



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

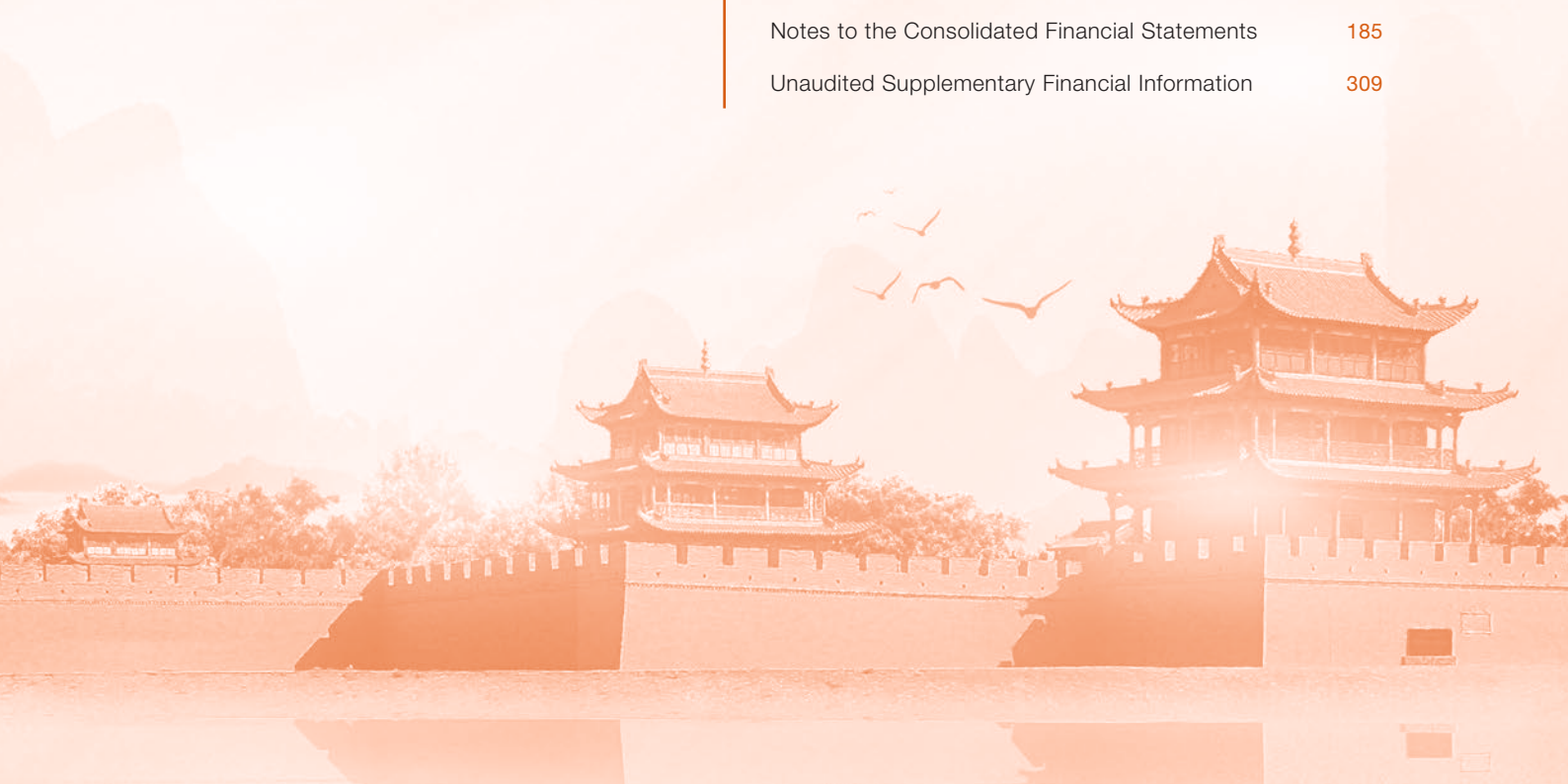
# 2020 ANNUAL REPORT



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

# Contents

Chairman's Statement	2
President's Statement	4
Definitions	6
Company Profile	12
Financial Highlights	16
Management Discussion and Analysis	20
Report of the Board of Directors	71
Work Report of the Board of Supervisors	92
Changes in Share Capital and Particulars of Shareholders	99
Directors, Supervisors, Senior Management, Employees and Organizations	103
Corporate Governance Report	124
Risk Management, Internal Control and Internal Audit	158
Independent Auditor's Report	170
Consolidated Statement of Profit or Loss and other Comprehensive Income	177
Consolidated Statement of Financial Position	179
Consolidated Statement of Changes in Equity	181
Consolidated Statement of Cash Flows	183
Notes to the Consolidated Financial Statements	185
Unaudited Supplementary Financial Information	309



# Chairman's Statement



**Liu Qing**

*Chairman of the Board of Directors*

## Chairman's Statement

It's a time full of challenge; it's a time of great opportunities.

