Parties/Media
Ranked 331st among the 2020 Top 1000 World Banks (58th among Chinese banks)	The Banker Magazine
2020 China Fintech Innovation Competition-Gold Award for Integrated Smart Platform	www.cebnet.com.cn
Best Progress Award for Interbank RMB Market in 2019 (2019年度銀行間本幣市場最佳進步獎)	National Interbank Funding Center
Excellent City Commercial Bank for Banking Wealth Management Information Registration of 2019 (2019年度銀行業理財登記工作優秀城商行獎)	China Banking Wealth Management Registration & Depository Co., Ltd.
Ranked 48th among the 2019 Top 100 Banks in China's Banking Industry (2019年中國銀行業100強中排名第48位)	China Banking Association
2019 Provincial Advanced Group for Assistance in Combating Poverty (2019年度全省脫貧攻堅幫扶先進集體)	Gansu Provincial Party Committee and Gansu Provincial Government

# Chapter 3 Financial Highlights

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage	Year ended
	2020	2019	change	December 31, 2019
			(%)	
<b>Results of operations</b>				
Interest income	7,095.0	7,278.3	(2.5)	14,380.0
Interest expenses	(4,607.2)	(4,406.1)	4.6	(9,092.1)
<b>Net interest income</b>	<b>2,487.8</b>	<b>2,872.2</b>	<b>(13.4)</b>	<b>5,287.9</b>
Fee and commission income	202.0	158.7	27.3	357.6
Fee and commission expenses	(15.5)	(45.4)	(65.9)	(104.4)
<b>Net fee and commission income</b>	<b>186.5</b>	<b>113.3</b>	<b>64.6</b>	<b>253.2</b>
Net trading gains	498.3	852.6	(41.6)	1,489.8
Net gains arising from investment securities	7.0	15.5	(54.8)	131.2
Net exchange gains	66.1	8.5	677.6	68.9
Other operating (expense)/income, net	(2.4)	(4.2)	(42.9)	2.3
<b>Operating income</b>	<b>3,243.3</b>	<b>3,857.9</b>	<b>(15.9)</b>	<b>7,233.3</b>
Operating expenses	(958.2)	(941.6)	1.8	(2,356.5)
Impairment losses on assets, net of reversals	(1,889.8)	(2,289.7)	(17.5)	(4,312.0)
<b>Operating profit</b>	<b>395.3</b>	<b>626.6</b>	<b>(36.9)</b>	<b>564.8</b>
Share of results of an associate	0.6	(2.3)	(126.1)	(0.1)
<b>Profit before tax</b>	<b>395.9</b>	<b>624.3</b>	<b>(36.6)</b>	<b>564.7</b>
Income tax expense	(27.4)	(106.0)	(74.2)	(53.4)
<b>Profit for the period/year</b>	<b>368.5</b>	<b>518.3</b>	<b>(28.9)</b>	<b>511.3</b>
<b>Profit for the period/year attributable to:</b>				
– Owners of the Bank	366.2	513.7	(28.7)	509.1
– Non-controlling interests	2.3	4.6	(50.0)	2.2
<b>Profit for the period/year</b>	<b>368.5</b>	<b>518.3</b>	<b>(28.9)</b>	<b>511.3</b>
Basic earnings per share (RMB)	0.04	0.05	(20.0)	0.05
Diluted earnings per share (RMB)	0.04	0.05	(20.0)	0.05

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

## Chapter 3 Financial Highlights

(Expressed in millions of RMB, unless otherwise stated)	As at June 30, 2020	As at December 31, 2019	Percentage change (%)
<b>Major indicators of assets/liabilities</b>			
Total assets	338,718.8	335,044.5	1.1
Of which: total loans and advances to customers	173,522.8	170,449.2	1.8
Total liabilities	313,650.3	310,355.5	1.1
Of which: deposits from customers	253,388.5	236,868.7	7.0
<b>Total equity</b>	<b>25,068.5</b>	<b>24,689.0</b>	<b>1.5</b>

	Six months ended June 30,		Percentage change (%)
	2020 (%)	2019 (%)	(%)
<b>Profitability indicators (%)</b>			
Return on assets <sup>(1)(14)</sup>	0.22	0.31	(29.03)
Return on equity <sup>(2)(14)</sup>	2.96	4.15	(28.67)
Net interest spread <sup>(3)(14)</sup>	1.76	2.02	(12.87)
Net interest margin <sup>(4)(14)</sup>	1.78	2.10	(15.24)
Net fee and commission income to operating income ratio <sup>(5)</sup>	5.75	2.90	98.28
Cost-to-income ratio <sup>(6)</sup>	28.05	23.40	19.87

	As at June 30, 2020 (%)	As at December 31, 2019 (%)	Percentage Change (%)	As at June 30, 2019 (%)
<b>Capital adequacy indicators (%)</b>				
Core tier-one capital adequacy ratio <sup>(7)</sup>	9.86	9.92	(0.60)	10.27
Tier-one capital adequacy ratio <sup>(8)</sup>	9.86	9.92	(0.60)	10.27
Capital adequacy ratio <sup>(9)</sup>	11.63	11.83	(1.69)	12.24
Shareholders' equity to total assets ratio	7.40	7.37	0.41	7.21
<b>Assets quality indicators (%)</b>				
Non-performing loan ratio	2.32	2.45	(5.31)	2.97
Provision coverage ratio <sup>(10)</sup>	131.20	135.87	(3.44)	129.60
Provision to total loan ratio <sup>(11)(12)</sup>	3.05	3.33	(8.41)	3.84
<b>Other indicators (%)</b>				
Loan to deposit ratio <sup>(13)</sup>	68.48	71.96	(4.84)	72.50

## Chapter 3 Financial Highlights

### Notes:

- (1) Calculated by dividing the net profit for a period by the average balance of total assets at the beginning and the end of that period.
- (2) Calculated by dividing the net profit for a period by the average balance of total equity at the beginning and the end of that period.
- (3) Represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average interest-earning assets.
- (5) Calculated by dividing net fee and commission income by operating income.
- (6) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.
- (7) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions)/risk-weighted assets.
- (8) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions)/risk-weighted assets.
- (9) Capital adequacy ratio = (total capital – corresponding capital deductions)/risk-weighted assets.
- (10) Provision coverage ratio = provision for impairment losses on loans/total non-performing loans and advances.
- (11) Provision to total loan ratio = provision for impairment losses on loans/total loans and advances to customers.
- (12) In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank made a provision to total loans at the minimum standard ratio 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.
- (14) The ratio for the six months ended June 30, 2019 and 2020, respectively, is calculated on an annual basis.

# Chapter 4 Management Discussion and Analysis

## 1. ENVIRONMENT AND PROSPECT

Since the beginning of 2020, the COVID-19 pandemic has spread continuously all around the world and caused huge and evolving impact on global economy. Under the international context marked by a slowdown of global economy, continuous economic and trade frictions and increased spillover effect of the policies of developed economies, our country faced enormous challenges in terms of economic development. In the second quarter, China welcomed a gradual economic recovery and improvement with the advancement of the resumption of work, production, market and business. During the first half of the year, Chinese economy first dropped and then rose. In the second quarter, China saw an economic growth turning from negative to positive, a restorative increase in key indicators and a steady recovery in economic operation. China has strongly safeguarded people's basic livelihood, expects an overall sound market and enjoys a stable environment for social development.

For the first half of the year, China's GDP amounted to RMB45,661.4 billion, representing a year-on-year decrease of 1.6%, calculated at comparable prices. By industries, the primary industry increased by RMB2,605.3 billion, representing a year-on-year increase of 0.9%; the secondary industry increased by RMB17,275.9 billion, representing a year-on-year decrease of 1.9%; and the tertiary industry increased by RMB25,780.2 billion, representing a year-on-year decrease of 1.6%. The nationwide per capita disposable income of residents was RMB15,666, up by 2.4% year on year in nominal terms; the total retail sales of consumer goods reached RMB17,225.6 billion, down by 11.4% year on year; and investment in fixed assets across the country (excluding rural households) amounted to RMB28,160.3 billion, down by 3.1% year on year.

In the first half of 2020, Gansu Province sped up the resumption of production and normal life while maintaining ongoing COVID-19 response, made coordinated efforts in pandemic prevention and control and economic and social development, and made remarkable achievement. In the first half of the year, Gansu's GDP was RMB410.19 billion, representing a year-on-year increase of 1.5%. By industries, the primary industry increased by RMB28.97 billion or 5.8% year on year; the secondary industry increased by RMB134.09 billion or 1.8% year on year; and the tertiary industry increased by RMB247.13 billion or 0.9% year on year. As at the end of June 2020, the balances of RMB-denominated and foreign currency-denominated deposits and RMB-denominated and foreign currency-denominated loans in financial institutions across the province were RMB2,140.78 billion and RMB2,185.00 billion, respectively, representing a year-on-year increase of 7.2% and 7.2%, respectively.

Currently, banks are undergoing a transition from an era with high interest rates to one with medium and low interest rates, and profound changes have taken place in market environment. In 2020, the Bank focused on pursuing stable operations, compliance management and high-quality development, adhered to the underlying principle of seeking progress while maintaining stability, remained committed to a new development philosophy, conceptualized itself as a city commercial bank and stick to bottom-line thinking. The Bank sped up the implementation of capital and share increase plan, the formulation and implementation of development strategies planning and the development of "Five Systems", focused on three major financial tasks, ensured "Stability in Six Aspects", and implemented the tasks of "Guarantee for Six Areas", based on continual improvement of its corporate governance structure, with development as the top priority, efficiency at the core, risk elimination as the primary task, and transformation as the orientation, to ensure the completion of tasks of ensuring stability, promoting transformation, deposit-taking, risk elimination, foundation solidifying, structure adjustment, and efficiency increase, so as to achieve high-quality development. In the second half of the year, the Bank will, with refreshed morale, make concerted efforts and take the initiative to implement the overall requirements of pursuing stable operations, compliance management and high-quality development. It will continue to consolidate its business foundation, adjust its asset structure, strive to accelerate the digital transformation, intensify deposit-taking services marketing, increase income and reduce expenses and improve efficiency, so as to ensure the completion of the objectives set for the year.

### 2. ASSESSMENT ON THE IMPACT OF COVID-19

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 a series of policies and measures including 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》), the Guidance Opinions on Further Strengthening Financial Services for Small, Medium and Micro Enterprises (《關於進一步強化中小微企業金融服務的指導意見》) (Yin Fa [2020] No. 120), the Notice on Further Implementing the Phased Delay in Repayment of Principal and Interest of Loans for Small, Medium and Micro Enterprise (《關於進一步對中小微企業貸款實施階段性延期還本付息的通知》) (Yin Fa [2020] No. 122) and the Notice on Increasing the Support of Unsecured Loans for Micro and Small Enterprises (《關於加大小微企業信用貸款支援力度的通知》) (Yin Fa [2020] No. 123) jointly promulgated by the PBoC, the Ministry of Finance of the PRC, CBIRC and other ministries and the Notice on Printing and Distributing the Work Plan for “Security in the Six Areas” by the General Office of the People’s Government of Gansu Province of the Gansu Province Committee of CPC (《中共甘肅省委辦公廳甘肅省人民政府辦公廳關於印發「六保」工作方案的通知》) (Gan Ban Fa [2020] No. 16), so as to support entity enterprises to resume work and production, ensure employment, and strengthen financial support for the prevention and control of the pandemic.

The outbreak of COVID-19 has exerted a certain impact on the operating of entities across the country and certain industries as well as the overall economic situation, which has in turn affected the quality or returns of the Bank’s credit assets and investment assets to a certain extent. Although the Bank actively responded to the call of national policies, strictly implemented relevant policies and formulated a financial service plan in respect of real economy based on local conditions to deal with the pandemic, there would still be a certain impact of the pandemic on the financial and operating conditions of the Bank.

### 3. DEVELOPMENT STRATEGY

Our vision is committed to building ourselves into a first class listed city commercial bank. To this end, the Bank will adhere to the principle of 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 a 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.

## Chapter 4 Management Discussion and Analysis

### 4. OVERALL BUSINESS REVIEW

The Bank's total operating income was RMB3,243.3 million for the six months ended June 30, 2020, representing a decrease of 15.9% as compared with RMB3,857.9 million for the six months ended June 30, 2019. The Bank's net profit decreased by 28.9% from RMB518.3 million for the six months ended June 30, 2019 to RMB368.5 million for the six months ended June 30, 2020. The year-on-year decrease in the Bank's operating income was mainly attributable to the outbreak of the COVID-19 pandemic and the decline in loan prime rate (the "LPR"); the year-on-year decrease in net profit was mainly attributable to the year-on-year decrease in operating income.

As at June 30, 2020, the Bank's total assets amounted to RMB338,718.8 million, representing an increase of 1.1% as compared with the end of 2019; total loans and advances to customers amounted to RMB173,522.8 million, representing an increase of 1.8% as compared with the end of 2019; the non-performing loan ratio was 2.32%, representing a decrease of 0.13 percentage point as compared with the beginning of 2020; total deposits from customers amounted to RMB253,388.5 million, representing an increase of 7.0% as compared with the corresponding period of 2019.

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Increase or decrease	Percentage change (%)
	2020	2019		
Interest income	7,095.0	7,278.3	(183.3)	(2.5)
Interest expenses	(4,607.2)	(4,406.1)	(201.1)	4.6
<b>Net interest income</b>	<b>2,487.8</b>	<b>2,872.2</b>	<b>(384.4)</b>	<b>(13.4)</b>
Fee and commission income	202.0	158.7	43.3	27.3
Fee and commission expenses	(15.5)	(45.4)	29.9	(65.9)
<b>Net fee and commission income</b>	<b>186.5</b>	<b>113.3</b>	<b>73.2</b>	<b>64.6</b>
Net trading gains	498.3	852.6	(354.3)	(41.6)
Net gains arising from investment securities	7.0	15.5	(8.5)	(54.8)
Net exchange gains	66.1	8.5	57.6	677.6
Other operating expense, net	(2.4)	(4.2)	1.8	(42.9)
<b>Operating income</b>	<b>3,243.3</b>	<b>3,857.9</b>	<b>(614.6)</b>	<b>(15.9)</b>
Operating expenses	(958.2)	(941.6)	(16.6)	1.8
Impairment losses on assets, net of reversals	(1,889.8)	(2,289.7)	399.9	(17.5)
<b>Operating profit</b>	<b>395.3</b>	<b>626.6</b>	<b>(231.3)</b>	<b>(36.9)</b>
Share of results of an associate	0.6	(2.3)	2.9	(126.1)
<b>Profit before tax</b>	<b>395.9</b>	<b>624.3</b>	<b>(228.4)</b>	<b>(36.6)</b>
Income tax expense	(27.4)	(106.0)	78.6	(74.2)
<b>Profit for the period</b>	<b>368.5</b>	<b>518.3</b>	<b>(149.8)</b>	<b>(28.9)</b>
<b>Profit for the period attributable to:</b>				
– Owners of the Bank	366.2	513.7	(147.5)	(28.7)
– Non-controlling interests	2.3	4.6	(2.3)	(50.0)
<b>Profit for the period</b>	<b>368.5</b>	<b>518.3</b>	<b>(149.8)</b>	<b>(28.9)</b>

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For the first half of 2020, the Bank's profit before tax was RMB395.9 million, representing a year-on-year decrease of 36.6%; profit for the period was RMB368.5 million, representing a year-on-year decrease of 28.9%, mainly attributable to the impact of COVID-19 pandemic and decrease in LPR.

### (i) Net interest income

The net interest income was the largest component of the Bank's operating revenue, accounting for 74.4% and 76.7% of the operating income for the six months ended June 30, 2019 and 2020 respectively. The table below sets forth the Bank's interest income, interest expenses and net interest income for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2020	2019	Increase or decrease	Percentage change (%)
Interest income	7,095.0	7,278.3	(183.3)	(2.5)
Interest expenses	(4,607.2)	(4,406.1)	(201.1)	4.6
<b>Net interest income</b>	<b>2,487.8</b>	<b>2,872.2</b>	<b>(384.4)</b>	<b>(13.4)</b>

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup> (%)	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup> (%)
<b>Interest-earning assets</b>						
Loans and advances to customers	173,585.7	4,858.7	5.60	165,709.5	5,059.8	6.11
Investment securities and other financial assets <sup>(3)</sup>	108,018.5	2,249.1	4.16	86,478.9	1,970.2	4.56
Deposits with banks	1,568.9	27.1	3.45	9,606.9	167.0	3.48
Financial assets held under resale agreements and placements with banks and other financial institutions	16,022.0	178.0	2.22	18,975.8	234.2	2.47
Deposits with the central bank <sup>(4)</sup>	24,139.0	178.8	1.48	25,585.4	196.0	1.53
<b>Total interest-earning assets</b>	<b>323,334.1</b>	<b>7,491.7</b>	<b>4.63</b>	<b>306,356.5</b>	<b>7,627.2</b>	<b>4.98</b>



## Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Average balance <sup>(1)</sup>	Interest expense	Average cost <sup>(2)</sup> (%)	Average balance <sup>(1)</sup>	Interest expense	Average cost <sup>(2)</sup> (%)
<b>Interest-bearing liabilities</b>						
Deposits from customers	257,778.6	3,592.2	2.79	221,963.2	3,109.8	2.80
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	4,646.2	48.5	2.09	14,150.8	160.4	2.27
Debt securities issued <sup>(5)</sup>	41,564.4	727.8	3.50	42,045.1	822.2	3.91
Deposits from banks and other financial institutions	15,681.1	218.7	2.79	12,157.9	176.8	2.91
Borrowings from the central bank	1,377.2	16.9	2.45	7,585.0	136.9	3.61
Lease liabilities	302.6	3.1	2.05	-	-	-
<b>Total interest-bearing liabilities</b>	<b>321,350.1</b>	<b>4,607.2</b>	<b>2.87</b>	<b>297,902.0</b>	<b>4,406.1</b>	<b>2.96</b>
<b>Net interest income</b>		<b>2,884.5</b>			<b>3,221.1</b>	
<b>Net interest spread<sup>(6)</sup></b>			<b>1.76</b>			<b>2.02</b>
<b>Net interest margin<sup>(7)</sup></b>			<b>1.78</b>			<b>2.10</b>

### Notes:

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

The table below sets forth the changes in interest income and interest expense attributable to changes in amount and interest rate of the Bank 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.

## Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2020 vs 2019 Increase/(decrease)		
	Amount <sup>(1)</sup>	Interest rate <sup>(2)</sup>	Net increase/ (decrease) <sup>(3)</sup>
<b>Interest-earning assets</b>			
Loans and advances to customers	220.5	(422.6)	(201.1)
Investment securities and other financial assets	448.0	(173.0)	278.9
Deposits with banks	(138.7)	(1.4)	(139.9)
Financial assets held under resale agreements and placements with banks and other financial institutions	(32.8)	(23.7)	(56.2)
Deposits with the central bank	(10.7)	(6.4)	(17.2)
<b>Change in interest income</b>	<b>393.0</b>	<b>(536.1)</b>	<b>(135.5)</b>
<b>Interest-bearing liabilities</b>			
Deposits from customers	499.6	(11.1)	482.4
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	(99.3)	(12.7)	(111.9)
Debt securities issued	(8.4)	(86.2)	(94.4)
Deposits from banks and other financial institutions	49.1	(7.3)	41.9
Borrowings from the central bank	(76.0)	(44.0)	(120.0)
Lease liabilities	3.1	0.0	3.1
<b>Change in interest expense</b>	<b>336.5</b>	<b>(134.1)</b>	<b>201.1</b>
<b>Change in net interest income</b>	<b>56.5</b>	<b>(402.0)</b>	<b>(336.6)</b>

*Notes:*

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

## Chapter 4 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)	Six months ended June 30,			
	2020	2019		
	Amount	% of total (%)	Amount	% of total (%)
Loans and advances to customers	4,858.7	64.8	5,059.8	66.3
Investment securities and other financial assets <sup>(1)</sup>	2,249.1	30.0	1,970.2	25.8
Deposits with banks	27.1	0.4	167.0	2.2
Financial assets held under resale agreements and placements with banks and other financial institutions	178.0	2.4	234.2	3.1
Deposits with the central bank	178.8	2.4	196.0	2.6
<b>Total</b>	<b>7,491.7</b>	<b>100.0</b>	<b>7,627.2</b>	<b>100.0</b>

Note:

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

Interest income decreased by 1.8% from RMB7,627.2 million for the six months ended June 30, 2019 to RMB7,491.7 million for the six months ended June 30, 2020, primarily due to the impact of COVID-19 pandemic and decrease in LPR. The increase in the average balance of interest-earning assets was in line with the growth of our business. The decrease in the average yield of interest-earning assets was primarily due to the fall of the yield of loans and advances to customers as a result of the impact of COVID-19 pandemic and decrease in LPR.