The year that had just passed was an eventful one. The journey ahead to success has never been smooth sailing, but we never fear, just face difficulties with confidence. In the face of the "once-in-a-century" COVID-19 pandemic, we always put peoples' lives first and joined hands to fight against the pandemic, which ensured the health and safety of our customers and staff. In the face of various difficulties and challenges, we upheld the leadership of the Communist Party of China, stuck together against the hardship, which powered the steady development of our business.

The year that had just passed was an extraordinary one. In the face of the pandemic in conjunction with unprecedented change in a century, we worked together as responsible partners to support each other, we stood up for who we are to serve various entities, we spared no efforts to implement the tasks of ensuring "stability on the six fronts (namely, employment, financial sector, foreign trade, foreign and domestic investments, and market expectations)" and "security in the six areas (namely, employment, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments)", playing a vital role as a local bank in the resumption of work and production. Bearing the mission of building a moderately prosperous society in all respects in our minds, we, Bank of Gansu, joined in the efforts in targeted poverty alleviation with the determination of "never retreating until we achieve victory", contributing to the historical achievements of poverty alleviation.

The year that had just passed was a remarkable one. Despite of the hardship, we held the firm and indomitable spirit, persevered and worked hard and never gave up, forging ahead towards our goals. The corporate governance was continuously improved, the capital and share increase successfully completed, the quality of assets was steadily improved and the business structure was continuously optimized, with improvement being achieved in all work. We adapted to the times and proactively sought development, actively promoted digitalization transformation and accelerated the implementation of second online bank. We cemented our foundations and improved our mechanisms, and reinforced the weak links during our development. We adhered to our core businesses while continuing to innovate, we deepened reform, steadily promoted the construction of "five major systems" and carefully devised our five-year development plan, with new momentum being accumulated and new vitality produced.

During the year, we dealt with difficulties and rose up to challenges with full confidence. We kept growing during the course of providing service to various entities, and kept chasing our dreams by deepening reform. The Bank ranked 331st among "Top 1000 World Banks 2020" and 57th among domestic banks by The Banker (a British magazine) and received the Provincial Governor Financial Award for the seventh time. We appreciate all efforts and dedication, we are grateful to all shareholders for their understanding and trust, and all walks of life for their care and support.

The path is long and full of obstacles which we will eventually navigate through as we launch our journey. The year 2021 is the first year of the "14th Five-Year Plan", a year of special importance in the process of modernization of our country and the tenth anniversary of the founding of the Bank, and the new journey will be accompanied with new opportunities and challenges. We will hold high the great banner of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, uphold the strong leadership of the provincial Party committee and the provincial government, and follow the general principle of making progresses while maintaining stability. We will start with new stage of development, implement new development concept and adapt to new development structure, to seize and make good use of those rare overlapping multiple opportunities, and make overall planning for the promotion of "strengthening Party building, reinforce weak links, cementing foundation, adjusting structure, preventing risks, improving efficiency, and promoting development". We will maintain a down-to-earth attitude and work hard to realize our dreams and achieve our goals, to write a new chapter for the high-quality development of the Bank of Gansu, and celebrate the 100th anniversary of the founding of the Communist Party of China with excellent results.



*Chairman of the Board of Directors*  
Liu Qing

# President's Statement



Wang Wenyong  
*Executive Director, President*

## President's Statement

Time flies in the blink of an eye. 2020 was an extraordinary year for the development of Bank of Gansu. In the face of the complexed and evolving external economic situation and the difficult mission of internal stabilization and development, we adhered to our first priority of development, the hardship, turned crises into opportunities, stayed together as one team, forged ahead to grow our scale of asset in stability. Our capital strength has significantly enhanced, the operating efficiency has been stabilized and has rebounded with a preliminary result of business transformation, facilitated new development for various businesses to achieve new results and move forward with stronger confidence and higher morale.

Over the past year, we upheld the nature as a financial service entity, insisted on the “customer-oriented” service philosophy, consolidated the work of ensuring “stability on the six fronts” and comprehensively implemented the mission of ensuring “security in the six areas”, continuously enhanced the financial service capability, deepened the overall cooperation with key customers, and contributed to the society with a grateful heart, effecting our loyalty and dedicating ourselves to the economy of Gansu. We are committed to maintaining our market competitiveness in the region. With a striving attitude, a sprinting gesture and a determination to win, we sailed against the current and forged ahead with a stable development of our main businesses. The general deposit and saving deposits ranked No. 3 in the province. The balance and addition of corporate deposit ranked first in the province with a growth of revenue from intermediary businesses by 30%, writing an excellent chapter for the continuous stable development of Bank of Gansu in the intensely competitive market. We focused on the improvement of high-quality development capability, completed the capital increase and enlargement of share capital, steadily promoted the strategies of mobile-end and retail-end taking priority, accelerated the construction of “Second Online Bank” and comprehensively built the five major systems, steadily improved the capital, risk control, business innovation, technological support and sustainability capabilities, making progress while maintaining stability.