### (A) Interest income from loans and advances to customers

Interest income from loans and advances to customers represented 66.3% and 64.8% of total interest income for the six months ended June 30, 2019 and 2020, respectively. The table below sets forth the average balance, interest income and average yield of loans and advances to customers of the Bank by product for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,					
	Average balance <sup>(1)</sup>	2020 Interest income	Average yield (%)	Average balance <sup>(1)</sup>	2019 Interest income	Average yield (%)
Corporate loans	112,933.6	3,370.5	5.97	111,578.4	3,583.8	6.42
Retail loans	34,554.4	1,065.9	6.17	29,770.4	942.0	6.33
Discounted bills	26,097.7	422.3	3.24	24,360.7	534.0	4.38
<b>Total loans and advances to customers</b>	<b>173,585.7</b>	<b>4,858.7</b>	<b>5.60</b>	<b>165,709.5</b>	<b>5,059.8</b>	<b>6.11</b>

Note:

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

## Chapter 4 Management Discussion and Analysis

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

Interest income from investment securities and other financial assets increased by 14.2% from RMB1,970.2 million for the six months ended June 30, 2019 to RMB2,249.1 million for the six months ended June 30, 2020, primarily due to a 24.9% increase in the average balance of investment securities and other financial assets, from RMB86,478.9 million for the six months ended June 30, 2019 to RMB108,018.5 million for the six months ended June 30, 2020. The increase in average balance mainly reflected the Bank's increased investment in financial assets to diversify investment portfolio of the Bank. The average yield decreased from 4.56% for the six months ended June 30, 2019 to 4.16% for the six months ended June 30, 2020. The decrease in average yield was mainly due to the impact of COVID-19 pandemic and the interest rates of new investment securities and other financial assets affected by the decline in market interest rates.

### *(C) Interest income from deposits with banks*

Interest income from deposits with banks decreased by 83.8% from RMB167.0 million for the six months ended June 30, 2019 to RMB27.1 million for the six months ended June 30, 2020, primarily due to a 83.7% decrease in the average balance of deposits with banks, from RMB9,606.9 million for the six months ended June 30, 2019 to RMB1,568.9 million for the six months ended June 30, 2020, and a decrease in the average yield of deposits with banks, from 3.48% for the six months ended June 30, 2019 to 3.45% for the six months ended June 30, 2020. The decrease in average balance was due to the adjustment of asset allocation structure of the Bank. The decrease in average yield was primarily due to the fluctuations in the market interest rates.

### *(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 decreased by 24.0% from RMB234.2 million for the six months ended June 30, 2019 to RMB178.0 million for the six months ended June 30, 2020, primarily due to a 15.6% decrease in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB18,975.8 million for the six months ended June 30, 2019 to RMB16,022.0 million for the six months ended June 30, 2020, and a decrease in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 2.47% for the six months ended June 30, 2019 to 2.22% for the six months ended June 30, 2020. The decrease in average balance was primarily due to the adjustment of asset allocation structure of the Bank. The decrease in average yield was primarily due to lower market interest rates, which in turn resulted in a decrease of yield from financial assets held under resale agreements and placements with banks and other financial institutions.

### *(E) Interest income from deposits with the central bank*

Interest income from deposits with the central bank decreased by 8.8% from RMB196.0 million for the six months ended June 30, 2019 to RMB178.8 million for the six months ended June 30, 2020, primarily due to a 5.7% decrease in the average balance of deposits with the central bank, from RMB25,585.4 million for the six months ended June 30, 2019 to RMB24,139.0 million for the six months ended June 30, 2020. The decrease in average balance was primarily due to the decrease of required deposit reserve ratio.

## Chapter 4 Management Discussion and Analysis

### (iii) Interest expense

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2020		2019	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	3,592.2	77.9	3,109.8	70.6
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	48.5	1.1	160.4	3.6
Debt securities issued	727.8	15.8	822.2	18.7
Deposits from banks and other financial institutions	218.7	4.7	176.8	4.0
Borrowings from the central bank	16.9	0.4	136.9	3.1
Lease liabilities	3.1	0.1	–	–
<b>Total</b>	<b>4,607.2</b>	<b>100.0</b>	<b>4,406.1</b>	<b>100.0</b>

Interest expense increased by 4.6% from RMB4,406.1 million for the six months ended June 30, 2019 to RMB4,607.2 million for the six months ended June 30, 2020, primarily due to a 7.9% increase in the average balance of interest-bearing liabilities, from RMB297,902.0 million for the six months ended June 30, 2019 to RMB321,350.1 million for the six months ended June 30, 2020, and a decrease in the average cost of interest-bearing liabilities, from 2.96% for the six months ended June 30, 2019 to 2.87% for the six months ended June 30, 2020. The increase in the average balance of interest-bearing liabilities was primarily due to the increase of deposits from customers. The decrease in the average cost of interest-bearing liabilities was primarily due to the decrease of market interest rates.

#### (A) Interest expense on deposits from customers

Interest expense on deposits from customers increased by 15.5% from RMB3,109.8 million for the six months ended June 30, 2019 to RMB3,592.2 million for the six months ended June 30, 2020, primarily due to a 16.1% increase in the average balance of deposits from customers, from RMB221,963.2 million for the six months ended June 30, 2019 to RMB257,778.6 million for the six months ended June 30, 2020, as well as a decrease in the average cost of deposits from customers, from 2.80% for the six months ended June 30, 2019 to 2.79% for the six months ended June 30, 2020. The average cost of deposits from customers remained stable as compared with the same period last year.

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### *(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 69.8% from RMB160.4 million for the six months ended June 30, 2019 to RMB48.5 million for the six months ended June 30, 2020, primarily due to a 67.2% decrease in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB14,150.8 million for the six months ended June 30, 2019 to RMB4,646.2 million for the six months ended June 30, 2020, and a decrease in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 2.27% for the six months ended June 30, 2019 to 2.09% for the six months ended June 30, 2020. The decrease in average balance was primarily because the decrease in reverse repurchase transactions. The decrease in average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to the decrease of interest rates of financial assets sold under repurchase agreements and placements from banks and other financial institutions in the market.

### *(C) Interest expense on debt securities issued*

Interest expense on debt securities issued decreased by 11.5% from RMB822.2 million for the six months ended June 30, 2019 to RMB727.8 million for the six months ended June 30, 2020, primarily due to a 1.1% decrease in the average balance of debt securities issued, from RMB42,045.1 million for the six months ended June 30, 2019 to RMB41,564.4 million for the six months ended June 30, 2020 and a decrease in the average cost of debt securities issued, from 3.91% for the six months ended June 30, 2019 to 3.50% for the six months ended June 30, 2020. The decrease in average balance was primarily due to the repayment of mature financial bonds of RMB2,000.0 million. The decrease in average cost of debt securities issued was primarily due to the lower interest rates of interbank certificates newly issued, which pulled down the overall average cost of debt securities issued.

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

Interest expense on deposits from banks and other financial institutions increased by 23.7% from RMB176.8 million for the six months ended June 30, 2019 to RMB218.7 million for the six months ended June 30, 2020, primarily due to a 29.0% increase in the average balance of deposits from banks and other financial institutions, from RMB12,157.9 million for the six months ended June 30, 2019 to RMB15,681.1 million for the six months ended June 30, 2020, primarily because fund raising through deposits from banks and other financial institutions was increased. For the six months ended June 30, 2019 and 2020, due to the decrease in the market interest rates, the average cost of deposits from banks and other financial institutions decreased from 2.91% to 2.79%.

### *(E) Interest expense on borrowings from the central bank*

Interest expense on borrowings from the central bank decreased by 87.7% from RMB136.9 million for the six months ended June 30, 2019 to RMB16.9 million for the six months ended June 30, 2020, primarily due to a 81.8% decrease in the average balance of borrowings from the central bank, from RMB7,585.0 million for the six months ended June 30, 2019 to RMB1,377.2 million for the six months ended June 30, 2020, due to the decrease in the repayment of loans due from the central bank and the maturity of rediscounted bills. The average cost of borrowings from the central bank decreased from 3.61% to 2.45% for the six months ended June 30, 2019 and 2020, primarily due to the decline in market interest rates.

## Chapter 4 Management Discussion and Analysis

### (iv) Net interest spread and net interest margin

Net interest spread decreased from 2.02% for the six months ended June 30, 2019 to 1.76% for the six months ended June 30, 2020, and net interest margin decreased from 2.10% for the six months ended June 30, 2019 to 1.78% for the six months ended June 30, 2020, primarily due to a decrease in average yield of interest-earning assets, from 4.98% to 4.63% as the impact of COVID-19 pandemic and the decline in LPR; due to the decrease of market interest rate, the average cost of interest-bearing liabilities decreased from 2.96% to 2.87%, which was outpaced by the decrease in average yield of interest-earning assets.

### (v) Non-interest income

#### (A) Net fee and commission income

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2020	2019	Increase or decrease	Percentage change (%)
<b>Fee and commission income</b>				
Wealth management service fees	26.8	17.7	9.1	51.4
Agency service fees	27.6	83.6	(56.0)	(67.0)
Settlement and clearing fees	108.2	36.1	72.1	199.7
Bank acceptance bill service fees	8.9	10.3	(1.4)	(13.6)
Letters of guarantee fees	1.4	0.3	1.1	366.7
Others <sup>(1)</sup>	29.1	10.7	18.4	172.0
<b>Subtotal</b>	<b>202.0</b>	<b>158.7</b>	<b>43.3</b>	<b>27.3</b>
<b>Fee and commission expenses</b>	<b>(15.5)</b>	<b>(45.4)</b>	<b>29.9</b>	<b>(65.9)</b>
<b>Net fee and commission income</b>	<b>186.5</b>	<b>113.3</b>	<b>73.2</b>	<b>64.6</b>

Note:

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

Net fee and commission income increased by 64.6% from RMB113.3 million for the six months ended June 30, 2019 to RMB186.5 million for the six months ended June 30, 2020, primarily due to the active promotion of business transformation, optimization of business structure and increase in product development effort by the Bank.

Fee and commission expenses mainly included settlement and clearing fees paid to third parties and debit card service fees. Fee and commission expenses decreased by 65.9% from RMB45.4 million for the six months ended June 30, 2019 to RMB15.5 million for the six months ended June 30, 2020, primarily due to the active promotion of business transformation, optimization of business structure and increase in product development effort by the Bank.

## Chapter 4 Management Discussion and Analysis

### (B) Net trading gains

Net trading gains primarily included gains from selling, and the fair value changes of, financial assets held for trading. The Bank had net gains of RMB852.6 million for the six months ended June 30, 2019 and net gains of RMB498.3 million for the six months ended June 30, 2020. The decrease was primarily due to the decrease in trading volume of financial assets held for trading during the period.

### (C) Net gains arising from investment securities

The net gains arising from investment securities and other financial assets included net gains arising from selling investment securities and other financial assets and revaluation gains arising from the reclassification of other comprehensive income to profit or loss upon the disposal of assets. The Bank had net gains arising from investment securities and other financial assets of RMB15.5 million for the six months ended June 30, 2019, and RMB7.0 million for the six months ended June 30, 2020.

### (D) Net exchange gains

Net exchange gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. The Bank had net exchange gains of RMB8.5 million for the six months ended June 30, 2019 and net exchange gains of RMB66.1 million for the six months ended June 30, 2020. The increase was primarily due to the effect of changes in foreign exchange rates on exchange gains or losses.

### (E) Other operating expense

Other operating expense mainly included net amount of government subsidies and disposal income from fixed assets after deducting non-operating expenses. For the six months ended June 30, 2019, other operating expense of the Bank amounted to RMB4.2 million. For the six months ended June 30, 2020, the Bank recorded other operating expense of RMB2.4 million. The decrease was mainly due to the decrease in losses from the sale of properties and equipment during the Reporting Period.

### (vi) Operating expenses

Operating expenses increased by 1.8% from RMB941.6 million for the six months ended June 30, 2019 to RMB958.2 million for the six months ended June 30, 2020. The increase was mainly due to the increase in fixed expense. The table below sets forth the principal components of operating expense of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			Percentage change (%)
	2020	2019	Increase or decrease	
Staff costs	437.0	480.5	(43.5)	(9.1)
Premises and equipment expenses	295.6	266.1	29.5	11.1
General management and administrative expenses	177.1	157.4	19.7	12.5
Business tax and surcharges	48.5	37.6	10.9	29.0
<b>Total</b>	<b>958.2</b>	<b>941.6</b>	<b>16.6</b>	<b>1.8</b>
<b>Cost-to-income ratio<sup>(1)</sup>(%)</b>	<b>28.1</b>	<b>23.4</b>	<b>4.7</b>	<b>20.1</b>

Note:

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



## Chapter 4 Management Discussion and Analysis

### (A) Staff costs

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			Percentage change (%)
	2020	2019	Increase or decrease	
Salaries and bonuses	283.7	346.3	(62.6)	(18.1)
Social insurance	99.2	79.3	19.9	25.1
Housing allowances	35.9	32.0	3.9	12.2
Labour union and staff education expenses	4.0	10.0	(6.0)	(60.0)
Staff welfares	13.1	11.9	1.2	10.1
Others	1.1	1.0	0.1	10.0
<b>Total staff costs</b>	<b>437.0</b>	<b>480.5</b>	<b>(43.5)</b>	<b>(9.1)</b>

Staff costs decreased by 9.1% from RMB480.5 million for the six months ended June 30, 2019 to RMB437.0 million for the six months ended June 30, 2020. The decrease in staff costs was primarily due to the adjustment of salary distribution structure.

### (B) Premises and equipment expenses

Premises and equipment expenses increased by 11.1% from RMB266.1 million for the six months ended June 30, 2019 to RMB295.6 million for the six months ended June 30, 2020. The increase in premises and equipment expenses mainly reflected the increase of depreciation expenses of right-of-use assets.

### (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 12.5% from RMB157.4 million for the six months ended June 30, 2019 to RMB177.1 million for the six months ended June 30, 2020. The general management and administrative expenses was due to the increase in rigid expenses of the Bank.

### (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 increased steadily due to business growth, which were RMB37.6 million and RMB48.5 million for the six months ended June 30, 2019 and 2020, respectively.

## Chapter 4 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)	Six months ended June 30,			
	2020	2019	Increase or decrease	Percentage change (%)
Loans and advances to customers	1,556.7	2,165.4	(608.7)	(28.1)
Investment assets	324.5	130.5	194.0	148.7
Other assets	–	7.0	(7.0)	(100.0)
Acceptance bills, letters of guarantees and unused credit card commitments	8.6	(13.2)	21.8	(165.2)
<b>Total impairment losses on credit/assets</b>	<b>1,889.8</b>	<b>2,289.7</b>	<b>(399.9)</b>	<b>(17.5)</b>

Impairment losses on credit/assets decreased by 17.5% from RMB2,289.7 million for the six months ended June 30, 2019 to RMB1,889.8 million for the six months ended June 30, 2020 mainly due to the decrease in provisions for credit impairment loss as a result of the improvement of assets quality.

Credit impairment losses on loans and advances to customers decreased by 28.1% from RMB2,165.4 million for the six months ended June 30, 2019 to RMB1,556.7 million for the six months ended June 30, 2020, mainly due to the improvement of assets quality of loans and advances to customers.

Credit impairment losses of investment assets increased by 148.7% from RMB130.5 million for the six months ended June 30, 2019 to RMB324.5 million for the six months ended June 30, 2020, which was mainly due to the increase in the scale of investment assets and the increase in provisions for credit impairment loss as affected by COVID-19.

### (viii) Income tax expense

Income tax expense decreased by 74.2% from RMB106.0 million for the six months ended June 30, 2019 to RMB27.4 million for the six months ended June 30, 2020. The decrease in income tax expense was mainly due to the decrease in the Bank's operating income and taxable income. Effective tax rates were 17.0% and 6.9% for the six months ended June 30, 2019 and 2020, respectively.

## (b) Analysis of the Consolidated Statement of Financial Position

### (i) Assets

As of June 30, 2020 and December 31, 2019, the total assets of the Bank were RMB338,718.8 million and RMB335,044.5 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.

## Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
<b>Assets</b>				
Loans and advances to customers, gross	173,522.8	51.2	170,449.2	50.9
Provision for impairment losses	(5,286.2)	(1.6)	(5,682.4)	(1.7)
Loans and advances to customers, net	168,236.6	49.6	164,766.8	49.2
Investment securities and other financial assets <sup>(1)</sup>	112,428.3	33.2	113,508.7	33.9
Deposits with banks	2,318.6	0.7	3,967.5	1.2
Cash and deposits with the central bank	22,920.3	6.8	25,274.3	7.5
Financial assets held under resale agreements	18,749.0	5.5	16,264.0	4.9
Other assets <sup>(2)</sup>	14,066.0	4.2	11,263.2	3.4
<b>Total assets</b>	<b>338,718.8</b>	<b>100.0</b>	<b>335,044.5</b>	<b>100.0</b>

*Notes:*

- (1) Include financial assets at amortized costs, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss.
- (2) Primarily consist of property and equipment, other assets, deferred tax assets, interest receivable, interests in an associate and right-of-use assets.

**(A) Loans and advances to customers**

As of June 30, 2020, the total loans and advances to customers of the Bank were RMB173,522.8 million, representing an increase of 1.8% as compared with December 31, 2019. Net loans and advances to customers accounted for 49.6% of the total assets of the Bank, which has little change as compared with the beginning of the year.

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Corporate loans	111,501.1	64.2	111,292.0	65.3
Retail loans	36,186.3	20.9	34,265.5	20.1
Discounted bills	25,835.4	14.9	24,891.7	14.6
<b>Total loans and advances to customers</b>	<b>173,522.8</b>	<b>100.0</b>	<b>170,449.2</b>	<b>100.0</b>

Loans and advances to customers are the largest component of total assets. The Bank offers a variety of loan products, substantially all of which are denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 49.6% and 49.2% of total assets as of June 30, 2020 and December 31, 2019, respectively.

The Bank's corporate loans increased from RMB111,292.0 million as of December 31, 2019 to RMB111,501.1 million as of June 30, 2020, basically maintaining a comparable level as compared with the beginning of the year.

## Chapter 4 Management Discussion and Analysis

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 5.6% from RMB34,265.5 million as of December 31, 2019 to RMB36,186.3 million as of June 30, 2020, primarily due to (i) the increased personal housing mortgage loans; and (ii) the increased personal consumption loans.

### *Loans and advances to customers by type of collateral*

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Collateralized loans	78,086.3	45.0	79,970.4	46.9
Pledged loans	13,523.1	7.8	11,696.2	6.9
Guaranteed loans	61,400.1	35.4	60,326.3	35.4
Unsecured loans	20,513.3	11.8	18,456.3	10.8
<b>Total loans and advances to customers</b>	<b>173,522.8</b>	<b>100.0</b>	<b>170,449.2</b>	<b>100.0</b>

As of June 30, 2020 and December 31, 2019, collateralized loans, pledged loans and guaranteed loans in aggregate represented 88.2% 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. The Bank usually only accepts guarantees provided by listed companies, guarantee companies or guarantor with strong guarantee capacity and in compliance with guarantee conditions. The Bank evaluates a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

Unsecured loans increased by 11.1% from RMB18,456.3 million as of December 31, 2019 to RMB20,513.3 million as of June 30, 2020. The stable increase in unsecured loans mainly reflected that such increase was in line with business growth.

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of	
	June 30, 2020	December 31, 2019
As at the beginning of the Reporting Period	5,682.4	6,251.5
Charge for the period/year	1,556.7	3,598.3
Write-off and others for the period/year	(1,979.5)	(4,204.2)
Reversal of write-offs for the previous years	26.6	36.8
<b>As of June 30/December 31</b>	<b>5,286.2</b>	<b>5,682.4</b>

Provisions for impairment losses on loans and advances to customers decreased by 7.0% from RMB5,682.4 million as of December 31, 2019 to RMB5,286.2 million as of June 30, 2020, primarily due to the decrease in provision for loan impairment as a result of the improvement of assets quality of the Bank.

## Chapter 4 Management Discussion and Analysis

### (B) Investment securities and other financial assets

As of June 30, 2020 and December 31, 2019, the Bank's investment securities and other financial assets (original value without deducting provisions for impairment) were RMB114,080.0 million and RMB114,835.7 million, representing 33.7% and 34.3% of total assets, respectively.

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products. Investment securities and other financial assets (original value without deducting provisions for impairment) decreased by RMB755.7 million from RMB114,835.7 million as of December 31, 2019 to RMB114,080.0 million as of June 30, 2020, which primarily reflected the adjustment of our investment portfolio based on market conditions and other factors.

### (ii) Liabilities

As of June 30, 2020 and December 31, 2019, the total liabilities of the Bank were RMB313,650.3 million and RMB310,355.5 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 June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	253,388.5	80.8	236,868.7	76.3
Deposits from banks and other financial institutions	7,031.5	2.2	13,621.9	4.4
Financial assets sold under repurchase agreements	3,860.7	1.2	5,398.6	1.7
Debt securities issued	35,900.5	11.5	39,459.2	12.7
Borrowings from the central bank	1,699.0	0.5	2,316.4	0.7
Placements from banks and other financial institutions	450.0	0.1	890.0	0.3
Other liabilities <sup>(1)</sup>	11,320.1	3.7	11,800.7	3.9
<b>Total liabilities</b>	<b>313,650.3</b>	<b>100.0</b>	<b>310,355.5</b>	<b>100.0</b>

Note:

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

## Chapter 4 Management Discussion and Analysis

### (A) Deposits from customers

Deposits from customers are the largest component of total liabilities. As of December 31, 2019 and June 30, 2020, deposits from customers represented 76.3% and 80.8% of the total liabilities, respectively.

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
<b>Corporate deposits</b>				
Demand deposits	63,713.9	25.1	52,256.8	22.1
Time deposits	23,781.4	9.4	19,771.7	8.3
<b>Subtotal</b>	<b>87,495.3</b>	<b>34.5</b>	<b>72,028.5</b>	<b>30.4</b>
<b>Retail deposits</b>				
Demand deposits	25,292.3	10.0	26,217.0	11.1
Time deposits	114,344.6	45.1	110,243.6	46.5
<b>Subtotal</b>	<b>139,636.9</b>	<b>55.1</b>	<b>136,460.6</b>	<b>57.6</b>
<b>Pledged deposits</b>	<b>13,587.1</b>	<b>5.4</b>	<b>13,984.5</b>	<b>5.9</b>
<b>Others</b>	<b>12,669.2</b>	<b>5.0</b>	<b>14,395.1</b>	<b>6.1</b>
<b>Total deposits from customers</b>	<b>253,388.5</b>	<b>100.0</b>	<b>236,868.7</b>	<b>100.0</b>

Total deposits from customers increased by 7.0% from RMB236,868.7 million as of December 31, 2019 to RMB253,388.5 million as of June 30, 2020. The increases in deposits from customers were primarily attributable to the Bank's enhanced marketing efforts, as a result of which deposits from customers grew.

### (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 ten 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 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 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.

## Chapter 4 Management Discussion and Analysis

From January 1, 2020 to June 30, 2020, the Bank issued several tranches of interbank certificates in an aggregate face value of RMB18,610.0 million. These interbank certificates have terms of one month to one year and bear effective interest rates between 1.4% and 3.2% per annum.

### (iii) Shareholders' equity

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Share capital	10,069.8	40.2	10,069.8	40.8
Capital reserve	4,661.0	18.6	4,660.4	18.9
Defined benefit scheme reserve	(3.5)	–	(3.4)	–
Investment revaluation reserve	229.9	0.9	219.5	0.9
Surplus reserve	1,560.8	6.2	1,560.8	6.3
General reserve	4,471.0	17.8	4,471.0	18.1
Retained earnings	4,045.1	16.2	3,678.9	14.9
Non-controlling interests	34.4	0.1	32.0	0.1
<b>Total equity</b>	<b>25,068.5</b>	<b>100.0</b>	<b>24,689.0</b>	<b>100.0</b>

### (c) Asset quality analysis

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

For the Bank, the non-performing loans are classified into loans and advances to customers of substandard, doubtful and loss. As of June 30, 2020, the Bank's non-performing loans amounted to RMB4,029.0 million. The table below sets forth loans and advances to customers by loan classification as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Normal	165,052.1	95.1	157,040.6	92.1
Special mention	4,441.7	2.6	9,226.5	5.4
Substandard	1,304.5	0.7	1,270.1	0.8
Doubtful	2,380.3	1.4	2,609.6	1.5
Loss	344.2	0.2	302.4	0.2
<b>Total loans and advances to customers</b>	<b>173,522.8</b>	<b>100.0</b>	<b>170,449.2</b>	<b>100.0</b>
<b>Non-performing loans and non-performing loan ratio<sup>(1)</sup></b>	<b>4,029.0</b>	<b>2.32</b>	<b>4,182.1</b>	<b>2.45</b>

Note:

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

## Chapter 4 Management Discussion and Analysis

As of June 30, 2020 and December 31, 2019, the non-performing loan ratios of the Bank were 2.32% and 2.45%, respectively, representing a decrease of 0.13%.

### (ii) Concentration of loans

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020				As of December 31, 2019			
	Loan amount	% of total (%)	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total (%)	Non-performing loan amount	Non-performing loan ratio (%)
<b>Corporate loans</b>								
Wholesale and retail	15,991.2	9.2	657.1	4.11	17,757.9	10.4	821.1	4.62
Manufacturing	21,310.3	12.3	703.0	3.30	21,036.0	12.3	759.2	3.61
Agriculture, forestry, animal husbandry and fishing	7,756.1	4.5	312.4	4.03	7,605.1	4.5	257.7	3.39
Construction	11,255.6	6.5	335.4	2.98	10,461.0	6.1	122.2	1.17
Real estate	13,732.3	7.9	45.3	0.33	14,860.1	8.7	0.0	0.00
Mining	5,831.1	3.3	16.0	0.28	7,279.4	4.3	358.9	4.93
Water, environment and public facility management	3,103.9	1.8	0.3	0.01	3,078.7	1.8	0.0	0.00
Culture, sports and entertainment	2,904.9	1.7	22.5	0.77	2,914.5	1.7	14.8	0.51
Leasing and business services	11,058.8	6.3	30.0	0.27	8,815.5	5.2	13.5	0.15
Electricity, heating power, gas and water production and supply	3,137.6	1.8	–	–	3,512.3	2.1	399.5	11.37
Transportation, storage and postal services	4,083.4	2.3	25.3	0.62	3,247.8	1.9	11.0	0.34
Education	1,576.3	0.9	–	–	1,591.8	0.9	0.0	0.00
Accommodation and catering	2,555.3	1.5	70.0	2.74	2,666.9	1.6	42.5	1.59
Financial	2,996.5	1.7	–	–	2,996.5	1.8	–	–
Health and social services	2,140.2	1.2	7.0	0.33	1,876.5	1.1	4.8	0.26
Residents and other services	612.2	0.4	1.1	0.18	555.1	0.3	1.1	0.20
Scientific research, technical service and geological prospecting	1,302.3	0.8	20.0	1.54	913.1	0.5	–	–
Information transmission, computer service and software	131.1	0.1	9.9	7.53	103.8	0.1	3.0	2.89
Public administration, social security and social organizations	22.0	0.0	–	–	20.0	0.0	–	–
<b>Retail loans</b>	<b>36,186.3</b>	<b>20.9</b>	<b>1,773.7</b>	<b>4.90</b>	<b>34,265.5</b>	<b>20.1</b>	<b>1,372.8</b>	<b>4.01</b>
<b>Discounted bills</b>	<b>25,835.4</b>	<b>14.9</b>	<b>–</b>	<b>–</b>	<b>24,891.7</b>	<b>14.6</b>	<b>–</b>	<b>–</b>
<b>Total amount</b>	<b>173,522.8</b>	<b>100.0</b>	<b>4,029.0</b>	<b>2.32</b>	<b>170,449.2</b>	<b>100.0</b>	<b>4,182.1</b>	<b>2.45</b>

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



## Chapter 4 Management Discussion and Analysis

Loans to borrowers in the manufacturing, wholesale and retail, real estate, construction and leasing and business services industries represented the largest components of the Bank's corporate loan portfolio. Loans to these industries accounted for 65.5% and 65.8% of total corporate loans as of December 31, 2019 and June 30, 2020, respectively.

As of June 30, 2020, non-performing loans of the Bank's corporate loans were mainly concentrated in the manufacturing industry with a non-performing loan ratio of 3.3%.

### (B) Borrower concentration

#### Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of June 30, 2020 and the balances of loans to these borrowers. All of these loans were classified as normal.

(Expressed in millions of RMB, unless otherwise stated)		As of June 30, 2020	
Customers	Industries involved	Amount	% of total loans (%)
Borrower A	Manufacturing	3,000.0	1.7
Borrower B	Construction	2,180.0	1.3
Borrower C	Financial	2,000.0	1.2
Borrower D	Leasing and business services	1,723.0	1.0
Borrower E	Manufacturing	1,600.0	0.9
Borrower F	Leasing and business services	1,510.0	0.9
Borrower G	Mining	1,200.0	0.7
Borrower H	Real estate	1,086.0	0.6
Borrower I	Real estate	1,019.9	0.6
Borrower J	Financial	996.5	0.6

## Chapter 4 Management Discussion and Analysis

### (C) Non-performing loans by product

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020			As of December 31, 2019		
	Loan amount	Non-performing loan amount	Non-performing loan ratio <sup>(1)</sup> (%)	Loan amount	Non-performing loan amount	Non-performing loan ratio <sup>(1)</sup> (%)
<b>Corporate loans</b>						
Fixed asset loans	39,288.3	45.0	0.11	39,192.4	284.7	0.73
Working capital loans	71,701.9	1,703.5	2.38	70,930.1	1,390.0	1.96
Others <sup>(2)</sup>	510.9	506.8	99.20	1,169.5	1,134.6	97.02
<b>Sub-total</b>	<b>111,501.1</b>	<b>2,255.3</b>	<b>2.02</b>	<b>111,292.0</b>	<b>2,809.3</b>	<b>2.52</b>
<b>Retail loans</b>						
Personal business loans	6,875.3	1,143.4	16.63	6,997.9	985.4	14.08
Personal consumption loans	10,679.4	382.0	3.58	10,196.9	196.4	1.93
Residential and commercial mortgage loans	18,631.6	248.3	1.33	17,070.7	191.0	1.12
<b>Sub-total</b>	<b>36,186.3</b>	<b>1,773.7</b>	<b>4.90</b>	<b>34,265.5</b>	<b>1,372.8</b>	<b>4.01</b>
<b>Discounted bills</b>	<b>25,835.4</b>	<b>–</b>	<b>–</b>	<b>24,891.7</b>	<b>–</b>	<b>–</b>
<b>Total non-performing loans</b>	<b>173,522.8</b>	<b>4,029.0</b>	<b>2.32</b>	<b>170,449.2</b>	<b>4,182.1</b>	<b>2.45</b>

#### Notes:

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

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

The non-performing loan ratio of corporate loans decreased from 2.52% as of December 31, 2019 to 2.02% as of June 30, 2020, representing a decrease of 0.5%.

The non-performing loan ratio of retail loans increased from 4.01% as of December 31, 2019 to 4.9% as of June 30, 2020, representing an increase of 0.89%.

## Chapter 4 Management Discussion and Analysis

### (D) Loan aging schedule

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Loans not overdue	165,781.2	95.5	154,803.3	90.8
Loans past due for:				
1 to 90 days	3,911.2	2.3	11,689.7	6.9
91 days to 1 year	2,413.5	1.4	3,068.4	1.8
1 to 3 years	1,233.7	0.7	720.9	0.4
3 years or more	183.2	0.1	166.9	0.1
Subtotal	7,741.6	4.5	15,645.9	9.2
Total loans and advances to customers	173,522.8	100.0	170,449.2	100.0

### (d) Segments information

#### (i) Summary of business segment

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2020		2019	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking	1,558.5	48.1	2,039.6	52.9
Retail banking	623.6	19.2	757.2	19.6
Financial market operations	968.4	29.8	1,047.1	27.1
Others <sup>(1)</sup>	92.9	2.9	14.0	0.4
Total operating income	3,243.4	100.0	3,857.9	100.0

Note:

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

## Chapter 4 Management Discussion and Analysis

### (ii) Summary of geographical segment information

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

### (e) Off-balance sheet commitments

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020	As of December 31, 2019
<b>Credit commitments:</b>		
Bank acceptances <sup>(1)</sup>	21,657.5	22,576.5
Letters of guarantee <sup>(2)</sup>	2,096.9	1,510.5
Letters of credit	226.9	40.4
Unused credit card commitments	4,619.7	872.4
<b>Subtotal</b>	<b>28,601.0</b>	<b>24,999.8</b>
<b>Capital commitments</b>	<b>60.3</b>	<b>16.0</b>
<b>Total</b>	<b>28,661.3</b>	<b>25,015.8</b>

#### Notes:

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

Off-balance sheet commitments increased by 14.6% from RMB25,015.8 million as of December 31, 2019 to RMB28,661.3 million as of June 30, 2020. The increase in off-balance sheet commitments was mainly due to the significant increase in the unused credit card commitments as a result of the increase in issuance of credit cards.

### (f) Miscellaneous

During the interim 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 June 30, 2020, 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.

## Chapter 4 Management Discussion and Analysis

### 5. BUSINESS REVIEW

#### (a) Corporate banking

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

In addition, the Bank commits to seeking to develop long-term business relationships with customers by closely monitoring their financial needs and offering tailored financial solutions. As of June 30, 2020, the Bank had 3,414 corporate borrowers with total loans of RMB111,501.1 million, and 74,088 corporate deposit customers with total deposits of RMB87,495.3 million. For the six months ended June 30, 2019 and 2020, operating income from the Bank's corporate banking business accounted for 52.9% and 48.1% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's corporate banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2020	2019	
External interest income, net <sup>(1)</sup>	2,262.3	2,549.8	(11.3)
Inter-segment interest expenses, net <sup>(2)</sup>	(825.5)	(585.8)	40.9
Net interest income	1,436.8	1,964.0	(26.8)
Net fees and commission income	121.6	75.6	60.8
<b>Operating income</b>	<b>1,558.4</b>	<b>2,039.6</b>	<b>(23.6)</b>
Operating expenses	(460.4)	(496.9)	(7.3)
Impairment losses on assets	(1,418.7)	(1,848.6)	(23.3)
<b>Operating loss</b>	<b>(320.7)</b>	<b>(305.9)</b>	<b>4.8</b>
<b>Loss before tax</b>	<b>(320.7)</b>	<b>(305.9)</b>	<b>4.8</b>

*Notes:*

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

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

## Chapter 4 Management Discussion and Analysis

### (i) Corporate loans

Corporate loans constituted the largest component of the Bank's loan portfolio. As of June 30, 2020 and December 31, 2019, corporate loans amounted to RMB111,501.1 million and RMB111,292.0 million, accounting for 64.2% and 65.3% 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 June 30, 2020 and December 31, 2019, discounted bills totaled RMB25,835.4 million and RMB24,891.7 million, accounting for 14.9% and 14.6% 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 HKD, USD and Euros) from corporate customers. As of June 30, 2020 and December 31, 2019, corporate deposits totaled RMB87,495.3 million and RMB72,028.5 million, accounting for 34.5% and 30.4% of the Bank's total customer deposits, respectively.

### (iv) Fees and commission-based products and services

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

#### (A) *Wealth management services*

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

For the six months ended June 30, 2020 and 2019, wealth management products sold by the Bank to corporate customers totaled RMB70.2 million and RMB595.7 million, respectively.

#### (B) *Entrusted loans*

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

The Bank charges agency fees based on the principal amount of entrusted loans. The Bank's corporate customers bear the risk of default associated with these loans. For the six months ended June 30, 2020 and 2019, service fees charged by the Bank to corporate customers for entrusted loans totaled RMB4.09 million and RMB8.09 million, respectively.

## Chapter 4 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. As of June 30, 2020 and December 31, 2019, the Bank's total domestic settlement transaction volumes were approximately RMB372.394 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. As of June 30, 2020 and December 31, 2019, the Bank's international settlement transaction volumes were US\$98 million and US\$129 million, respectively.

### *(D) Consultation and financial advisory services*

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

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

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

### **(b) Retail banking**

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

As of June 30, 2020, the Bank had 154,475 retail borrowers with total loans of RMB36,186.3 million and over 7.13 million retail deposit customers with total deposits of RMB139,636.9 million. For the six months ended June 30, 2020 and 2019, operating income from the Bank's retail banking business accounted for 19.2% and 19.6% of its total operating income, respectively.

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

## Chapter 4 Management Discussion and Analysis

As of June 30, 2020, the Bank had 209,957 wealthy customers and 1,548 private banking customers. The Bank continues to grow its wealthy customer and private banking customer base by expanding its product and service portfolio. The table below sets forth the financial performance of the Bank's retail banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2020	2019	
External interest expenses, net <sup>(1)</sup>	(1,418.2)	(1,133.7)	25.1
Inter-segment interest income, net <sup>(2)</sup>	2,015.0	1,873.2	7.6
Net interest income	596.8	739.5	(19.3)
Net fee and commission income	26.8	17.7	51.4
<b>Operating income</b>	<b>623.6</b>	<b>757.2</b>	<b>(17.6)</b>
Operating expenses	(184.2)	(184.5)	(0.2)
Impairment losses on assets	(193.3)	(113.5)	70.3
<b>Operating profit</b>	<b>246.1</b>	<b>459.2</b>	<b>(46.4)</b>
<b>Profit before tax</b>	<b>246.1</b>	<b>459.2</b>	<b>(46.4)</b>

Notes:

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

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

### (i) Retail loans

The Bank offers retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of June 30, 2020 and December 31, 2019, total retail loans were RMB36,186.3 million and RMB34,265.5 million, accounting for 20.9% and 20.1% of the Bank's total loans and advances to customers, respectively.

### (ii) Retail deposits

The Bank accepts demand and time deposits denominated in Renminbi and major foreign currencies from retail customers. As of June 30, 2020 and December 31, 2019, retail deposits totaled RMB139,636.9 million and RMB136,460.6 million, accounting for 55.1% and 57.6% of the Bank's total customer deposits, respectively.