After all the ups and downs, we have become more determined to move forward and we anticipate a long way to go. 2021 is the first year for Bank of Gansu to implement the strategic planning for the five-year development. We will be positioned at a new development stage, focusing on high quality strengthening the party building, resolving the weaknesses, consolidating the foundation, adjusting the structure, preventing risks, increasing efficiency and facilitating development. With a never-give-up spirit and a striving attitude, we will capture the opportunities with collective wisdom, consolidate our foundation with growth, focus on the main businesses and adjust the structure, strictly adhere to our bottom line and prevent risks, carry out renovation reform and increase efficiency, facilitating development with concerted efforts. In a new journey and at a new starting point, we will continue to strive hard, perform well and endeavor to create a new chapter for the high-quality development of Bank of Gansu.



*Executive Director, President*  
Wang Wenyong

# Definitions

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

“Articles of Association” or “Articles”	the articles of association of the Bank
“Baiyin City Commercial Bank”	the former Baiyin City Commercial Bank Co., Ltd. (白銀市商業銀行股份有限公司). In May 2011, 25 legal entities, all shareholders of Baiyin City Commercial Bank and all shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“Bank” 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

“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for in Renminbi or credited as paid
“Gansu Electric Power Investment”	Gansu Province Electric Power Investment Group Co., Ltd. (甘肅省電力投資集團有限公司), a company incorporated in the PRC on July 16, 1990, and a wholly-owned subsidiary of Gansu State-owned Assets Investment. As of December 31, 2020 and up to the Latest Practicable Date, Gansu Electric Power Investment held approximately 4.21% equity interests in the Bank
“Gansu Highway Aviation Tourism”	Gansu Province Highway Aviation Tourism Investment Group Co., Ltd (甘肅省公路航空旅遊投資集團有限公司), a company incorporated in the PRC on December 24, 1999, which is wholly-owned by Gansu SASAC. As of December 31, 2020 and up to the Latest Practicable Date, Gansu Highway Aviation Tourism held approximately 18.30% equity interests in the Bank. It is a substantial Shareholder and connected person of the Bank
“Gansu SASAC”	the State-owned Assets Supervision and Administration Commission of the Gansu Provincial Government (甘肅省人民政府國有資產監督管理委員會)
“Gansu State-owned Assets Investment”	Gansu Province State-owned Assets Investment Group Co., Ltd. (甘肅省國有資產投資集團有限公司), a company incorporated in the PRC on November 23, 2007, and 84% of its equity interest owned by Gansu SASAC and 16% of its equity interest owned by Jiuquan Iron & Steel. As of December 31, 2020 and up to the Latest Practicable Date, it directly held approximately 12.67% equity interests in the Bank, and indirectly held approximately 10.74% equity interests in the Bank through its subsidiaries, including Gansu Electric Power Investment and Jinchuan Group. It is a substantial Shareholder and connected person of the Bank
“GDP”	gross domestic product
“GRC system”	the internal control, compliance and operational risk management system
“green finance”	economic activities supporting environmental improvements, climate change, conservation and high efficiency utilization of resources, including financial services for project investment, financing, operation and risk management in environmental protection, energy conservation, clean energy, green transportation and green architecture



## Definitions

“H Share(s)”	ordinary shares issued by the Bank in Hong Kong, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed and traded on the Hong Kong Stock Exchange
“HK\$”, “HKD” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKMA”	the Hong Kong Monetary Authority
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (香港聯合交易所有限公司證券上市規則), as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards, International Accounting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“independent third party”	a person or entity not considered a connected person or an associate of a connected person of the Bank under the Hong Kong Listing Rules
“Jinchuan Group”	Jinchuan Group Co., Ltd. (金川集團股份有限公司), a company incorporated in the PRC on September 28, 2001, of which Gansu State-owned Assets Investments is its largest shareholder, holding 47.97% of its equity interests. As of December 31, 2020 and up to the Latest Practicable Date, Jinchuan Group held approximately 6.53% equity interests in the Bank
“Jingning Chengji Rural Bank”	Pingliang Jingning Chengji Rural Bank Co., Ltd., a joint stock company with limited liability incorporated in the PRC on September 18, 2008 and a subsidiary of the Bank
“Jiuquan Iron & Steel”	Jiuquan Iron & Steel (Group) Co., Ltd. (酒泉鋼鐵(集團)有限責任公司), a company incorporated in the PRC on May 26, 1998, and 68.42% of its equity interest owned by Gansu SASAC and 31.58% of its equity interest owned by Gansu State-owned Assets Investment. As of December 31, 2020 and up to the Latest Practicable Date, Jiuquan Iron & Steel held approximately 6.53% equity interests in the Bank
“Latest Practicable Date”	March 29, 2021, the latest practicable date for ascertaining certain information in this annual report before its publication