## Chapter 4 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 Card (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 Card (隴原交通卡): The Bank works with the Gansu Provincial Expressway Administration to issue IC financial cards, which can be used for paying expressway tolls electronically.
- 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 June 30, 2020, the Bank had issued approximately 8.18 million debit cards. As of June 30, 2020 and December 31, 2019, holders of these debit cards conducted transactions of approximately RMB8,788 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 by 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 credit 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 basic cards, gold cards, platinum cards and diamond cards according to different credit ratings.

## Chapter 4 Management Discussion and Analysis

As of June 30, 2020, the Bank had issued 221,623 credit cards, including 204,378 credit cards and 17,245 business cards. The revolving credit card line was RMB5,519 million, of which RMB5,065 million and RMB454 million were granted to credit cards and business cards, respectively. Balance of overdraft recorded was RMB924,412,500, of which RMB885,475,600 and RMB38,936,900 were made by holders of credit cards and business cards, respectively. Overdraft accounts reached 93,457, including 90,701 credit card accounts and 2,756 business card accounts. The total credit card income amounted to RMB14,701,800, of which RMB11,218,700 was recorded by intermediary business, and RMB3,483,100 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 June 30, 2020, the Bank had 82,446 merchant customers for settlement services and 92,408 terminals.

### *(iv) Fees and commission-based products and services*

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

### *(A) Wealth management services*

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

For the six months ended June 30, 2020 and 2019, wealth management products sold to retail customers totaled RMB22,028.34 million and RMB17,300.5 million, respectively. As of June 30, 2020, the Bank had 299,815 retail wealth management clients and the return rate of its retail wealth management products was between 3.90% and 4.60% for the six months ended June 30, 2020.

### *(B) Agency services*

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

Insurance Products: as of June 30, 2020, the Bank had entered into agency agreements with five nationwide insurance companies to promote and distribute their insurance products.

Precious Metal Products: the Bank received approval to distribute precious metals in China in August 2015. For the six months ended June 30, 2020 and 2019, the Bank sold an aggregate of RMB63.76 million and RMB52.66 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.

## Chapter 4 Management Discussion and Analysis

### (C) Payroll and payment agency services

Payroll Services: the Bank provides payroll services to governmental agencies, public organizations and enterprises customers. As of June 30, 2020, the Bank had over 2,706,980 payroll customers. For the six months ended June 30, 2020 and 2019, the Bank paid, in the role of paying agent, average monthly salaries of approximately RMB3,624.65 million and RMB1,621.2 million, respectively.

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

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

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

### (c) Financial market operations

The Bank's financial market operations primarily include money market transactions, investment business and wealth management business, and are one of its most important revenue sources. For the six months ended June 30, 2020 and 2019, operating income from financial market operations accounted for 29.8% and 27.1% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's financial market operations for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2020	2019	
External interest income, net <sup>(1)</sup>	1,643.7	1,456.1	12.9
Inter-segment interest expenses, net <sup>(2)</sup>	(1,189.5)	(1,287.3)	(7.6)
Net interest income	454.2	168.8	169.1
Net fee and commission income	8.9	10.2	(12.7)
Net trading gains	498.3	852.6	(41.6)
Net gains arising from investment securities	7.0	15.5	(54.8)
<b>Operating income</b>	<b>968.4</b>	<b>1,047.1</b>	<b>(7.5)</b>
Operating expenses	(286.1)	(255.0)	12.2
Impairment losses on assets	(269.2)	(333.9)	(19.4)
<b>Operating profit</b>	<b>413.1</b>	<b>458.2</b>	<b>(9.8)</b>
<b>Profit before tax</b>	<b>413.1</b>	<b>458.2</b>	<b>(9.8)</b>

#### Notes:

- (1) Represents net income and expenses from third parties.  
(2) Represents inter-segment expenses and consideration of transfer.

## Chapter 4 Management Discussion and Analysis

### (i) Money market transactions

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

#### (A) Interbank deposits

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

As of June 30, 2020 and December 31, 2019, deposits from banks and other financial institutions totaled RMB7,031.5 million and RMB13,621.9 million, and deposits of the Bank at banks and other financial institutions (original value without deducting provisions for impairment) totaled RMB2,318.6 million and RMB3,967.5 million, respectively.

#### (B) Interbank placements

As of June 30, 2020 and December 31, 2019, the Bank did not make any placements with banks and other financial institutions. As of the same dates, placements from banks and other financial institutions totaled RMB450.0 million and RMB890.0 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 June 30, 2020 and December 31, 2019, financial assets held under resale agreements totaled RMB18,749.0 million and RMB16,264.0 million, respectively, and financial assets sold under repurchase agreements totaled RMB3,860.7 million and RMB5,398.6 million, respectively.

### (ii) Investment securities and other financial assets

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

#### (A) Security investment by holding purpose

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Financial assets at fair value through profit or loss	33,380.4	29.7	36,729.9	32.4
Financial assets at amortised costs	65,330.6	58.1	61,697.4	54.4
Financial assets at fair value through other comprehensive income	13,402.2	11.9	14,766.3	13.0
Other equity instrument investments	315.1	0.3	315.1	0.2
<b>Total amount of investment securities and other financial assets</b>	<b>112,428.3</b>	<b>100.0</b>	<b>113,508.7</b>	<b>100.0</b>

Total amount of investment securities and other financial assets decreased from RMB113,508.7 million as of December 31, 2019 to RMB112,428.3 million as of June 30, 2020, representing a decrease of 1.0%.

## Chapter 4 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 June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Repayable on demand	2,386.7	2.1	760.0	0.7
Due in three months or less	21,760.6	19.4	21,546.8	19.0
Due between three months and one year	21,273.1	18.9	18,554.8	16.3
Due between one year and five years	48,394.2	43.0	60,192.3	53.0
Due over five years	12,894.1	11.5	7,808.3	6.9
Indefinite <sup>(1)</sup>	5,719.6	5.1	4,646.5	4.1
<b>Total</b>	<b>112,428.3</b>	<b>100.0</b>	<b>113,508.7</b>	<b>100.0</b>

Note:

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

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

### (C) Holding of government bonds

As of June 30, 2020, the balance of face value of government bonds held by the Bank amounted to RMB23,276.30 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of June 30, 2020.

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)	2,070.00	2.69	March 7, 2022
20 Gansu bond 16 (20甘肅債16)	1,420.00	3.57	May 29, 2040
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
20 Gansu bond 14 (20甘肅債14)	850.00	3.57	May 29, 2040
19 Interest-bearing treasury bond 04 (19付息國債04)	750.00	3.19	April 11, 2024
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

## Chapter 4 Management Discussion and Analysis

### (D) Holding of financial bonds

As of June 30, 2020, 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 RMB20,370 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of June 30, 2020.

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 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 CDB bond 16 (15國開16)	750.00	3.94	July 10, 2022
19 EIBC bond 05 (19進出05)	650.00	3.28	February 11, 2024
19 CDB bond 15 (19國開15)	550.00	3.45	September 20, 2029
16 EIBC bond 02 (16進出02)	550.00	3.07	February 22, 2021
14 CDB bond 21 (14國開21)	500.00	5.10	August 7, 2021

### (d) Distribution network

#### (i) Physical outlets

As of June 30, 2020, the Bank had 1 head office operational department, 12 branches, 190 sub-branches, 6 micro-to-small sub-branches and 3 community sub-branches. The Bank's branch network covered all of Gansu's cities and prefectures and approximately 95% of its counties and districts.

#### (ii) Electronic banking business

##### (A) Internet banking

Through the Internet, the Bank offers customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of June 30, 2020, the Bank had over 3,010,300 Internet banking customers, consisting of 46,300 corporate customers and over 2,964,000 retail customers. As of June 30, 2020, the Bank's corporate customers conducted over 1.34 million online transactions with a total transaction amount of approximately RMB227,892.76 million, while retail customers conducted approximately 5.42 million online transactions with a total transaction amount of approximately RMB78,076.77 million.

## Chapter 4 Management Discussion and Analysis

### *(B) Direct banking platform*

The Bank launched its direct banking platform in August 2016. Through the platform, its customers can achieve electronic account management, smart saving, investment and financing, and purchases of financial products and services. As of June 30, 2020, the Bank's direct banking platform had over 1,101,500 registered users with total transaction amounts of RMB2,235.85 million. The sales volume of direct banking platform products exceeded RMB896.43 million.

### *(C) Mobile phone banking*

The Bank provides customers with various financial services, such as account inquiries and management, transfers, payments and loan management. As of June 30, 2020, the Bank had approximately 2,412,800 mobile phone banking customers that had conducted approximately 5.03 million transactions through mobile phones, with total transaction amounts of approximately RMB63,542.36 million.

### *(D) Telephone banking*

The Bank provides customers with loan and deposit account inquiries, personal debit card account transfers, bill inquiries, lost declarations and business inquiry services through an interactive self-service voice system and live customer service. As of June 30, 2020, the Bank had 415,482 telephone banking customers, including 415,466 individual customers and 16 corporate customers.

### *(E) Self-service banking*

The Bank provides convenient banking services to customers at lower operating costs through self-service facilities. The Bank's self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of June 30, 2020, the Bank had 212 outlets, 141 off-bank self-service zones and 783 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; manage accounts, transaction inquires, payment and convenience services; and search for the Bank's outlet locations. As of June 30, 2020, the Bank had over 630,448 WeChat banking customers.

### *(G) E-commerce platform*

In June 2017, the Bank formally launched its e-commerce platform "Longyin Commerce", which provides merchants with comprehensive services. These services include purchasing, sales and inventory management, and online B2B and B2C transactions. As of June 30, 2020, the platform had 909 merchants and 314,290 users.

## Chapter 4 Management Discussion and Analysis

### (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 June 30, 2020, 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 fees and commission-based products and services to local corporate and retail customers.

As of June 30, 2020, Jingning Chengji Rural Bank had 32 corporate loan customers, 665 corporate deposit customers, 4,860 retail loan customers and 81,365 retail deposit customers. As of June 30, 2020, Jingning Chengji Rural Bank had 12 outlets and 116 employees.

As of June 30, 2020, Jingning Chengji Rural Bank had total assets of RMB1,468.3 million, total deposits of RMB1,328.6 million and total loans of RMB883.7 million. In 2019, operating income attributable to Jingning Chengji Rural Bank totaled RMB41.2 million, accounting for 0.57% of the Bank's total operating income. For the six months ended June 30, 2020, operating income attributable to Jingning Chengji Rural Bank totaled RMB20.7 million, accounting for 0.64% of the Bank's total operating income.

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

### (f) Operation and safety of IT systems

The Bank regularly optimizes and upgrades its IT system to support the operation and management of its businesses. For the six months ended June 30, 2019 and 2020, investments in its IT system totaled RMB69.5 million and RMB56.8 million, respectively.

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

In July 2019, the Bank passed the GB/T22080–2016 (equivalent to ISO/IEC27001) national information security management system standard certification (信息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 successfully launched the SDN network on January 15, 2020, and completed the development and testing of the connection between the cloud and the SDN network, thus realizing the truly integrated private cloud architecture of the cloud network. The integration and innovation of SDN network and development and testing cloud is a major achievement of the Bank's technological innovation, laying a foundation for the further development of the Bank's active-active data center cloud and SDN network.



## Chapter 4 Management Discussion and Analysis

Adhering to the principle of “innovating service, driving development, strengthening management and preventing and controlling risks”, the Bank actively adapted to the development trend of financial technology, committed itself to customer experience, actively promoted digital transformation and developed “non-contact services”. The 13 key digital transformation projects were promoted in an all-round way, with the rapid implementation of data governance project, new-generation risk warning system and external data management platform, and the launch and use of the new-generation audit system and the trial operation of blockchain forfaiting trading platform and “card-free” business.

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

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

## 6. RISK MANAGEMENT

### (a) Risk management of the Bank

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

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

#### (i) Credit risk management

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

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

## Chapter 4 Management Discussion and Analysis

In accordance with relevant 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 technology sectors, such as Internet, big data, artificial intelligence, in accordance with national policy directives. In addition, it may issue notices of adjustments to credit policy guidelines in a timely manner in response to changes in government policies, the economic environment and risk preferences of the Bank.

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

Industries	Credit Policies
Pharmaceutical manufacturing, health industry, education, advanced manufacturing industry, expressway, environmental treatment industry, power supply and internet-related fields (“aggressive growth” industries)	<ul style="list-style-type: none"><li>• prioritize credit allocation and increase credit exposure to borrowers in these industries.</li></ul>
Modern logistics, modern agriculture, catering industry, retail industry, general equipment manufacturing industry, accommodation industry, food & beverage and culture and art industry (“selective growth” industries)	<ul style="list-style-type: none"><li>• selectively distribute credit to borrowers in these industries.</li></ul>
Real estate, construction, black metal smelting and rolling processing industry, automobile manufacturing industry, mining and wholesale industries (“presence maintaining” industries)	<ul style="list-style-type: none"><li>• focus on preventing risks by granting loans to high-quality customers and adjusting the proportion of loans to borrowers in these industries.</li></ul>
Coking, flat glass, iron alloy smelting, calcium carbide, electrolytic aluminum, solar power generation and high pollution, high energy-consumption and over-capacity industries (“shrinking exit” industries)	<ul style="list-style-type: none"><li>• strictly prohibit new credit extension and gradually compress existing businesses.</li></ul>

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

### (ii) Market risk management

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

## Chapter 4 Management Discussion and Analysis

### *(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. The Bank conducts analysis and studies on interest rate trends in financial markets, based on the results and forecast of which it formulates and adjusts interest rates, 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.

### *(B) Exchange rate risk management*

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

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

### *(iii) Operational risk management*

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

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

## Chapter 4 Management Discussion and Analysis

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

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

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

### (iv) Liquidity risk

#### (A) *Liquidity risk management*

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

The organizational framework of the liquidity risk management of the Bank focuses on formulating, implementing and supervising the separation of duties in relation to liquidity risk management policies and procedures. As the ultimate decision-making institution for the liquidity risk management, the Board 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 implements regulatory rules, closely monitors liquidity indicators, enhances maturity management of its cash flows, formulates emergency plans and enhances liquidity risk management and stress tests.

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

## Chapter 4 Management Discussion and Analysis

### (B) Liquidity risk analysis

*The Bank's liquidity coverage ratio*

	June 30, 2020	December 31, 2019
Liquidity coverage ratio (%)	216.43	199.59

*The Bank's net stable funding ratio*

(Expressed in millions of RMB, unless otherwise stated)	June 30, 2020	March 31, 2020	December 31, 2019
Closing amount of available stable funding	237,572.8	239,641.0	223,647.6
Closing amount of required stable funding	195,113.0	194,120.8	180,348.5
Net stable funding ratio (%)	121.8	123.4	124.0

### (v) Reputation risk management

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

### (vi) Legal compliance risk management

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

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.

The Bank's risk management and internal control committee supervises and leads its 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;

## Chapter 4 Management Discussion and Analysis

- 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 connected transactions to control connected 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.

### (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 leadership groups at its head office, branches and sub-branches.

## Chapter 4 Management Discussion and Analysis

The anti-money laundering leadership group at its head office leads and coordinates the 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 leadership group is led by the Chairman of the Bank and the office is set up at the legal and compliance department. The group consists of 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 its 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.

### (ix) Internal audits

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

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

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

### 7. ANALYSIS ON CAPITAL ADEQUACY RATIO

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

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

(Expressed in millions of RMB, unless otherwise stated)	June 30, 2020	December 31, 2019
<b>Core capital</b>		
Paid-up capital	10,069.8	10,069.8
Qualifying portion of capital reserve	4,661.0	4,660.4
Defined benefit plan reserve	(3.5)	(3.4)
Investment revaluation reserve	229.9	219.5
Surplus reserve	1,560.8	1,560.8
General risk reserve	4,471.0	4,471.0
Retained earnings	4,045.1	3,678.9
Qualifying portion of non-controlling interest	32.9	17.5
Core tier-one capital deductions <sup>(1)</sup>	(233.7)	(253.8)
<b>Net core tier-one capital</b>	<b>24,833.3</b>	<b>24,420.7</b>
Other tier-one capital <sup>(2)</sup>	2.3	2.3
<b>Net tier-one capital</b>	<b>24,835.6</b>	<b>24,423.0</b>
<b>Tier-two capital</b>		
Instruments issued and share premium	3,198.6	3,197.2
Surplus reserve for loan impairment	1,237.8	1,500.3
Eligible portion of non-controlling interest	5.4	4.7
<b>Net capital base</b>	<b>29,277.4</b>	<b>29,125.2</b>
<b>Total risk-weighted assets</b>	<b>251,762.6</b>	<b>246,208.0</b>
<b>Core tier-one capital adequacy ratio (%)</b>	<b>9.86</b>	<b>9.92</b>
<b>Tier-one capital adequacy ratio (%)</b>	<b>9.86</b>	<b>9.92</b>
<b>Capital adequacy ratio (%)</b>	<b>11.63</b>	<b>11.83</b>

*Notes:*

(1) Primarily include computer software and intangible assets.

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



# Chapter 5 Changes in Share Capital and Particulars of Shareholders

## I. CHANGES IN SHARE CAPITAL OF THE BANK

### (I) Share Capital

As of June 30, 2020 and up to the Latest Practicable Date, the share capital of the Bank is as follows:

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

### (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 June 30, 2020, top ten Shareholders of the Domestic Shares of the Bank are set out as follows:

No.	Name of Shareholder	The Number of Shares of the Bank Held as at June 30, 2020 <sup>(1)</sup>	Shareholding Percentage as at June 30, 2020 (%)	The Number of Shares of the Bank Held as at the Latest Practicable Date <sup>(1)</sup>	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

**Notes:**

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

<sup>(2)</sup> As at the end of the Reporting Period, so far as the Bank was aware, the Bank's 1,246,033,000 Shares, representing 12.37% of the Shares issued, were pledged.

## Chapter 5 Changes in Share Capital and Particulars of Shareholders

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

As of June 30, 2020, to the best knowledge of the Directors of the Bank after making reasonable enquiries, the following persons (other than the Bank's Directors, Supervisors and chief executive) had interests or short positions in the Shares or underlying Shares which would be required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Bank pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held <sup>(3)</sup>	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) <sup>(1)</sup>	3.57	4.77
	Interest in controlled corporation <sup>(4)</sup>	Domestic Shares	1,267,944,606(L) <sup>(1)</sup>	12.59	16.85
Gansu Highway Aviation Tourism	Beneficial owner <sup>(5)</sup>	Domestic Shares	1,157,154,433 (L) <sup>(1)</sup>	11.49	15.38
	Interest in controlled corporation <sup>(5)</sup>	Domestic Shares	100,541,667(L) <sup>(1)</sup>	1.00	1.34
Baoshang Bank Co., Ltd.	Beneficial owner <sup>(6)</sup>	Domestic Shares	845,296,403(L) <sup>(1)</sup>	8.39	11.23
Jiuquan Iron & Steel	Beneficial owner	Domestic Shares	633,972,303(L) <sup>(1)</sup>	6.30	8.42
Gansu Electric Power Investment	Beneficial owner <sup>(4)</sup>	Domestic Shares	633,972,303(L) <sup>(1)</sup>	6.30	8.42
Jinchuan Group	Beneficial owner <sup>(4)</sup>	Domestic Shares	633,972,303(L) <sup>(1)</sup>	6.30	8.42
Huaxun International Group Limited China Foreign Economy and Trade Trust Co., Ltd.	Beneficial owner	H Shares	281,654,000(L) <sup>(1)</sup>	2.80	11.07
	Trustee <sup>(7)</sup>	H Shares	360,577,000(L) <sup>(1)</sup>	3.58	14.17
Harvest Ahead International Holdings Limited	Beneficial owner	H Shares	358,405,115(L) <sup>(1)</sup>	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 <sup>(8)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	2.80	11.09
Beijing Kadapu Investment Co., Ltd. (北京卡達普投資有限公司)	Interest in controlled corporation <sup>(9)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	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 <sup>(9)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	2.80	11.09

## Chapter 5 Changes in Share Capital and Particulars of Shareholders

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held <sup>(2)</sup>	Approximate Percentage of the Bank's Total Issued Share Capital (%)	Approximate Percentage of the Bank's Relevant Class of Shares (%)
Cui Wei	Interest in controlled corporation <sup>(3)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	2.80	11.09
Sang Chunhua	Interest in controlled corporation <sup>(3)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	2.80	11.09
H.K. RUIJIA TRADING COMPANY LIMITED	Beneficial owner <sup>(3)</sup>	H Shares	350,000,000(L) <sup>(1)</sup>	3.48	13.76
Qian Ruihong	Interest in controlled corporation <sup>(3)</sup>	H Shares	350,000,000(L) <sup>(1)</sup>	3.48	13.76
Gao Zhanguang	Interest of spouse <sup>(3)</sup>	H Shares	350,000,000(L) <sup>(1)</sup>	3.48	13.76
Clever Gain Management Limited	Person having a security interest in shares <sup>(10)</sup>	H Shares	230,000,000(L) <sup>(1)</sup>	2.28	9.04
Shinning Ocean Ventures Limited	Interest in controlled corporation <sup>(10)</sup>	H Shares	230,000,000(L) <sup>(1)</sup>	2.28	9.04
Vistra Trust (Singapore) Pte. Limited	Interest in controlled corporation <sup>(10)</sup>	H Shares	230,000,000(L) <sup>(1)</sup>	2.28	9.04
Huarong Rongde (Hong Kong) Investment Management Company Limited	Beneficial owner	H Shares	145,394,000(L) <sup>(1)</sup>	1.44	5.72
Huarong Rongde Asset Management Company Limited	Interest in controlled corporation <sup>(11)</sup>	H Shares	145,394,000(L) <sup>(1)</sup>	1.44	5.72
China Huarong Asset Management Co., Ltd.	Interest in controlled corporation <sup>(11)</sup>	H Shares	145,394,000(L) <sup>(1)</sup>	1.44	5.72
Deutsche Bank Aktiengesellschaft	Interest in controlled corporation <sup>(11)</sup>	H Shares	145,394,000(L) <sup>(1)</sup>	1.44	5.72

### Notes:

<sup>(1)</sup> L represents long position.

<sup>(2)</sup> S represents short position.

<sup>(3)</sup> 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.

<sup>(4)</sup> Gansu State-owned Assets Investment directly held 359,250,972 Domestic Shares of the Bank, representing approximately 3.57% of the total issued share 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.

## Chapter 5 Changes in Share Capital and Particulars of Shareholders

- <sup>(5)</sup> Gansu Highway Aviation Tourism held 1,157,154,433 Domestic Shares of the Bank, representing approximately 11.49% of the total issued share 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 share 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.
- <sup>(6)</sup> The 845,296,403 Domestic Shares of the Bank held by Baoshang Bank Co., Ltd. will be taken over by Mengshang Bank Co., Ltd. (蒙商銀行股份有限公司), relevant change procedures of which are being handled.
- <sup>(7)</sup> 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" (外資信託一五行百川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" (外資信託一五行百川25號單一資金信託) holds 78,513,000 H Shares of the Bank.
- <sup>(8)</sup> 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. (北京卡達普投資有限公司) 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..
- <sup>(9)</sup> H.K. RUIJIA TRADING COMPANY LIMITED is wholly-owned by Qian Ruihong. Qian Ruihong and her spouse Gao Zhanguang are deemed to be interested in the 350,000,000 H Shares of the Bank held by H.K. RUIJIA TRADING COMPANY LIMITED under the SFO. On June 19, 2020, Clever Gain Management Limited (as chargee) entered into a pledge agreement with H.K. RUIJIA TRADING COMPANY LIMITED (as chargor), pursuant to which, H.K. RUIJIA TRADING COMPANY LIMITED pledged the H shares of the Bank held by it with a total amount of 230,000,000 to Clever Gain Management Limited.
- <sup>(10)</sup> On June 19, 2020, Clever Gain Management Limited (as chargee) entered into a pledge agreement with H.K. RUIJIA TRADING COMPANY LIMITED (as chargor), pursuant to which, H.K. RUIJIA TRADING COMPANY LIMITED pledged the H shares of the Bank held by it with a total amount of 230,000,000 to Clever Gain Management Limited. Clever Gain Management Limited is a wholly-owned subsidiary of Shinning Ocean Ventures Limited, and Shinning Ocean Ventures Limited is a wholly-owned subsidiary of Vistra Trust (Singapore) Pte. Limited. Shinning Ocean Ventures Limited and Vistra Trust (Singapore) Pte. Limited are deemed to be interested in the security interests held by Clever Gain Management Limited under the SFO.
- <sup>(11)</sup> Huarong Rongde (Hong Kong) Investment Management Company Limited is a wholly-owned subsidiary of Huarong Rongde Asset Management Company Limited. China Huarong Asset Management Co., Ltd. holds 59.3% of the registered share capital in Huarong Rongde Asset Management Company Limited. Cathay Capital Company (No.2) Limited holds 40.7% of the registered share capital in Huarong Rongde Asset Management Company Limited. Deutsche Bank Aktiengesellschaft holds 67.57% equity interest in Cathay Capital Company (No.2) Limited. According to the SFO, Huarong Rongde Asset Management Company Limited, China Huarong Asset Management Co., Ltd., Cathay Capital Company (No.2) Limited and Deutsche Bank Aktiengesellschaft are deemed to be interested in the Shares of the Bank held by Huarong Rongde (Hong Kong) Investment Management Company Limited.

Save as disclosed above, as of June 30, 2020, the Bank is not aware of any other person, other than the Directors, Supervisors and chief executive of the Bank, who had interests or short positions in the Shares and underlying Shares of the Bank, which were required to be recorded in the register of interests maintained by the Bank pursuant to section 336 of Part XV of the SFO, and which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### (III) Particulars of Controlling Shareholders and Actual Controller

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

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

## I. INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

As of June 30, 2020 and up to the Latest Practicable Date, the information of the Directors, Supervisors and senior management members of the Bank is set out as follows:

### Directors

Name	Age	Date of joining the Bank	Date of appointment as Director <sup>(1)</sup>	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 overall implementation of operation plan of the Bank; in charge of the Planning and Financial Department and the Asset Preservation Department
Ms. Wu Changhong (吳長虹)	57	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)	42	October 2011	October 15, 2011	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member

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

Name	Age	Date of joining the Bank	Date of appointment as Director <sup>(1)</sup>	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 <sup>(2)</sup>	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 transactions and risk management committee and the Consumer Rights Protection Committee

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

Name	Age	Date of joining the Bank	Date of appointment as Director <sup>(1)</sup>	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 transactions and risk management committee
Mr. Wong Sincere (黃誠思)	56	August 2017	August 12, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank in relation to compliance with Hong Kong laws and the Hong Kong Listing Rules based on his extensive experience in legal and compliance work, and performing his duties as a Director through the Board of Directors, audit committee and related party transactions and risk management committee
Mr. Dong Ximiao (董希淼)	43	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 transactions and risk management committee and the Consumer Rights Protection Committee

### Notes:

- <sup>(1)</sup> 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.
- <sup>(2)</sup> Mr. Liu Wanxiang was appointed as a non-executive Director at the first extraordinary general meeting of the Bank dated December 3, 2018, but his appointment shall take effect upon obtaining the approval of his directorship qualification by the regulatory authority.



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

### Supervisors

Name	Age	Date of joining the Bank	Date of appointment as Supervisor <sup>(1)</sup>	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 Supervisor	Responsible for overall work of the Board of Supervisors, primarily responsible for supervising the work of the Board of Directors and management to ensure compliance with laws and regulations, and responsible for auditing, security and institutional construction. In charge of the Office of the Board of Supervisors, Audit Department, Institutional Management Department (Security Department)
Mr. Xu Yongfeng (許勇鋒)	56	October 2011	October 15, 2011	Employee 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 Supervisor	Supervising the Board of Directors and the senior management on behalf of the employees of the Bank
Mr. Liu Yongchong (劉永翀) <sup>(2)</sup>	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) <sup>(3)</sup>	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:

<sup>(1)</sup> 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.

<sup>(2)</sup> The Board of Supervisors of the Bank received the letter of resignation from Mr. Liu Yongchong ("Mr. Liu"), a shareholder supervisor, on May 27, 2020. Due to the occupation mobility, Mr. Liu requests to resign as a shareholder supervisor, and a member of supervisory committee of the Board of Supervisors ("Supervisory Committee"). The Bank is seeking out a suitable candidate to succeed the position of shareholder supervisor of Mr. Liu, and will otherwise publish an announcement in due course. Prior to appointment of the new supervisor, Mr. Liu will continue to perform the duties as shareholder supervisor and member of nomination committee of the Bank. Mr. Liu's resignation as shareholder supervisor and member of the Supervisory Committee of the Bank will come into effect from the date when the Bank duly appoints the new shareholder supervisor.

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

<sup>(3)</sup> 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 and a member of the Supervisory Committee of the Bank until the new Supervisor is appointed. Mr. Yang's resignation as an external Supervisor, the chairman of the nomination committee and a member of the audit committee of the Bank will take effect from the date when the new external Supervisor of the Bank formally assumes his/her role.

### Senior Management

Name	Age	Date of joining the Bank	Date of first appointment as senior management	Position held as of the Latest Practicable Date	Responsibilities
Mr. Wang Wenyong (王文永)	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 overall implementation of operation plan 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

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

Name	Age	Date of joining the Bank	Date of first appointment as senior management	Position held as of the Latest Practicable Date	Responsibilities
Ms. Hao Jumei (郝菊梅)	51	February 2012	December 3, 2018	Vice president, 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 Management Department, Credit Approval Department, and Legal and Compliance Department and 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	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	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
Mr. Feng Yuhui (馮煜輝)	56	September 2012	July 27, 2020	Chief business officer	Responsible for the operation and management of relevant business lines and being also the secretary to the Party committee and president of Lanzhou Qilihe Subbranch

### 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 of the Bank during the Reporting Period and up to the Latest Practicable Date.

#### (II) Changes in Supervisors

The Board of Supervisors of the Bank received the letter of resignation from Mr. Liu Yongchong, a shareholder supervisor, on May 27, 2020. Due to the work rearrangement, Mr. Liu requests to resign as a shareholder supervisor, and a member of the Supervisory Committee. The Bank is seeking out a suitable candidate to succeed the position of shareholder supervisor of Mr. Liu, and will otherwise publish an announcement in due course. Prior to appointment of the new supervisor, Mr. Liu will continue to perform the duties of shareholder supervisor and a member of nomination committee of the Bank. Mr. Liu's resignation as shareholder supervisor and a member of the Supervisory Committee of the Bank will come into effect from the date when the Bank duly appoints the new shareholder supervisor.

#### (III) Changes in Members of Senior Management

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

Mr. Feng Yuhui was appointed as a chief business officer of the Bank, which was approved at the Board meeting of the Bank held on March 30, 2020, and his qualification was approved by the relevant regulatory authority on July 27, 2020.

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

Mr. Wong Sincere, an independent non-executive Director has ceased to serve as a non-executive Director of MOS House Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1653) since April 1, 2020.

Mr. Liu Yongchong, a Supervisor, has ceased to serve as Chief Financial Officer of Jing Coal Group Co., Ltd. (a shareholder of the Bank) since May 27, 2020.

Mr. Yang Zhenjun, a Supervisor, has ceased to serve as the secretary to the Party committee and director of Dingxi Urban Construction and Investment Operation Management Office of Gansu Province (a shareholder of the Bank) since May 28, 2020.

Save as disclosed above, no information on changes in Directors, Supervisors and senior management has been disclosed in accordance with Rule 13.51B(1) of the Hong Kong Listing Rules for the six months ended June 30, 2020.

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

### III. COMPANY SECRETARY

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

### IV. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

### V. SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

Name	Position held with the Bank	Name of the shareholder company	Position held in the shareholder company
Ms. Wu Changhong	Non-executive Director	Gansu Highway Aviation Tourism	Member of the Party committee, and deputy general manager
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. 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. Dong Ying	External Supervisor	Wuwei Economic Development and Investment (Group) Co., Ltd.	Deputy general manager

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

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

As at June 30, 2020, 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) <sup>(1)</sup>	0.004	0.003
Mr. Xu Yongfeng	Employee Supervisor	Domestic Shares	Beneficial owner	225,514(L) <sup>(1)</sup>	0.003	0.002
Mr. Luo Zhenxia	Employee Supervisor	Domestic Shares	Beneficial owner	205,711(L) <sup>(1)</sup>	0.003	0.002
Mr. Li Yongjun	Shareholder Supervisor	Domestic Shares	Interest in the controlled corporation <sup>(2)</sup>	239,326,800(L) <sup>(1)</sup>	3.180	2.377

*Notes:*

<sup>(1)</sup> L represents long position.

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

Save as disclosed above, none of the Directors, Supervisors and chief executives of the Bank held any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations as of June 30, 2020.

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

### VIII.EMPLOYEE, EMPLOYEE COMPENSATION POLICY AND EMPLOYEE TRAINING PROGRAM

#### (I) Staff Composition

As of June 30, 2020, the Bank had 4,011 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	598	14.9
Retail banking	546	13.6
Financial market operations	39	1.0
Finance and accounting	231	5.8
Risk management, internal audit and legal and compliance	439	10.9
Information technology	95	2.4
Management	164	4.1
Bank Teller	1,722	42.9
Others	177	4.4
<b>Total</b>	<b>4,011</b>	<b>100.0</b>

The following table sets forth the number of the employees of the Bank by age as of June 30, 2020.

	Number of employees	Percentage (%)
Under 30 (inclusive)	1,785	44.5
31 to 40 years old	1,462	36.4
41 to 50 years old	620	15.5
51 years old or above	144	3.6
<b>Total</b>	<b>4,011</b>	<b>100.0</b>



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

The following table sets forth the number of the employees of the Bank by education degree as of June 30, 2020.

	Number of employees	Percentage (%)
Master's degree or above	274	6.8
Bachelor's degree	3,316	82.7
Others	421	10.5
<b>Total</b>	<b>4,011</b>	<b>100.0</b>

### (II) Employee Remuneration

The Bank's employees participate in employee benefit plans, such as pension insurance, corporate annuity funds, housing provident funds, work related injury insurance, medical insurance, unemployment insurance and maternity insurance. The Bank conducts performance evaluations of employees on an annual basis to provide feedback based on the evaluations. Remuneration for full-time employees typically consists of a base salary and performance-based compensation.

### (III) Employee Training Program

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

### (IV) Labor Union

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

## IX. THE SUBSIDIARY OF THE BANK

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

# Chapter 7 Important Events

## I. CORPORATE GOVERNANCE CODE

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

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

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

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

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

### II. PROFITS AND DIVIDENDS

#### (1) 2019 final dividend

At the meeting of the Board of Directors of the Bank convened on March 30, 2020, 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.

The proposals were considered and approved at the 2019 annual general meeting convened on June 3, 2020.

#### (2) 2020 interim dividend

The Bank's revenue for the six months ended June 30, 2020 and the Bank's financial position as of the same date are set out in the interim financial statements of this interim report.

The Board does not recommend the distribution of 2020 interim dividend and any capitalisation of capital reserve.

### III. PROPOSED NON-PUBLIC ISSUANCE OF OFFSHORE PREFERENCE SHARES

On June 3, 2019, the Bank held the 2018 annual general meeting, 2019 first domestic shareholders class meeting and 2019 first H shareholders class meeting, at which the resolution on non-public issuance of offshore preference shares was considered and passed. The Bank intended to issue no more than 100 million offshore preference shares through non-public issuance to raise the proceeds up to the equivalence of RMB10 billion to supplement other Tier 1 capital of the Bank. The Bank has disclosed the relevant matters on the proposed issuance of offshore preference shares in the circular of the Bank dated April 18, 2019 and the announcement of the Bank dated March 27, 2019.

Given that the resolution on authorizing the non-public issuance of offshore preference shares would expire in 12 months (i.e. before June 3, 2020) from the date of approval at the general meeting convened on June 3, 2019 and that the Board did not hold the Board meeting to approve the extension of authorization period of non-public issuance of offshore preference shares before the abovementioned authorization period expired, the relevant authorization for non-public issuance of offshore preference shares has expired. No preference shares were issued by the Bank according to the abovementioned authorization resolution during the authorization period.

### IV. PROPOSED NON-PUBLIC ISSUANCE OF DOMESTIC SHARES AND NON-PUBLIC ISSUANCE OF H SHARES

To continue to comply with regulatory requirements, enhance the Bank's resilience to shocks, shore up market confidence and optimize its equity structure, the Bank intends to replenish core tier 1 capital through issuance of additional shares. At the meeting of the Board convened on March 30, 2020, the proposals on non-public issuance of Domestic Shares and H Shares were approved, and the proposals were considered and approved at the annual general meeting, the 2020 first domestic shareholders class meeting and the 2020 first H shareholders class meeting of the Bank convened on June 3, 2020. To ensure that the minimum public float requirement for the Bank under the Hong Kong Listing Rules is satisfied upon the issuance of additional H Shares, the Board will ensure that the issuance of additional H Shares will be completed before or currently with the issuance of Domestic Shares. In the event the issuance of H Shares is terminated due to disapproval of Shareholders or regulatory authorities or any other reason, the issuance of Domestic Shares shall also be terminated.

#### (1) Non-public issuance of Domestic Shares

The Bank intends to issue no more than 3.75 billion Domestic Shares to no more than 10 eligible domestic institutional investors. The actual issue number of shares to be issued is subject to the approval of relevant regulatory authorities.

#### (2) Non-public issuance of H Shares

The Bank intends to issue no more than 1.25 billion H Shares to no more than 10 investors who are eligible to subscribe for the H Shares of the Bank. The actual number of issued shares is to be determined with reference to the approval of the issuance plan by relevant regulatory authorities, market conditions and the actual situation of the Bank.

For details of the non-public issuance of Domestic Shares and non-public issuance of H Shares, please refer to the announcements dated March 30, 2020 and April 17, 2020 and the circular dated May 18, 2020 of the Bank. As of the Latest Practicable Date, the Bank has not issued any additional Domestic Shares or H Shares. The Bank shall disclose the update on the progress of the non-public issuance of Domestic Shares and the non-public issuance of H Shares in a timely manner according to the requirements of relevant laws and regulations as well as the Hong Kong Listing Rules.

### V. ISSUANCE OF DEBT SECURITIES

#### Interbank certificates

During the period from January 1, 2020 to June 30, 2020, the Bank issued several tranches of interbank certificates in an aggregate principal amount of RMB18,610 million. The interbank certificates have terms of one month to one year and bear effective interest rates between 1.4% and 3.2% per annum.

## Chapter 7 Important Events

### Financial bonds

At the meeting of the Board convened on March 27, 2019, the Board advised the Bank to issue capital bonds with no fixed maturity date 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 and the authorizing resolution shall be valid for 36 months from the date of approval at the annual general meeting (i.e. June 3, 2019).

At the meeting of the Board convened on March 30, 2020, the Board advised the Bank to issue tier 2 capital bonds to the public in an aggregate amount of no more than RMB5 billion. The proposal was considered and approved at the 2019 annual general meeting convened on June 3, 2020 and the authorizing resolution shall be valid for 18 months from the date of approval at the annual general meeting (i.e. June 3, 2020).