“Listing”	the listing of H Shares of the Bank on the Hong Kong Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“non-standard credit assets”	credit assets that are not traded on the interbank markets or stock exchanges, which for the purpose of this annual report represents our investments in trust plans, asset management plans and wealth management products issued by other financial institutions
“NPL ratio” or “non-performing loan ratio”	the percentage ratio calculated by dividing non-performing loans by total loans
“NPLs” or “non-performing loans”	loans classified as substandard, doubtful and loss according to the five-category loan classification system of the Bank
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pingliang City Commercial Bank”	the former Pingliang City Commercial Bank Co., Ltd. (平涼市商業銀行股份有限公司). In May 2011, 25 legal entities, all shareholders of Baiyin City Commercial Bank and all shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“PRC” or “China”	the People’s Republic of China, but for the purpose of this annual report only, excluding Hong Kong, Macau and Taiwan, unless otherwise specified in the context
“PRC Commercial Banking Law”	the Commercial Banking Law of the PRC (《中華人民共和國商業銀行法》), which was promulgated by the 13th meeting of the Standing Committee of the 8th National People’s Congress on May 10, 1995 and became effective on July 1, 1995, as amended, supplemented or otherwise modified from time to time
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as amended and adopted by the Standing Committee of the 10th National People’s Congress on October 27, 2005 and 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 Ministry of Finance of the PRC on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time

## Definitions

“PRC Securities Law”	the Securities Laws of the PRC (《中華人民共和國證券法》), as promulgated by the 6th meeting of the Standing Committee of the 9th National People’s Congress on December 29, 1998 and previously modified upon approval by the Standing Committee of the 13th National People’s Congress on December 28, 2019, as amended, supplemented or otherwise modified from time to time
“provincial urban commercial bank(s)”	local urban commercial bank(s), whose establishment was promoted by the provincial government
“related party(ies)”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》) promulgated by the former CBRC, the PRC GAAP and/or IFRSs
“related party transaction(s)”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders promulgated by the former CBRC, the PRC GAAP and/or IFRSs
“Reporting Period”	the year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each
“subsidiary(ies)”	has the meaning ascribed to it under Rule 1.01 of the Hong Kong Listing Rules
“Supervisor(s)”	the supervisor(s) of the Bank
“three rurals”	rural areas, agriculture and farmers

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

In this annual report:

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

# Company Profile

## I. BASIC INFORMATION OF THE COMPANY

Legal Name of the Company in Chinese	:	甘肅銀行股份有限公司
Legal Name of the Company in English	:	Bank of Gansu Co., Ltd.
Legal Representative	:	Liu Qing
Authorized Representatives	:	Liu Qing, Wong Wai Chiu
Secretary to the Board of Directors	:	Hao Jumei
Company Secretary	:	Wong Wai Chiu
Registered Address	:	No. 122, Gannan Road, Chengguan District, Lanzhou City, Gansu Province, the PRC
Principal Office Address	:	Gansu Bank Building, 525-1 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC
Customer Service Hotline	:	+86 400 86 96666
Telephone	:	+86 931 877 1815
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, Dah Sing Financial Centre, 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 Annual Report	:	Office of the Board of the Bank

## II. HISTORY OF THE BANK

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

The registered address of the Bank is No. 122, Gannan Road, Chengguan District, Lanzhou City, Gansu Province, the PRC. The Bank has established a principal place of business in Hong Kong at 40/F, Dah Sing Financial Centre, 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 Mr. Wong Wai Chiu as the Bank's authorized representative for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Bank in Hong Kong is the same as the Bank's principal place of business in Hong Kong.

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

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

## Company Profile

### III. AWARDS OF THE BANK IN 2020

Awards and Honors	Awarding Party/Media
Ranked 331st among the 2020 Top 1,000 World Banks (58th among Chinese banks)	The Banker Magazine
2020 China Fintech Innovation Competition-Gold Award for Integrated Smart Platform (2020中國金融科技創新大賽－綜合智能平台金獎)	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 & Custody 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
Tianji Award for the Banking Fintech Innovation Project of 2020 (2020年度銀行金融科技創新項目天璣獎)	Securities Times
National Advanced Collective of Internal Audit from 2017 to 2019 (2017年至2019年全國內部審計先進集體)	China Institute of Internal Audit
The Best Green Financial Innovation Award of 2020 (2020最佳綠色金融創新獎)	The 17th China International Finance Forum
Outstanding Contribution Award for Financial Technology Innovation of 2020 (2020年度金融科技創新突出貢獻獎)	Periodical Office of Financial Computerizing

Awards and Honors	Awarding Party/Media
2019 Provincial Governor Financial Award (2019年度省長金融獎)	The People's Government of Gansu Province
Top 10 of China's Direct Banking in 2020 (2020年度中國直銷銀行排行榜前十名)	Internet Weekly
China Financial Innovation Award in 2020 – Top 10 Fintech Innovation Awards (2020年中國金融創新獎 – 十佳金融科技創新獎)	The Banker Magazine
Excellent Case Award of Product Communication of 2020 (2020年度產品優秀傳播案例獎)	China Banking and Insurance News