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.

## VI. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

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

## VII. RELATED PARTY TRANSACTIONS

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

## VIII. MATERIAL LAWSUITS AND ARBITRATIONS

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

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

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

### X. 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.

### XI. APPOINTMENT OF EXTERNAL AUDITORS

As deliberated and approved by Shareholders at the 2019 annual general meeting on June 3, 2020, the Bank reappointed Shinewing Certified Public Accountants LLP as its domestic external auditor for 2020, which is responsible for providing relevant domestic audit services in accordance with PRC GAAP; reappointed SHINEWING (HK) CPA Limited as its international external auditor for 2020, which is responsible for providing relevant overseas audit & review services in accordance with IFRS. The terms of the above two external auditors shall start from the date when the proposal on appointment of external auditors for 2020 was adopted at the 2019 annual general meeting of the Bank (namely on June 3, 2020) to the date when the 2020 annual general meeting of the Bank ended.

### XII. ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES, ASSETS AND BUSINESS/ENTERPRISES COMBINATIONS/MERGERS

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

### XIII. REVIEW OF INTERIM REPORT

The financial statements disclosed in this interim report have not been audited. The interim financial statements of the Bank for the six months ended June 30, 2020 prepared in accordance with IFRS issued by the International Accounting Standards Board have been reviewed by SHINEWING (HK) CPA Limited according to Hong Kong Standard on Review Engagements 2410. The Board of Directors and its audit committee have reviewed and approved the Group's unaudited consolidated interim financial data for the six months ended June 30, 2020.

### XIV. PUBLICATION OF THE 2020 INTERIM REPORT

The 2020 Interim Report of the Bank prepared in accordance with the Hong Kong Listing Rules and IFRS is available on the HKEXnews website (<http://www.hkexnews.hk>) and the Bank's website (<http://www.gsbankchina.com>).

In this interim report, the financial data for the six months ended June 30, 2020 have not been audited, and the financial data for the year ended December 31, 2019 have been audited.

# Chapter 8 Report on Review of Condensed Consolidated Financial Statements



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

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

甘肅銀行股份有限公司

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

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of Bank of Gansu Co., Ltd (the “Bank”) and its subsidiary (collectively referred to as the “Group”) set out on pages 80 to 141, which comprise the condensed consolidated statement of financial position as of June 30, 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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



## Chapter 8 Report on Review of Condensed Consolidated Financial Statements

### CONCLUSION

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

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

Hong Kong  
August 21, 2020



# Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

For the six months ended June 30, 2020

	Notes	Six months ended June 30,	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest income		7,094,997	7,278,319
Interest expenses		(4,607,188)	(4,406,117)
Net interest income	4	2,487,809	2,872,202
Fee and commission income		202,026	158,742
Fee and commission expenses		(15,513)	(45,415)
Net fee and commission income	5	186,513	113,327
Net trading gains	6	498,285	852,617
Net gains arising from investment securities	7	7,030	15,457
Net exchange gains		66,145	8,467
Other operating expense, net	8	(2,384)	(4,141)
Operating income		3,243,398	3,857,929
Operating expenses	9	(958,234)	(941,593)
Impairment losses on assets, net of reversals	10	(1,889,827)	(2,289,679)
Operating profit		395,337	626,657
Share of profit/(loss) of an associate	21	617	(2,314)
Profit before tax		395,954	624,343
Income tax expense	11	(27,425)	(106,001)
<b>Profit for the period</b>		<b>368,529</b>	<b>518,342</b>
Earnings per share			
– Basic and diluted (RMB cents)	12	3.64	5.10

# Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

For the six months ended June 30, 2020

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	368,529	518,342
Other comprehensive (expenses)/income for the period:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
– Remeasurement of defined benefit obligations	(70)	1,820
– Income tax relating to remeasurement of defined benefit obligations that will not be reclassified subsequently	18	(455)
	(52)	1,365
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Debt instrument at fair value through other comprehensive income		
– Amounts reclassified (from)/to other comprehensive income in respect of impairment losses	(422)	402
– Change in fair value recognised in investment revaluation reserve	14,280	(40,231)
– Income tax relating to item that may be reclassified subsequently	(3,465)	9,555
	10,393	(30,274)
Other comprehensive income/(expenses) for the period, net of income tax	10,341	(28,909)
Total comprehensive income for the period	378,870	489,433
Profit for the period attributable to:		
– Owners of the Bank	366,183	513,718
– Non-controlling interests	2,346	4,624
	368,529	518,342
Total comprehensive income for the period attributable to:		
– Owners of the Bank	376,524	484,809
– Non-controlling interests	2,346	4,624
	378,870	489,433

# Condensed Consolidated Statement of Financial Position

At June 30, 2020

	<i>Notes</i>	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
<b>Assets</b>			
Cash and deposits with the central bank	13	22,920,342	25,274,278
Deposits with banks	14	2,318,578	3,967,542
Financial assets held under resale agreements	15	18,749,015	16,263,996
Financial assets at amortised cost	16	65,330,540	61,697,396
Interests receivables	17	3,116,693	2,202,105
Loans and advances to customers	18	168,236,607	164,766,836
Financial assets at fair value through profit or loss	19	33,380,443	36,729,899
Financial assets at fair value through other comprehensive income	20	13,717,272	15,081,447
Interest in an associate	21	9,519	8,902
Property and equipment	22	2,905,489	2,825,257
Right-of-use assets	23	341,069	345,173
Deferred tax assets	24	1,608,476	1,643,070
Other assets	25	6,084,750	4,238,584
<b>Total assets</b>		<b>338,718,793</b>	<b>335,044,485</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Borrowings from the central bank	27	1,698,958	2,316,353
Deposits from banks and other financial institutions	28	7,031,537	13,621,889
Placements from banks and other financial institutions	29	450,000	890,000
Financial assets sold under repurchase agreements	30	3,860,656	5,398,580
Deposits from customers	31	253,388,463	236,868,657
Accrued staff costs	32	347,290	505,487
Taxes payable		3,342	2,969
Interests payable	33	8,411,705	8,761,501
Debts securities issued	34	35,900,521	39,459,173
Deferred tax liabilities	24	92,470	97,243
Lease liabilities	23	292,793	283,931
Other liabilities	35	2,172,604	2,149,700
<b>Total liabilities</b>		<b>313,650,339</b>	<b>310,355,483</b>

# Condensed Consolidated Statement of Financial Position

At June 30, 2020

	<i>Notes</i>	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
<b>Equity</b>			
Share capital	36	10,069,791	10,069,791
Capital reserve	37(a)	4,660,999	4,660,417
Defined benefit plan reserve		(3,451)	(3,399)
Investment revaluation reserve		229,862	219,469
Surplus reserve	37(b)	1,560,835	1,560,835
General reserve	37(c)	4,471,044	4,471,044
Retained earnings		4,044,999	3,678,816
Total equity attributable to owners of the Bank		25,034,079	24,656,973
Non-controlling interests		34,375	32,029
<b>Total equity</b>		<b>25,068,454</b>	<b>24,689,002</b>
<b>Total liabilities and equity</b>		<b>338,718,793</b>	<b>335,044,485</b>

The condensed consolidated financial statements on pages 80 to 141 were approved and authorised for issue by the board of directors of the Bank on August 21, 2020 and are signed on its behalf by:

Mr. Liu Qing  
*Director*

Mr. Wang Wenyong  
*Director*

# Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	Attributable to owners of the Bank								Non-controlling interests	Total
	Share Capital	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2020	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
Profit for the period	-	-	-	-	-	-	366,183	366,183	2,346	368,529
Other comprehensive (expenses)/ income for the period	-	-	(52)	10,393	-	-	-	10,341	-	10,341
Total comprehensive (expenses)/ income for the period	-	-	(52)	10,393	-	-	366,183	376,524	2,346	378,870
Shareholders' injection (Note 37(a))	-	582	-	-	-	-	-	582	-	582
At June 30, 2020 (Unaudited)	10,069,791	4,660,999	(3,451)	229,862	1,560,835	4,471,044	4,044,999	25,034,079	34,375	25,068,454

# Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

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

# Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>OPERATING ACTIVITIES</b>		
Profit before tax	395,954	624,343
<b>Adjustments for:</b>		
Depreciation of property and equipment	199,642	180,821
Depreciation of right-of-use assets	73,193	45,381
Amortisation of intangible assets	2,914	2,189
Impairment losses on assets, net of reversals	1,889,827	2,289,679
Interest expense on lease liabilities	3,139	3,806
Interest expense on debts securities issued	727,779	822,227
Loss on disposal of repossessed assets	11	–
Loss on disposal of property and equipment	2	3,768
Net unrealised trading losses	33,373	99,489
Net gains arising from investment securities	(7,030)	(15,457)
Government grants	(3,747)	(4,854)
Interest income on financial investments	(1,852,450)	(1,621,307)
Share of (profit)/loss of an associate	(617)	2,314
	1,461,990	2,432,399
<b>Changes in operating assets</b>		
Net (increase)/decrease in deposits with the central bank	(99,502)	1,391,649
Net (increase)/decrease in deposits with the banks	(37,061)	542,103
Net decrease in financial assets at fair value through profit or loss	3,316,083	1,270,958
Net increase in loans and advances to customers	(5,026,519)	(11,791,685)
Net increase in other operating assets	(3,551,090)	(3,492,533)
	(5,398,089)	(12,079,508)
<b>Changes in operating liabilities</b>		
Net decrease in borrowings from the central bank	(617,395)	(5,467,081)
Net decrease in deposits and placements from banks and other financial institutions	(7,030,352)	(1,878,114)
Net decrease in financial assets sold under repurchase agreements	(1,537,924)	(6,581,532)
Net increase in deposits from customers	16,519,806	24,899,599
Net (decrease)/increase in other operating liabilities	(478,644)	1,096,281
	6,855,491	12,069,153

# Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash generated from operations	2,919,392	2,422,044
Income tax paid	(678)	(966,854)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>2,918,714</b>	<b>1,455,190</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of investments	12,492,595	7,588,729
Interest income received from financial investments	823,268	1,441,666
Proceeds from disposal of property and equipment	177	76,100
Payments on acquisition of investments	(13,491,246)	(18,585,000)
Payments on acquisition of property and equipment and intangible assets	(37,366)	(48,077)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(212,572)</b>	<b>(9,526,582)</b>
<b>FINANCING ACTIVITIES</b>		
Government grants received	3,747	4,854
Proceeds from capital contribution by equity shareholder	582	1,058
Proceeds from issue of new debt securities	18,179,085	20,350,000
Repayment of debt securities issued	(22,260,000)	(18,500,000)
Repayment of lease liabilities	(60,227)	(43,163)
Interest paid on debts securities issued	(218,750)	(804,545)
Interest paid on lease liabilities	(3,139)	(3,806)
Dividends paid	(1,884)	(27)
<b>NET CASH (USED IN)/FROM FINANCING ACTIVITIES</b>	<b>(4,360,586)</b>	<b>1,004,371</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,654,444)</b>	<b>(7,067,021)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>25,171,047</b>	<b>35,147,129</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 41)</b>	<b>23,516,603</b>	<b>28,080,108</b>
Interest received	6,577,089	6,796,862
Interest paid (excluding interest expense on debts securities issued and lease liabilities)	(4,212,832)	(2,995,969)



# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 1. GENERAL

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

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

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

As at June 30, 2020, the Bank has a head office, 12 branches, 190 sub-branches, 6 micro-to-small enterprise sub-branches, 3 community sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (collectively referred to as the "Group") are the provision of corporate and retail deposits, loans and advances, payment and settlement services, as well as other banking services as approved by the CBRC. The Group operates in Mainland China.

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

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

### 2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended June 30, 2020 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange, and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", issued by the International Accounting Standards Board ("IASB").

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019.

In the current interim period, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs issued by the IASB which are effective for the Group's financial year beginning January 1, 2020.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 3	Definition of a Business

The application of the Amendments to References to the Conceptual Framework in IFRS and the amendments to IFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

## Chapter 9

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 4. NET INTEREST INCOME

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income arising from		
– Deposits with the central bank	178,838	195,962
– Deposits with banks	27,104	166,952
– Placements with banks and other financial institutions	696	–
– Loans and advances to customers:		
Corporate loans and advances	3,370,459	3,583,824
Personal loans and advances	1,065,901	942,050
Discounted bills	422,291	534,004
– Financial assets held under resale agreements	177,258	234,220
– Financial assets at fair value through other comprehensive income	278,544	326,822
– Financial assets at amortised cost	1,573,906	1,294,485
	7,094,997	7,278,319
Less: Interest expenses arising from		
– Borrowings from the central bank	(16,866)	(136,931)
– Deposits from banks and other financial institutions	(218,677)	(172,933)
– Placements from banks and other financial institutions	(11,958)	(48,456)
– Deposits from customers:		
Corporate customers	(1,108,124)	(1,034,082)
Individual customers	(2,484,094)	(2,075,722)
– Financial assets sold under repurchase agreements	(36,551)	(111,960)
– Debts securities issued	(727,779)	(822,227)
– Lease liabilities	(3,139)	(3,806)
	(4,607,188)	(4,406,117)
	2,487,809	2,872,202

# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 5. NET FEE AND COMMISSION INCOME

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fee and commission income		
– Wealth management service fees	26,801	17,695
– Bank acceptance bills service fees	8,929	10,280
– Agency services fees	27,567	83,557
– Settlement and clearing fees	108,214	36,144
– Letter of guarantee service fees	1,373	274
– Others	29,142	10,792
	202,026	158,742
Fee and commission expense		
– Settlement and clearing fees	(432)	(9,311)
– Bank card service fees	(14,406)	(35,040)
– Others	(675)	(1,064)
	(15,513)	(45,415)
	186,513	113,327

### 6. NET TRADING GAINS

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Trading financial instruments		
– Realised gains from debt securities	134,978	603,233
– Unrealised losses from debt securities	(33,373)	(99,489)
Interest income arising from financial asset at FVTPL	396,680	348,873
	498,285	852,617

## Chapter 9

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 7. NET GAINS ARISING FROM INVESTMENT SECURITIES

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net gains on disposal of debt instruments at fair value through other comprehensive income	7,030	15,457

### 8. OTHER OPERATING EXPENSE, NET

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants (Note)	3,747	4,854
Rental income	399	1,371
Loss on disposal of repossessed assets	(11)	–
Loss on disposal of property and equipment	(2)	(3,768)
Other operating expenses	(6,517)	(6,598)
	(2,384)	(4,141)

*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.

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 9. OPERATING EXPENSES

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff costs (including directors' emoluments)		
– Salaries and bonuses	283,746	346,345
– Staff welfares	13,067	11,900
– Social insurance	99,209	79,286
– Housing allowances	35,874	31,998
– Labor union and staff education expenses	4,030	9,986
– Others	1,068	1,015
	436,994	480,530
Premises and equipment expenses		
– Depreciation of property and equipment	199,642	180,821
– Depreciation of right-of-use assets	73,193	45,381
– Amortisation of intangible assets	2,914	2,189
– Rental and property management expenses	19,896	37,736
	295,645	266,127
Business tax and surcharges	48,478	37,558
Other general and administrative expenses	177,117	157,378
	958,234	941,593

## Chapter 9

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 10. IMPAIRMENT LOSSES ON ASSETS, NET OF REVERSALS

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment losses on:		
Financial assets at FVTOCI	(422)	402
Financial assets at amortised cost	324,898	130,116
Other receivables, prepayments and repossessed assets	–	7,020
Loans and advances to customers	1,556,748	2,165,313
Acceptance bills, letters of guarantees and unused credit card commitments	8,603	(13,172)
	1,889,827	2,289,679

### 11. INCOME TAX EXPENSE

(a) Income tax:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprise Income Tax	1,051	435,815
Deferred tax (Note 24)		
– Current year	26,374	(329,814)
	27,425	106,001

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

# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 11. INCOME TAX EXPENSE (CONTINUED)

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

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax	395,954	624,343
Tax at domestic income tax rate of 25%	98,989	156,086
Tax effect of share of profit/(loss) of an associate	(154)	579
Tax effect of expenses not deductible for tax purpose (Note (i))	12,839	2,688
Tax effect of income that are not taxable for tax purpose (Note (ii))	(83,457)	(51,929)
Income tax on concessionary rate	(792)	(1,423)
Income tax expense	27,425	106,001

*Notes:*

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

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

### 12. EARNINGS PER SHARE

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

	Six months ended June 30,	
	2020	2019
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Bank (RMB'000)	366,183	513,718
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	10,069,791	10,069,791

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the six months ended June 30, 2020 and 2019.



## Chapter 9

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 13. CASH AND DEPOSITS WITH THE CENTRAL BANK

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Cash on hand	621,591	405,812
Deposits with the central bank		
– Statutory deposit reserve (Note (a))	20,392,651	20,306,857
– Surplus deposit reserve (Note (b))	1,864,480	4,533,697
– Fiscal deposits	41,620	27,912
	22,298,751	24,868,466
	22,920,342	25,274,278

Notes:

- (a) The Group places statutory deposit reserves with the PBoC (The People's Bank Of China) in accordance with relevant regulations. As at June 30, 2020 and December 31, 2019, the statutory deposit reserve ratios applicable to the Bank were as follows:

	At June 30, 2020 (Unaudited)	At December 31, 2019 (Audited)
Reserve ratio for RMB deposits	8.0%	8.5%

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.

### 14. DEPOSITS WITH BANKS

Analysed by type and location of counterparty

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Deposits in Mainland China		
– Banks	2,121,649	3,703,727
Deposits outside Mainland China		
– Banks	196,929	263,815
	2,318,578	3,967,542

As at June 30, 2020 and December 31, 2019, the Group classifies all deposits with banks in Stage 1, and measures the loss allowance equal to 12-month Expected credit losses ("ECL").

# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 15. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
In Mainland China		
– Banks	829,200	11,520,213
– Other financial institutions	17,919,815	4,743,783
	<b>18,749,015</b>	<b>16,263,996</b>

(b) Analysed by type of security held

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Debt securities		
– Government	5,810,724	5,220,318
– Banks and other financial institutions	12,938,291	11,043,678
	<b>18,749,015</b>	<b>16,263,996</b>

As at June 30, 2020 and December 31, 2019, the Group classifies all financial assets held under resale agreements in Stage 1, and measures the loss allowance equal to 12-month ECL.

## Chapter 9

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 16. FINANCIAL ASSETS AT AMORTISED COST

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
<b>Financial asset measured at amortised cost</b>		
Debt securities issued by the following institutions in Mainland China		
– Government	19,537,532	14,906,774
– Banks and other financial institutions	11,911,863	11,937,294
– Corporations	4,440,707	4,385,172
Trust plans	18,221,800	17,786,844
Asset management plans	12,820,421	13,948,670
Asset-backed securities issued by bank and other institutions	50,000	59,527
	66,982,323	63,024,281
Less: Provision for impairment losses	(1,651,783)	(1,326,885)
	65,330,540	61,697,396
Analysed as:		
Listed outside Hong Kong	32,145,406	27,541,473
Unlisted outside Hong Kong	33,185,134	34,155,923
	65,330,540	61,697,396
Fair value	65,565,470	62,143,647

At June 30, 2020 and December 31, 2019, parts of debt securities were pledged as security for repurchase agreement (Note 26(a)).

# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 17. INTERESTS RECEIVABLES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Interests receivables arising from:		
– Investments	1,948,033	1,403,309
– Loans and advances to customers	1,148,746	780,285
– Financial assets held under resale agreements	8,557	6,764
– Deposits with banks	2,560	2,488
– Deposits with the central bank	8,797	9,259
	3,116,693	2,202,105

As at June 30, 2020 and December 31, 2019, the Group classifies all interest receivables in Stage 1, and measures the loss allowance equal to 12-month ECL. The amounts of the ECL are not significant, no ECL was provided during the six months ended June 30, 2020 and year ended December 31, 2019.

### 18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
<b>Gross loans and advances to customers</b>		
Corporate loans and advances	111,501,090	111,292,030
Personal loans and advances		
– Personal business loans	6,875,275	6,997,942
– Personal consumption loans	10,679,381	10,196,924
– Residential and commercial mortgage loans	18,631,670	17,070,660
	36,186,326	34,265,526
Discounted bills	25,835,365	24,891,685
	173,522,781	170,449,241
<b>Less: Provision for impairment losses</b>	(5,286,174)	(5,682,405)
	168,236,607	164,766,836

## Chapter 9

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector

	At June 30, 2020		Loans and advances secured by collaterals RMB'000 (Unaudited)
	Amount RMB'000 (Unaudited)	Percentage (Unaudited)	
<b>Gross loans and advances to customers</b>			
<b>Corporate loans and advances</b>			
– Manufacturing	21,310,322	12.28%	10,997,694
– Wholesale and retail	15,991,184	9.22%	7,222,791
– Real estate	13,732,265	7.91%	13,498,587
– Construction	11,255,580	6.50%	6,403,004
– Mining	5,831,094	3.36%	1,964,070
– Leasing and business services	11,058,775	6.37%	5,735,244
– Agriculture, forestry, animal husbandry and fishery	7,756,137	4.47%	3,007,487
– Water, environment and public facility management	3,103,944	1.79%	2,259,613
– Electricity, gas and water production and supply	3,137,606	1.81%	685,874
– Cultural, sports and entertainment	2,904,864	1.67%	2,076,636
– Accommodation and catering	2,555,283	1.47%	2,097,649
– Transportation, storage and postal services	4,083,431	2.35%	1,208,806
– Health and social services	2,140,242	1.23%	579,504
– Education	1,576,324	0.91%	254,453
– Finance	2,996,500	1.73%	–
– Scientific research, technical services and geological prospecting	1,302,290	0.75%	883,600
– Resident and other services	612,189	0.35%	275,784
– Information transmission, computer services and software	131,060	0.08%	76,294
– Public administration, social security and social organisations	22,000	0.01%	–
	111,501,090	64.26%	59,227,090
Personal loans and advances	36,186,326	20.85%	18,859,165
Discounted bills	25,835,365	14.89%	–
	173,522,781	100%	78,086,255
<b>Less: Provision for impairment losses</b>	(5,286,174)		
	168,236,607		

# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector (Continued)

	At December 31, 2019		
	Amount RMB'000 (Audited)	Percentage (Audited)	Loans and advances secured by collaterals RMB'000 (Audited)
<b>Gross loans and advances to customers</b>			
<b>Corporate loans and advances</b>			
– 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
– Leasing and business services	8,815,458	5.17%	5,164,545
– Agriculture, forestry, animal husbandry and fishery	7,605,069	4.46%	3,224,948
– Water, environment and public facility management	3,078,705	1.81%	2,251,613
– Electricity, gas and water production and supply	3,512,299	2.06%	717,054
– Cultural, sports and entertainment	2,914,537	1.71%	2,313,245
– Accommodation and catering	2,666,921	1.56%	2,148,825
– 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
<b>Less: Provision for impairment losses</b>	(5,682,405)		
	164,766,836		

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
<b>Gross loans and advances to customers</b>		
Unsecured loans	20,513,332	18,456,262
Guaranteed loans	61,400,071	60,326,353
Collateralised loans	78,086,255	79,970,403
Pledged loans	13,523,123	11,696,223
	<hr/>	<hr/>
<b>Less: Provision for impairment losses</b>	173,522,781 (5,286,174)	170,449,241 (5,682,405)
	<hr/>	<hr/>
	168,236,607	164,766,836

# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Loans and advances and provision for impairment losses

	At June 30, 2020			
	Loans and advances that are assessed for 12m ECL ("Stage 1") RMB'000 (Unaudited)	Not credit-impaired loans and advances that are assessed for lifetime ECL ("Stage 2") RMB'000 (Unaudited)	Credit-impaired loans and advances that are assessed for lifetime ECL ("Stage 3") RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Gross loans and advances to customers	163,540,455	5,933,871	4,048,455	173,522,781
Less: Provision for impairment losses	(2,173,452)	(1,262,498)	(1,850,224)	(5,286,174)
	<b>161,367,003</b>	<b>4,671,373</b>	<b>2,198,231</b>	<b>168,236,607</b>

  

	At December 31, 2019			
	Loans and advances that are assessed for 12m ECL ("Stage 1") RMB'000 (Audited)	Not credit-impaired loans and advances that are assessed for lifetime ECL ("Stage 2") RMB'000 (Audited)	Credit-impaired loans and advances that are assessed for lifetime ECL ("Stage 3") RMB'000 (Audited)	Total RMB'000 (Audited)
Gross loans and advances to customers	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)
	<b>154,199,649</b>	<b>8,143,073</b>	<b>2,424,114</b>	<b>164,766,836</b>



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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
At January 1, 2020	1,760,988	2,163,408	1,758,009	5,682,405
Change in the provision for impairment losses				
– Transfer to Stage 1	478,736	(473,390)	(5,346)	–
– Transfer to Stage 2	(47,105)	49,938	(2,833)	–
– Transfer to Stage 3	(4,136)	(224,853)	228,989	–
– Write-offs and others	–	–	(1,979,544)	(1,979,544)
– Charge to profit or loss	(15,031)	(252,605)	1,824,384	1,556,748
– Recoveries of loans and advances previously written off	–	–	26,565	26,565
At June 30, 2020 (unaudited)	2,173,452	1,262,498	1,850,224	5,286,174
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
At January 1, 2019	1,741,393	2,080,219	2,429,842	6,251,454
Change in the provision for impairment losses				
– Transfer to Stage 1	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
At December 31, 2019 (audited)	1,760,988	2,163,408	1,758,009	5,682,405

### (f) Analysed by geographical sector

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

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Financial assets held for trading (Note (i))	2,441,466	1,210,450
Trust plans	1,944,865	4,305,588
Asset management plans	19,489,568	24,013,317
Investment funds	7,885,599	6,887,405
Wealth management products issued by banks	1,600,000	–
Other debt securities (Note (ii))	18,945	313,139
	<b>33,380,443</b>	<b>36,729,899</b>
Analysed as:		
Listed outside Hong Kong	2,441,466	1,210,450
Unlisted outside Hong Kong	30,938,977	35,519,449
	<b>33,380,443</b>	<b>36,729,899</b>

Notes:

(i) Financial assets held for trading:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Debt securities issued by the following institutions in Mainland China:		
– Government	206,114	–
– Banks and other financial institutions	1,857,827	1,160,051
– Corporations	377,525	50,399
	<b>2,441,466</b>	<b>1,210,450</b>

As at June 30, 2020, no financial assets at FVTPL were subject to material restrictions on the realisation (2019: 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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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
<b>Debt instruments at FVTOCI</b>		
Debt securities issued by the following institutions in Mainland China		
– Government	3,702,046	4,186,930
– Banks and other financial institutions	9,347,073	10,231,910
– Corporations	353,059	347,513
	13,402,178	14,766,353
<b>Unlisted equity investments designated at FVTOCI</b>	315,094	315,094
	13,717,272	15,081,447
<b>Analysed as:</b>		
Listed in Hong Kong	353,059	347,513
Listed outside Hong Kong	13,049,119	14,418,840
Unlisted outside Hong Kong	315,094	315,094
	13,717,272	15,081,447

At June 30, 2020 and December 31, 2019, parts of debt securities were pledged as security for repurchase agreement (Note 26(a)).

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Movement of provision for impairment losses:

Provision for impairment losses – debt instruments at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total RMB'000
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL RMB'000	
Provision for impairment losses at January 1, 2020	3,125	–	–	3,125
– Charge to profit or loss	(422)	–	–	(422)
Provision for impairment losses at June 30, 2020	2,703	–	–	2,703

Provision for impairment losses – debt instruments at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total RMB'000
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL RMB'000	
Provision for impairment losses at January 1, 2019	1,612	–	–	1,612
– Charge to profit or loss	1,513	–	–	1,513
Provision for impairment losses at December 31, 2019	3,125	–	–	3,125

### 21. INTEREST IN AN ASSOCIATE

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Cost of investment in an associate, unlisted	3,000	3,000
Share of post-acquisition profits and other comprehensive income, net of dividends received	6,519	5,902
	9,519	8,902

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 21. INTEREST IN AN ASSOCIATE (CONTINUED)

As at June 30, 2020 and December 31, 2019, 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
				2019	2020	2019	2020	
Gansu Jingchuan BOC Fullerton Community Bank Co., Ltd* (“甘肃涇川中銀富登村鎮銀行股份有限公司”, “Gansu Jingchuan”)	Established	PRC	Ordinary share	16.67%	16.67%	16.67%	16.67%	Corporate and retail bank

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

\* The English translation is for identification only.

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

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
The Group's share of profit and total comprehensive income for the period	617	(2,314)

  

	At June 30,	At December 31,
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Carrying amount of the Group's interests in the immaterial associate	9,519	8,902

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 22. PROPERTY AND EQUIPMENT

	Construction in progress RMB'000	Premises RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
<b>Cost</b>								
At 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 (out)/in of construction in progress	(134,845)	134,845	-	-	-	-	-	-
Disposals	-	(79,002)	(3,481)	(846)	-	(516)	(6,890)	(90,735)
At December 31, 2019 and January 1, 2020	238,838	2,338,159	568,523	49,781	419,969	353,723	106,588	4,075,581
Additions	252,575	-	12,421	-	1,699	11,786	1,572	280,053
Transfers (out)/in of construction in progress	(8,178)	8,178	-	-	-	-	-	-
Disposals	-	-	(3,761)	-	-	-	(1,139)	(4,900)
At June 30, 2020 (Unaudited)	483,235	2,346,337	577,183	49,781	421,668	365,509	107,021	4,350,734

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 22. PROPERTY AND EQUIPMENT (CONTINUED)

	Construction in progress RMB'000	Premises RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
Accumulated depreciation and impairment								
At January 1, 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 and January 1, 2020	-	343,313	422,846	43,914	247,609	122,809	69,833	1,250,324
Provided for the period	-	62,711	53,157	847	43,260	32,059	7,608	199,642
Eliminated on disposals	-	-	(3,633)	-	-	-	(1,088)	(4,721)
At June 30, 2020 (Unaudited)	-	406,024	472,370	44,761	290,869	154,868	76,353	1,445,245
Carrying value								
At June 30, 2020 (Unaudited)	483,235	1,940,313	104,813	5,020	130,799	210,641	30,668	2,905,489
At December 31, 2019 (Audited)	238,838	1,994,846	145,677	5,867	172,360	230,914	36,755	2,825,257

At June 30, 2020, the carrying values of premises of which title deeds were not yet finalised by the Group were approximately RMB1,840,437,000 (2019: approximately RMB1,890,994,000). Among them, the carrying values of premises that the Group has obtained housing property title certificates issued by the authorities but no land use right certificates were approximately RMB117,251,000 (2019: approximately RMB121,178,000). The aforementioned premises are located in PRC with medium term leases (10 – 50 years).

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 23. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

#### i) Right-of use assets

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Premises	315,402	318,851
Land use rights in the PRC	25,667	26,322
	341,069	345,173

During the six months ended June 30, 2020, the Group entered into a number of lease agreements for premises. The leases contain minimum lease payment terms during the contract period. On lease commencement, the Group recognised right-of-use assets of approximately RMB69,089,000 (Six months ended June 30, 2019: approximately RMB75,730,000).

#### ii) Lease liabilities

As at June 30, 2020, the carrying amount of lease liabilities was approximately RMB292,793,000 (2019: approximately RMB283,931,000).

During the six months ended June 30, 2020, the Group entered into a number of new lease agreements for office premises and recognised lease liability of approximately RMB69,089,000 (2019: approximately RMB180,796,000).

Amounts payable under lease liabilities	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Within one year	74,079	101,392
After one year but within two years	98,394	83,312
After two year but within five years	118,854	97,143
After five years	1,466	2,084
	292,793	283,931



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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 23. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

### iii) Amount recognised in profit or loss

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Depreciation expense on right-of-use assets	73,193	45,381
Interest expense on lease liabilities	3,139	3,806
Expense relating to short-term leases	17,043	35,277

### iv) Others

For the six months ended June 30, 2020 and June 30, 2019, the total cash outflow for leases amount to approximately RMB80,409,000 and RMB82,246,000 respectively.

## 24. DEFERRED TAXATION

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

	At June 30,	At December 31,
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Deferred tax assets	1,608,476	1,643,070
Deferred tax liabilities	(92,470)	(97,243)
	1,516,006	1,545,827

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 24. DEFERRED TAXATION (CONTINUED)

The following are the major deferred tax assets/(liabilities) recognised and movements thereon in the six months ended June 30, 2020 and the year ended December 31, 2019:

	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, 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 and January 1, 2020	1,349,731	(97,243)	33,270	260,069	1,545,827
(Charge)/credit to profit or loss	(24,355)	8,344	(6,609)	(3,754)	(26,374)
Credit/(charge)to other comprehensive income	106	(3,571)	18	–	(3,447)
At June 30, 2020 (Unaudited)	1,325,482	(92,470)	26,679	256,315	1,516,006

*Notes:*

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets as at June 30, 2020 and December 31, 2019. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets as at June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019, the Group has unused tax losses of approximately RMB1,025,260,000 (2019: approximately RMB1,040,276,000), 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.

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 25. OTHER ASSETS

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Other receivables and prepayments (Note (i))	5,934,555	3,964,479
Deposits paid for acquisitions of premises	–	245,776
Intangible assets (Note (ii))	23,065	22,890
Repossessed assets (Note (iii))	126,803	5,184
Other	327	255
	<b>6,084,750</b>	<b>4,238,584</b>

Notes:

(i) Other receivables and prepayments:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Other receivables and prepayments	6,032,215	4,065,139
Less: Provision for impairment losses	(100,660)	(100,660)
	<b>5,934,555</b>	<b>3,964,479</b>

Movements of allowance for impairment loss:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
At the beginning of the period/year	100,660	24,431
Impairment losses recognised	–	76,229
At the end of the period/year	<b>100,660</b>	<b>100,660</b>

At June 30, 2020 and December 31, 2019, the Group classifies all other receivables in Stage 1, and measures the loss allowance equal to 12-month ECL.

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 25. OTHER ASSETS (CONTINUED)

Notes: (Continued)

(ii) Movements of intangible assets:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
<b>Cost</b>		
At the beginning of the period/year	31,930	23,669
Additions	3,089	8,261
At the end of the period/year	35,019	31,930
<b>Accumulated amortisation</b>		
At the beginning of the period/year	9,040	4,661
Amortisation for the period/year	2,914	4,379
At the end of the period/year	11,954	9,040
<b>Carrying amounts</b>		
At the end of the period/year	23,065	22,890

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

(iii) Repossessed assets

No impairment loss has been recognised for repossessed assets for the six months ended June 30, 2020 and for the year ended December 31, 2019.

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 26. PLEDGED ASSETS

### (a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities mainly include discounted bills and debt securities, which are mainly for repurchase agreements. The carrying amounts of the financial assets pledged as collaterals as at June 30, 2020 are approximately RMB6,248,364,000 (2019: approximately RMB8,437,981,000).

### (b) Received pledged assets

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

## 27. BORROWINGS FROM THE CENTRAL BANK

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Borrowings	420,570	704,000
Re-discounted bills	1,278,388	1,612,353
	1,698,958	2,316,353

## 28. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Deposits from the following institutions operating in Mainland China		
– Banks	4,017,879	10,993,658
– Other financial institutions	2,245,810	1,863,758
	6,263,689	12,857,416
Deposits from the following institutions operating outside Mainland China		
– Banks	767,848	764,473
	7,031,537	13,621,889

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 29. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Placements from the following institutions operating in Mainland China		
– Banks	450,000	890,000

### 30. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
In Mainland China		
– Banks	3,860,656	5,168,580
– Other financial institutions	–	230,000
	<b>3,860,656</b>	<b>5,398,580</b>

(b) Analysed by collateral

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Debt securities	3,860,656	5,398,580

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 31. DEPOSITS FROM CUSTOMERS

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Demand deposits		
– Corporate customers	63,713,939	52,256,807
– Individual customers	25,292,329	26,216,993
	89,006,268	78,473,800
Time deposits		
– Corporate customers	23,781,364	19,771,679
– Individual customers	114,344,635	110,243,641
	138,125,999	130,015,320
Pledged deposits		
– Acceptances	9,917,881	10,308,646
– Guarantees and letters of guarantees	188,323	176,072
– Others	3,480,936	3,499,758
	13,587,140	13,984,476
Others	12,669,056	14,395,061
	253,388,463	236,868,657

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## Notes to the Condensed Consolidated Financial Statements

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### 32. ACCRUED STAFF COSTS

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Salary and bonus payable	255,262	444,004
Social pension schemes payable	29,262	8,148
Other social insurances payable	14,273	9,995
Supplementary retirement benefits payable	17,300	36,470
Other long-term staff welfare payable	31,193	6,870
	<b>347,290</b>	<b>505,487</b>

### 33. INTERESTS PAYABLE

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Deposits from customers	8,134,318	8,381,387
Deposits from banks and other financial institutions	99,448	184,333
Borrowings from the central bank	2,745	588
Debts securities issued	173,148	186,382
Others	2,046	8,811
	<b>8,411,705</b>	<b>8,761,501</b>

### 34. DEBT SECURITIES ISSUED

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Fixed rates financial bonds (Note (i))	3,999,050	5,998,191
Fixed rate tier-two capital bonds issued (Note (ii))	3,198,629	3,197,198
Interbank deposits (Note (iii))	28,702,842	30,263,784
	<b>35,900,521</b>	<b>39,459,173</b>



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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 34. DEBT SECURITIES ISSUED (CONTINUED)

Notes:

### (i) Fixed rates financial bonds

- (a) Fixed rates financial bonds for three tranche (the first tranche) at a face value of RMB1,000,000,000 with a term of three years were issued on March 10, 2017. The coupon rate is 4.67%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 4.71%. As at December 31, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,918,000. The fixed rates financial bonds were fully settled during the six months ended June 30, 2020.
- (b) Fixed rate financial bonds at a face value of RMB1,000,000,000 with a term of five years were issued on April 19, 2017. The coupon rate is 5.00%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 5.02%. As at June 30, 2020, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,606,000 (2019: RMB999,515,000).
- (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 RMB999,818,000. The fixed rate green financial bonds were fully settled during the six months ended June 30, 2020.
- (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 4.89%. As at June 30, 2020, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,499,938,000 (2019: RMB1,499,680,000)
- (e) Fixed rate financial bonds for the "three rurals" (the first tranche) at a face value of RMB1,500,000,000 with a term of three years were issued on May 25, 2018. The coupon rate is 4.87%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 4.88%. As at June 30, 2020, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,499,506,000. (2019: RMB1,499,260,000)

### (ii) Fixed rate tier-two capital bonds issued

Fixed rate tier-two capital bonds at a face value of RMB3,200,000,000 with a term of ten years were issued on December 11, 2015. The coupon rate is 5.10%. The Group has an option to redeem the debts on December 11, 2020 at the nominal amount. The effective interest rate per annum on the Group's tier-two capital bonds issued is 5.20%. As at June 30, 2020, the outstanding balance of this fixed rate tier-two capital bonds issued is approximately RMB3,198,629,000 (2019: approximately RMB3,197,198,000).