# Financial Highlights

## FIVE-YEAR FINANCIAL DATA

(Expressed in millions of RMB, unless otherwise stated)	2020	2019	2018	2017	2016
<b>Results of operations</b>					
Interest income	14,752.9	14,380.0	15,327.1	14,045.8	12,063.0
Interest expense	(9,002.5)	(9,092.1)	(8,199.3)	(6,560.8)	(5,392.8)
<b>Net interest income</b>	<b>5,750.4</b>	<b>5,287.9</b>	<b>7,127.8</b>	<b>7,485.0</b>	<b>6,670.2</b>
Fee and commission income	379.3	357.6	362.7	462.8	327.4
Fee and commission expenses	(50.4)	(104.4)	(196.6)	(86.1)	(71.1)
<b>Net fee and commission income</b>	<b>328.9</b>	<b>253.2</b>	<b>166.1</b>	<b>376.7</b>	<b>256.3</b>
Net trading gains/(losses)	716.3	1,489.8	1,089.2	(21.9)	(8.0)
Net (losses)/gains arising from investment securities	(1.4)	131.2	42.7	116.9	–
Net exchange (losses)/gains	(279.7)	68.9	388.2	(13.2)	9.9
Other operating (expenses)/income, net	(21.2)	2.3	58.2	109.0	42.5
<b>Operating income</b>	<b>6,493.3</b>	<b>7,233.3</b>	<b>8,872.2</b>	<b>8,052.5</b>	<b>6,970.9</b>
Operating expenses	(2,319.5)	(2,356.5)	(2,271.0)	(2,052.2)	(1,903.8)
Impairment losses on assets, net of reversals	(3,754.5)	(4,312.0)	(1,962.4)	(1,523.0)	(2,504.4)
<b>Operating profit</b>	<b>419.3</b>	<b>564.8</b>	<b>4,638.8</b>	<b>4,477.3</b>	<b>2,562.7</b>
Share of result of an associate	1.3	(0.1)	(1.0)	1.8	1.9
<b>Profit before tax</b>	<b>420.6</b>	<b>564.7</b>	<b>4,637.8</b>	<b>4,479.1</b>	<b>2,564.6</b>
Income tax credit/(expense)	141.8	(53.4)	(1,198.2)	(1,115.4)	(643.6)
<b>Profit for the year</b>	<b>562.4</b>	<b>511.3</b>	<b>3,439.6</b>	<b>3,363.7</b>	<b>1,921.0</b>
<b>Profit for the year attributable to:</b>					
– Owners of the Bank	558.2	509.1	3,435.3	3,358.5	1,917.0
– Non-controlling interests	4.2	2.2	4.3	5.2	4.0
<b>Profit for the year</b>	<b>562.4</b>	<b>511.3</b>	<b>3,439.6</b>	<b>3,363.7</b>	<b>1,921.0</b>

## Financial Highlights

(Expressed in millions of RMB, unless otherwise stated)	2020	2019	2018	2017	2016
<b>Major indicators of assets/liabilities</b>					
Total assets	342,363.8	335,044.5	328,622.4	271,147.6	245,056.4
Of which: total loans and advances to customers	181,825.7	170,449.2	160,885.3	130,283.6	107,855.1
Total liabilities	310,899.0	310,355.5	303,374.8	254,534.6	231,712.7
Of which: deposits from customers	249,677.7	236,868.7	210,723.3	192,230.6	171,165.3
Total equity	31,464.8	24,689.0	25,247.6	16,613.0	13,343.7
<b>Per Share (RMB)</b>					
Net assets per Share	2.09	2.45	2.51	2.21	1.77
Basic earnings per Share	0.06	0.05	0.35	0.45	0.25
Diluted earnings per Share	0.06	0.05	0.35	0.45	0.25
<b>Profitability indicators (%)</b>					
Return on assets <sup>(1)</sup>	0.17	0.15	1.15	1.30	0.84
Return on equity <sup>(2)</sup>	2.00	2.05	16.43	22.46	15.10
Net interest spread <sup>(3)</sup>	1.72	1.74	2.07	2.74	2.89
Net interest margin <sup>(4)</sup>	1.97	1.96	2.37	2.91	3.08
Net fee and commission income to operating income ratio <sup>(5)</sup>	5.07	3.50	1.87	4.68	3.68
Cost-to-income ratio <sup>(6)</sup>	34.30	31.53	24.72	24.81	25.16
<b>Capital adequacy indicators (%)</b>					
Core tier-one capital adequacy ratio <sup>(7)</sup>	12.85	9.92	11.01	8.71	8.58
Tier-one capital adequacy ratio <sup>(8)</sup>	12.85	9.92	11.01	8.71	8.58
Capital adequacy ratio <sup>(9)</sup>	13.39	11.83	13.55	11.54	11.80
Shareholders' equity to total assets ratio	9.19	7.37	7.68	6.13	5.45
<b>Assets quality indicators (%)</b>					
Non-performing loan ratio	2.28	2.45	2.29	1.74	1.81
Provision coverage ratio <sup>(10)</sup>	131.23	135.87	169.47	222.00	192.72
Provision to total loan ratio <sup>(11)(12)</sup>	2.99	3.33	3.89	3.86	3.48
<b>Other indicators (%)</b>					
Loan to deposit ratio <sup>(13)</sup>	72.82	71.96	76.35	67.77	63.01

# Financial Highlights

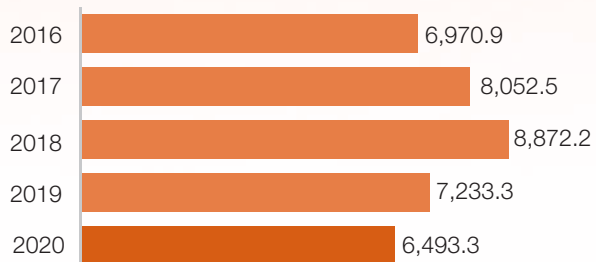
## Notes:

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

# Financial Highlights

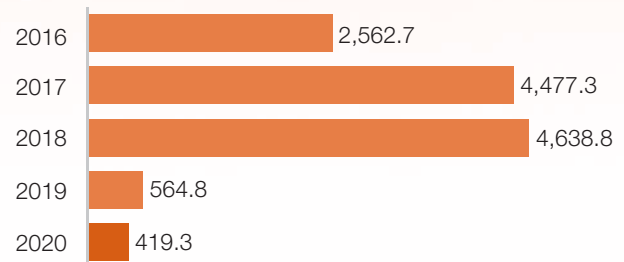
## Operating income

Unit: RMB in millions



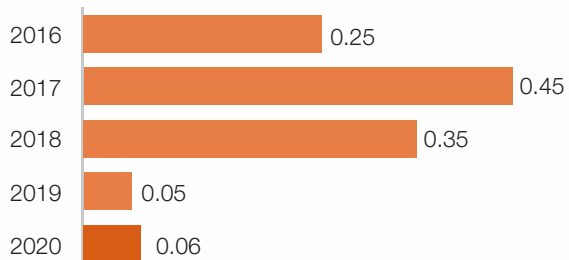
## Operating profit

Unit: RMB in millions



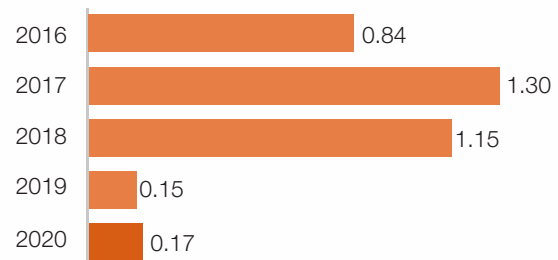
## Basic earnings per Share

Unit: RMB



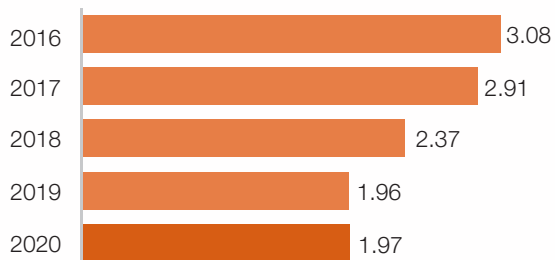
## Return on assets

Unit: %



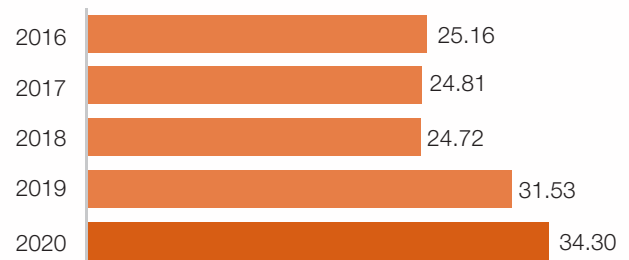
## Net interest margin

Unit: %



## Cost-to-income ratio

Unit: %



# Management Discussion and Analysis

## ENVIRONMENT AND PROSPECT

In 2020, COVID-19 pandemic damaged the global economy severely, causing the GDP of various countries to drop to historic low, and was described by the International Monetary Fund as the most serious recession since the Great Depression of the 1930s. China took solid steps to carry out the work of “Stability in Six Aspects” and comprehensively implement the tasks of “Guarantee for Six Areas”, and made full efforts to cope with the COVID-19 pandemic, achieving the main objectives in three major critical battles as scheduled. The robust monetary policy has played a positive role in sustaining the operations of market players and reducing the financing costs for the real economy, resulting in reasonable and sufficient market liquidity, while the proactive fiscal policy has promoted the economic recovery. China achieved an economic growth of 2.3% throughout the year, making it the only major economy in the world that has achieved positive growth. The economic operation of Gansu Province, where the Bank’s business activities are mainly located, has been stabilized and improved, realizing a growth rate of 3.9%, higher than that of most provinces and cities.