### (iii) Interbank deposits

- (a) During the six months ended June 30, 2020, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB18,610,000,000 and duration between 1 month to 1 year. As at June 30, 2020, the outstanding balance of interbank deposits issued is approximately RMB28,702,842,000. The ranges of effective interest rates per annum on the Group's interbank deposits issued are 1.40% to 3.20%.
- (b) 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 3 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%.

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 35. OTHER LIABILITIES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Other payable and accrued expenses	319,550	273,114
Clearance of inter-bank accounts	1,497,991	1,569,011
Agency business liabilities	57,801	37,499
Dividend payable	23,811	25,695
Other tax payables	117,010	129,109
Fiscal deposits	29,799	16,094
Provision for bank acceptances and letters of guarantees	34,957	26,354
Others	91,685	72,824
	2,172,604	2,149,700

### 36. SHARE CAPITAL

Share capital as at June 30, 2020 and December 31, 2019 are as follows:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Registered, issued and fully paid ordinary shares of RMB1 each:		
– Ordinary shares	10,069,791	10,069,791

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 37. RESERVES

#### (a) Capital reserve

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Share premium	4,339,584	4,339,584
Shareholders' injection (Note)	320,861	320,279
Changes in ownership in a subsidiary without change in control	554	554
	<b>4,660,999</b>	<b>4,660,417</b>

*Note:*

The promoters of the additional shares issued during the Bank's restructuring injected the Bank's net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Bank. Up to June 30, 2020, approximately RMB320,861,000 has been recorded as capital reserve (2019: approximately RMB320,279,000).

#### (b) Surplus reserve

The surplus reserve at June 30, 2020 and December 31, 2019 represented statutory surplus reserve fund and other surplus reserve. The statutory surplus reserve fund of the Group as at June 30, 2020 were approximately RMB1,560,835,000 (2019: approximately RMB1,560,835,000).

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 Ministry of the Finance of the PRC (the "MOF") in March 2012, the Group is required, in principle, to set aside a general reserve not lower than 1.5% of the balance of its gross risk-bearing assets at each year end.

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 38. DIVIDENDS

	At June 30, 2020 RMB'000 (Unaudited)	At June 30, 2019 RMB'000 (Unaudited)
2018 final dividend (Note (a))	–	1,029,365

Note:

- (a) Pursuant to the resolution of the shareholders meeting on June 4, 2019, the Bank declared cash dividends of approximately RMB0.1022 per share (tax included) based on 10,069,791,000 shares held amounting to approximately RMB1,029,365,000 during the six months ended June 30, 2019 (2020: nil).

### 39. STRUCTURED ENTITIES

#### (a) Consolidated structured entities

The consolidated structured entities of the Group mainly include principal-guaranteed wealth management products sponsored by the Bank. As at June 30, 2020, the amount of assets held by the consolidated principal-guaranteed wealth management products sponsored by the Bank amounted to approximately RMB19,982,000 (2019: approximately RMB314,176,000).

#### (b) Unconsolidated structured entities

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

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

The following table set out an analysis of the gross carrying amounts of interests held by the Group as at June 30, 2020 and December 31, 2019:

	At June 30, 2020			
	Financial assets at FVTPL RMB'000 (Unaudited)	Financial assets at amortised cost RMB'000 (Unaudited)	Carrying amount RMB'000 (Unaudited)	Maximum exposure RMB'000 (Unaudited)
Trust plans	1,944,865	18,221,800	20,166,665	20,166,665
Asset management plans	19,489,568	12,820,421	32,309,989	32,309,989
Asset-backed securities issued by bank and other institutions	–	50,000	50,000	50,000
Investment funds	7,885,599	–	7,885,599	7,885,599
Wealth management products issued by Banks	1,600,000	–	1,600,000	1,600,000
	<b>30,920,032</b>	<b>31,092,221</b>	<b>62,012,253</b>	<b>62,012,253</b>

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 39. STRUCTURED ENTITIES (CONTINUED)

### (b) Unconsolidated structured entities (Continued)

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

	At December 31, 2019			
	Financial assets at FVTPL RMB'000 (Audited)	Financial assets at amortised cost RMB'000 (Audited)	Carrying amount RMB'000 (Audited)	Maximum exposure RMB'000 (Audited)
Trust plans	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

- (ii) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in as at June 30, 2020 and December 31, 2019:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at June 30, 2020, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the consolidated statements of financial positions.

As at June 30, 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are approximately RMB19,166,319,000 (2019: approximately RMB21,351,716,000).

- (iii) Unconsolidated structured entities sponsored by the Group during the year which the Group do not have an interest in as at June 30, 2020 and December 31, 2019:

During the six months ended June 30, 2020, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before June 30 amounted to RMB8,250,615,000.

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.

## 40. CAPITAL MANAGEMENT

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

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

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

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

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2020 in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

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

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's interim financial statements prepared in accordance with PRC GAAP. During the period/year ended June 30, 2020 and December 31, 2019, 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 and periods.

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 40. CAPITAL MANAGEMENT (CONTINUED)

The Group's capital adequacy ratios as at June 30, 2020 and December 31, 2019 calculated in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBRC are as follows:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Total core tier-one capital		
Share capital	10,069,791	10,069,791
Qualifying portion of capital reserve	4,660,999	4,660,417
Defined benefit plan reserve	(3,451)	(3,399)
Investment revaluation reserve	229,862	219,469
Surplus reserve	1,560,835	1,560,835
General reserve	4,471,044	4,471,044
Retained earnings	4,044,999	3,678,816
Qualifying portions of non-controlling interests	32,881	17,548
Core tier-one capital deductions (Note)	(233,706)	(253,804)
Net core tier-one capital	24,833,254	24,420,717
Eligible portion of non-controlling interests	2,346	2,340
Net tier-one capital	24,835,600	24,423,057
Tier-two capital		
Qualifying portion of tier-two capital instruments issued	3,198,629	3,197,198
Surplus provision for loan impairment	1,237,824	1,500,281
Eligible portion of non-controlling interests	5,386	4,680
Net capital base	29,277,439	29,125,216
Total risk weighted assets	251,762,607	246,207,977
Core tier-one capital adequacy ratio	9.86%	9.92%
Tier-one capital adequacy ratio	9.86%	9.92%
Capital adequacy ratio	11.63%	11.83%

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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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 41. CASH AND CASH EQUIVALENTS

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

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Cash on hand	621,591	405,812
Deposits with the central bank	1,864,480	4,533,697
Deposits with banks	2,281,517	3,967,542
Financial assets held under resale agreements	18,749,015	16,263,996
<b>Total</b>	<b>23,516,603</b>	<b>25,171,047</b>

### 42. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS

#### (a) Related parties

##### (i) Major shareholders

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

Shareholding in the Bank:

	At June 30, 2020 (Unaudited)	At December 31, 2019 (Audited)
Gansu Province Highway Aviation Tourism Investment Group Co., Ltd.	12.49%	12.49%
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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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 42. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

### (a) Related parties (Continued)

#### (ii) Other related parties

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

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

#### (i) Transactions between the Bank and subsidiary

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

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

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Transactions during the period		
Interest income	30,230	7,854
Interest expense	31,965	9,857

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 42. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

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

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Balances at end of the period/year		
Loans and advances to customers	1,000,000	800,000
Deposits from customers	5,506,973	2,610,312
Financial assets at FVTOCI	353,058	347,513
Interests payable	863	11,471

(iii) Transactions between the Group and other related parties

	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Transactions during the period		
Interest income	145,704	56,637
Interest expense	80,807	28,855

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Balances at end of the period/year		
Loans and advances to customers	6,285,238	5,463,865
Deposits from customers	14,881,706	4,382,043
Deposits from banks and other financial institutions	69,371	597,971
Interests payable	5,693	2,928

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 42. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

### (c) Key management personnel

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

#### (i) Transactions between the Group and key management personnel

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Transactions during the period		
Interest income	–	260
Interest expense	1	9

	At June 30,	At December 31,
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Balances at end of the period/year		
Deposits from customers	1,397	3,727
Loan and advance to customer	–	2,065

#### (ii) Key management personnel compensation

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

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries and allowances	1,523	1,440
Retirement benefits scheme contributions	747	650
Discretionary bonuses	829	1,786
	3,099	3,876

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

During the six months ended June 30, 2020, there is no loans and advances to directors, supervisors and officers of the Group (2019: RMB2,065,000).

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 43. SEGMENT REPORTING

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

#### Corporate banking

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

#### Retail banking

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

#### Financial market operations

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

#### Others

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

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

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net 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, right-of-use assets and intangible assets.

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 43. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities

	Six months ended June 30, 2020				
	Corporate banking RMB'000 (Unaudited)	Retail banking RMB'000 (Unaudited)	Financial market operations RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Operating income					
External net interest income/(expense)	2,262,336	(1,418,193)	1,643,666	-	2,487,809
Internal net interest (expense)/income	(825,497)	2,014,971	(1,189,474)	-	-
Net interest income	1,436,839	596,778	454,192	-	2,487,809
Net fee and commission income	121,642	26,801	8,929	29,141	186,513
Net trading gains	-	-	498,285	-	498,285
Net gains arising from investment securities	-	-	7,030	-	7,030
Net exchange gain	-	-	-	66,145	66,145
Other operating expense, net	-	-	-	(2,384)	(2,384)
Operating income	1,558,481	623,579	968,436	92,902	3,243,398
Operating expenses	(460,440)	(184,231)	(286,116)	(27,447)	(958,234)
Impairment losses on assets	(1,418,745)	(193,253)	(269,226)	(8,603)	(1,889,827)
Operating (loss)/profit	(320,704)	246,095	413,094	56,852	395,337
Share of profit of an associate	-	-	-	617	617
(Loss)/profit before tax	(320,704)	246,095	413,094	57,469	395,954
Segment assets	112,690,769	36,905,009	186,922,645	591,894	337,110,317
Deferred tax assets	-	-	-	1,608,476	1,608,476
Total assets	112,690,769	36,905,009	186,922,645	2,200,370	338,718,793
Segment liabilities	102,901,205	147,138,391	63,421,979	72,483	313,534,058
Dividend payable	-	-	-	23,811	23,811
Deferred tax liabilities	-	-	-	92,470	92,470
Total liabilities	102,901,205	147,138,391	63,421,979	188,764	313,650,339
Other segment information					
- Depreciation and amortisation	91,740	30,044	152,174	1,791	275,749
- Capital expenditure	117,187	38,376	194,380	2,288	352,231

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 43. SEGMENT REPORTING (CONTINUED)

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

	Six months ended June 30, 2019				
	Corporate banking RMB'000 (Unaudited)	Retail banking RMB'000 (Unaudited)	Financial market operations RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Operating income					
External net interest income/(expense)	2,549,741	(1,133,672)	1,456,133	-	2,872,202
Internal net interest (expense)/income	(585,806)	1,873,152	(1,287,346)	-	-
Net interest income	1,963,935	739,480	168,787	-	2,872,202
Net fee and commission income	75,624	17,695	10,281	9,727	113,327
Net trading gains	-	-	852,617	-	852,617
Net gains arising from investment securities	-	-	15,457	-	15,457
Net exchange gain	-	-	-	8,467	8,467
Other operating expense, net	-	-	-	(4,141)	(4,141)
Operating income	2,039,559	757,175	1,047,142	14,053	3,857,929
Operating expenses	(496,932)	(184,483)	(255,134)	(5,044)	(941,593)
Impairment losses on assets	(1,848,500)	(113,476)	(333,855)	6,152	(2,289,679)
Operating (loss)/profit	(305,873)	459,216	458,153	15,161	626,657
Share of loss of an associate	-	-	-	(2,314)	(2,314)
(Loss)/profit before tax	(305,873)	459,216	458,153	12,847	624,343
Segment assets	112,327,414	33,124,610	195,272,726	43,051	340,767,801
Deferred tax assets	-	-	-	2,023,530	2,023,530
Total assets	112,327,414	33,124,610	195,272,726	2,066,581	342,791,331
Segment liabilities	96,344,032	134,079,968	86,506,403	13,980	316,944,383
Dividend payable	-	-	-	1,037,898	1,037,898
Deferred tax liabilities	-	-	-	100,333	100,333
Total liabilities	96,344,032	134,079,968	86,506,403	1,152,211	318,082,614
Other segment information					
- Depreciation and amortisation	122,205	56,113	35,508	14,565	228,391
- Capital expenditure	44,942	38,198	28,296	12,371	123,807

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 43. SEGMENT REPORTING (CONTINUED)

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

	As at December 31, 2019				
	Corporate banking RMB'000 (Audited)	Retail banking RMB'000 (Audited)	Financial market operations RMB'000 (Audited)	Others RMB'000 (Audited)	Total RMB'000 (Audited)
Segment assets	110,799,219	34,861,870	187,318,644	421,682	333,401,415
Deferred tax assets	-	-	-	1,643,070	1,643,070
<b>Total assets</b>	<b>110,799,219</b>	<b>34,861,870</b>	<b>187,318,644</b>	<b>2,064,752</b>	<b>335,044,485</b>
Segment liabilities	87,806,823	144,295,260	78,092,012	38,450	310,232,545
Dividend payable	-	-	-	25,695	25,695
Deferred tax liabilities	-	-	-	97,243	97,243
<b>Total liabilities</b>	<b>87,806,823</b>	<b>144,295,260</b>	<b>78,092,012</b>	<b>161,388</b>	<b>310,355,483</b>

(b) Geographical information

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

(c) Information about major customers

During the six months ended June 30, 2020 and 2019, no operating income from a customer contributes over 10% of the total operating income of the Group.

## 44. FAIR VALUE OF FINANCIAL INSTRUMENTS

### (a) Methods and assumptions for measurement of fair value

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

#### (i) Debt securities

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

#### (ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at June 30, 2020 and December 31, 2019.

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

Fair values of debt securities issued are based on the present value of estimated future cash flows at June 30, 2020 and December 31, 2019. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at June 30, 2020 and December 31, 2019.

### (b) Fair value measurement

#### (i) Financial assets

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

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

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

The carrying amount and fair value of financial assets at amortised cost are disclosed in Note 16 and the carrying value of debt securities classified as receivables approximate to their fair value.

#### (ii) Financial liabilities

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



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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

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

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

	At June 30, 2020			
	Level 1	Level 2	Level 3	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>Assets</b>				
Financial assets at FVTPL				
– Debt securities held for trading	–	2,441,466	–	2,441,466
– Trust plans	–	1,944,865	–	1,944,865
– Asset management plans	–	19,489,568	–	19,489,568
– Investment funds	–	7,885,599	–	7,885,599
– Wealth management products issued by Banks	–	1,600,000	–	1,600,000
– Other debt securities	–	18,945	–	18,945
Financial assets at FVTOCI				
– Debt instruments at FVTOCI	–	13,402,178	–	13,402,178
– Unlisted equity investments measured at FVTOCI	–	–	315,094	315,094
	–	46,782,621	315,094	47,097,715

	At December 31, 2019			
	Level 1	Level 2	Level 3	Total
	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)
<b>Assets</b>				
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

During the six months ended June 30, 2020, there were no significant transfers among each level (2019: nil).

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# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 44. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Fair value hierarchy (Continued)

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

Financial assets	Fair value as at,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of key inputs and significant unobservable inputs to fair value
	June 30, 2020	December 31, 2019				
	RMB'000	RMB'000				
<b>Financial assets at FVTPL</b>						
Debt securities – listed	2,441,466	1,210,450	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model	N/A	N/A
Trust plans	1,944,865	4,305,588	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
Asset management plans	19,489,568	24,013,317	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
Investment funds	7,885,599	6,887,405	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
Wealth management products issued by Banks	1,600,000	–	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
Other debt securities	18,945	313,139	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
<b>Financial assets at FVTOCI</b>						
Debt securities – listed	13,402,178	14,766,353	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	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.

# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 45. ENTRUSTED LENDING BUSINESS

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

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Entrusted loans	3,928,442	4,250,235
Entrusted funds	3,928,442	4,250,250

### 46. COMMITMENTS

#### (a) Credit commitments

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

The Group provides 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.

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Acceptance bills	21,657,500	22,576,503
Letters of guarantees	2,096,880	1,510,474
Unused credit card commitments	4,619,677	872,439
Letters of credit	226,903	40,387
	28,600,960	24,999,803

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

## Chapter 9

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

## 46. COMMITMENTS (CONTINUED)

### (b) Capital commitments

At June 30, 2020 and December 31, 2019, the Group's authorised capital commitments are as follows:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Purchase of property and equipment – Contracted for but not provided	60,271	15,979

## 47. CONTINGENT LIABILITIES

The Bank and its subsidiary are involved as defendants in certain lawsuits arising from their normal business operations. As at June 30, 2020, in light of court decisions or advice from legal counsels, the directors of the Bank considered it not necessary to provide for potential losses from these claims. The directors of the Bank believe, based on legal advices, the final result of the lawsuits will not have any material impact on the financial position or operations of the Group.

# Chapter 9

## Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

### 48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	At January 1, 2020 RMB'000	Financing cash flows RMB'000	Non-cash change		At June 30, 2020 RMB'000
			New lease arrangement entered RMB'000	Finance cost incurred RMB'000	
<b>Liabilities</b>					
Debt securities issued (Note 34)	39,459,173	(4,080,915)	–	522,263	35,900,521
Dividend payable (Note 35)	25,695	(1,884)	–	–	23,811
Lease liabilities (Note 23)	283,931	(63,366)	69,089	3,139	292,793
Interests payable on debt securities issued (Note 33)	186,382	(218,750)	–	205,516	173,148
	<b>39,955,181</b>	<b>(4,364,915)</b>	<b>69,089</b>	<b>730,918</b>	<b>36,390,273</b>

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

# Chapter 10 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

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

## 1. LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (%)

	At June 30, 2020	Average for the six months ended June 30, 2020
Liquidity coverage ratio (RMB and foreign currency)	216.43%	204.94%

	At December 31, 2019	Average for the year ended December 31, 2019
Liquidity coverage ratio (RMB and foreign currency)	199.59%	194.49%

### Leverage Ratio

	At June 30, 2020
Leverage Ratio (RMB and foreign currency)	6.90%

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

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

## Chapter 10 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

### 2. CURRENCY CONCENTRATIONS

	At June 30, 2020		
	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	4,172,208.9	485,376.9	4,657,585.8
Spot liabilities	(27,585.0)	(55,421.1)	(83,006.1)
Net position	4,144,623.9	429,955.8	4,574,579.7

	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

The above information is computed in accordance with the provisions of the CBIRC. The Group has no structural position as at June 30, 2020 and December 31, 2019.

### 3. INTERNATIONAL CLAIMS

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

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

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

	At June 30, 2020	At December 31, 2019
Deposit with banks		
Asia Pacific excluding mainland China	196,929	263,815
Europe	–	–
	196,929	263,815



## Chapter 10 Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

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

	At June 30, 2020	At December 31, 2019
Gansu Region	2,562,470	2,995,809
Mainland China excluding Gansu Region	1,267,920	960,451
Total	3,830,390	3,956,260

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

	At June 30, 2020	At December 31, 2019
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)	1,047,265	1,046,565
– Between six months and one year (inclusive)	1,366,222	2,021,829
– Between one year and three years	1,233,723	720,941
– Over three years	183,180	166,925
Total	3,830,390	3,956,260
As a percentage of total gross loans and advances		
– Between three months and six months (inclusive)	0.60%	0.61%
– Between six months and one year (inclusive)	0.79%	1.19%
– Between one year and three years	0.71%	0.42%
– Over three years	0.11%	0.10%
Total	2.21%	2.32%

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

### 6. NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. At June 30, 2020 and December 31, 2019, substantial amounts of the Bank's exposures arose from businesses with mainland China entities or individuals.



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