With challenges such as the accelerated opening-up of China’s banking industry, the tightening of the regulatory system, the overall decline in interest rates, the profound impact of fintech and the intensifying market competition, the weaknesses of urban commercial banks have been amplified, including weak development foundations, to-be-improved team capabilities and quality, extensive management, the lack of innovative capabilities and the left-behind digital transformation. Benefiting from the phased and structural “easy monetary” policy of the People’s Bank of China, the asset size of commercial banks has been expanded. However, credit risk prevention and control is a challenging task and the pressure is still a problem in the industry, and urban commercial banks are faced with the arduous task of risk prevention and control, as well as capital replenishment and profitability improvement.

In view of the overall domestic and international situation, the world today is undergoing major changes unprecedented in a century. The development of China remains in an important period of strategic opportunities, but there are new developments and changes in both opportunities and challenges. With the coexistence of opportunities and challenges, opportunities are hidden in and may emerge from crises. When entering a new stage of development and implementing the new development concept, China has established a new development pattern with domestic major cycle as the mainstay and mutual promotion of domestic and international dual cycle, which will inevitably accelerate the flow of various production factors to the western region and promote the transfer of industries from the eastern to the western region. Gansu is embracing an unprecedented historic development opportunity, which provides a sound external environment for the steady development of the Bank.

2021 is a year of special importance in the process of modernization, and also the first year for the Bank to implement the five-year strategic development plan. The Bank will adhere to its positioning, stay true to the founding mission, serve the real economy, seize the valuable overlapping opportunities, and deeply explore the unique advantages of local catch-up development, so as to promote the high-quality development of the Bank while better serving the development of Gansu Province.

### EVALUATION 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 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.

### DEVELOPMENT STRATEGY

The Bank will set value creation in a prominent position, continuously enhance profitability, further improve the management of assets and liabilities, and pay more attention to the balance of scale and efficiency, with a view to build itself into “a listed urban commercial bank with high-quality development and a comprehensive financial service provider of the first choice in the region”.

To achieve the aforesaid goals, the Bank plans to: (i) vigorously expand six strategic businesses, including retail finance, inclusive finance, corporate finance, municipal finance, financial market and asset management and special asset operation; (ii) continuously improve its core capabilities such as risk and internal control and compliance, assets and liabilities management, omni-channel management and digitalization; (iii) strengthen risk management and control and improve asset quality; (iv) promote the transformation of light capital and optimize the revenue structure; (v) give play to the advantages of provincial urban commercial banks and take the path of characteristics; (vi) strengthen customer management and enhance profit contribution; (vii) replenish capital in a timely manner based on development needs; and (viii) optimize the structure of the talent team to empower high-quality development.

# Management Discussion and Analysis

## OVERALL BUSINESS REVIEW

The Bank recorded a total operating income of RMB6,493.3 million in 2020, representing a decrease of 10.2% as compared to RMB7,233.3 million in 2019. The Bank's net profit increased by 10.0% from RMB511.3 million in 2019 to RMB562.4 million in 2020. The year-on-year decrease in the Bank's operating income was mainly due to the impact of COVID-19, the continuous decrease of foreign exchange rate of USD to RMB which resulted in losses from foreign exchange, and the fact that the Bank actively responded to the national policies, took initiative to adjust the asset structure, and enhanced the support for real economy and decreased the trading volume of investment assets which resulted in the year-on-year decrease of net trading gains; the year-on-year increase in net profit was mainly attributable to the enhancement of the asset quality of the Bank and the decrease in the provision for asset impairment loss.

As at December 31, 2020, the Bank's total assets amounted to RMB342,363.8 million, representing a year-on-year increase of 2.2%; total loans and advances to customers amounted to RMB181,825.7 million, representing a year-on-year increase of 6.7%; the non-performing loan ratio was 2.28%, representing a decrease of 0.17 percentage point as compared to the end of 2019, mainly because the Bank continued to improve its comprehensive risk management system, implemented a sound and prudent risk appetite and risk management strategy, continuously improved its asset quality control mechanism, strengthened credit access management, optimized its asset structure, and further strengthened its efforts in disposal of non-performing assets, and the real economy has continued to improve since the second half of the year in line with a series of supporting policies implemented by the relevant authorities of the PRC, comprehensively facilitating the enhancement of the asset quality of the Bank; total deposits from customers amounted to RMB249,677.7 million, representing a year-on-year increase of 5.4%.

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2020	2019	Increase or decrease	Percentage change (%)
Interest income	14,752.9	14,380.0	372.9	2.6
Interest expense	(9,002.5)	(9,092.1)	89.6	(1.0)
<b>Net interest income</b>	<b>5,750.4</b>	<b>5,287.9</b>	<b>462.5</b>	<b>8.7</b>
Fee and commission income	379.3	357.6	21.7	6.1
Fee and commission expenses	(50.4)	(104.4)	54.0	(51.7)
<b>Net fee and commission income</b>	<b>328.9</b>	<b>253.2</b>	<b>75.7</b>	<b>29.9</b>
Net trading gains	716.3	1,489.8	(773.5)	(51.9)
Net (losses)/gains arising from investment securities	(1.4)	131.2	(132.6)	(101.1)
Net exchange (losses)/gains	(279.7)	68.9	(348.6)	(506.0)
Other operating (expenses)/income, net	(21.2)	2.3	(23.5)	(1,021.7)
<b>Operating income</b>	<b>6,493.3</b>	<b>7,233.3</b>	<b>(740.0)</b>	<b>(10.2)</b>
Operating expenses	(2,319.5)	(2,356.5)	37.0	(1.6)
Impairment losses on assets, net of reversals	(3,754.5)	(4,312.0)	557.5	(12.9)
<b>Operating profit</b>	<b>419.3</b>	<b>564.8</b>	<b>(145.5)</b>	<b>(25.8)</b>
Share of result of an associate	1.3	(0.1)	1.4	(1,400.0)
<b>Profit before tax</b>	<b>420.6</b>	<b>564.7</b>	<b>(144.1)</b>	<b>(25.5)</b>
Income tax credit/(expense)	141.8	(53.4)	195.2	(365.5)
<b>Profit for the year</b>	<b>562.4</b>	<b>511.3</b>	<b>51.1</b>	<b>10.0</b>
<b>Profit for the year attributable to:</b>				
– Owners of the Bank	558.2	509.1	49.1	9.6
– Non-controlling interests	4.2	2.2	2.0	90.9
<b>Profit for the year</b>	<b>562.4</b>	<b>511.3</b>	<b>51.1</b>	<b>10.0</b>

## Management Discussion and Analysis

In 2020, the Bank's net profit was RMB562.4 million, representing a year-on-year increase of 10.0%, mainly attributable to a series of policies implemented by the relevant authorities of the PRC, which relieved the repayment pressure of the loan customers, avoided further deterioration asset quality due to the pandemic, and the continuous recovery of the real economy in the second half of the year. The principal and interest repayment capabilities of loan customers has been improving, comprehensively facilitating the enhancement of the asset quality of the Bank and the decrease in the provision for asset impairment loss.

### (i) Net interest income

The net interest income was the largest component of the Bank's operating revenue, accounting for 73.1% and 88.6% of the operating income in 2019 and 2020, respectively. Such increase in the percentage for 2020 was attributable to adjustments to its business structure and an increase in the percentage in net interest income as a result of the foreign exchange loss due to the fluctuation of USD exchange rate caused by the pandemic. The table below sets forth the Bank's interest income, interest expenses and net interest income for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2020	2019	Increase or decrease	Percentage change (%)
Interest income	14,752.9	14,380.0	372.9	2.6
Interest expense	(9,002.5)	(9,092.1)	89.6	(1.0)
<b>Net interest income</b>	<b>5,750.4</b>	<b>5,287.9</b>	<b>462.5</b>	<b>8.7</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)	Year ended December 31, 2020			Year ended December 31, 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	171,553.7	10,088.3	5.88	157,708.9	9,970.7	6.32
Investment securities and other financial assets <sup>(3)</sup>	113,831.3	4,613.5	4.05	97,736.0	3,969.9	4.06
Deposits with banks	1,525.1	40.1	2.63	6,804.0	244.1	3.59
Financial assets held under resale agreements and placements with banks and other financial institutions	16,645.5	350.5	2.11	14,972.2	451.8	3.02
Deposits with the central bank <sup>(4)</sup>	23,420.6	350.6	1.50	26,055.0	392.8	1.51
<b>Total interest-earning assets</b>	<b>326,976.2</b>	<b>15,443.0</b>	<b>4.72</b>	<b>303,276.1</b>	<b>15,029.3</b>	<b>4.96</b>



# Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2020			Year ended December 31, 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	248,589.9	7,171.3	2.88	219,154.5	6,583.1	3.00
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	2,768.6	82.8	2.99	7,913.8	262.6	3.32
Debt securities issued <sup>(5)</sup>	35,036.7	1,219.2	3.48	38,566.0	1,579.6	4.10
Deposits from banks and other financial institutions	10,667.5	461.7	4.33	11,741.7	483.0	4.11
Borrowings from the central bank	2,723.7	61.2	2.25	4,452.4	177.2	3.98
Lease liabilities	301.7	6.3	2.09	303.1	6.6	2.18
<b>Total interest-bearing liabilities</b>	<b>300,088.1</b>	<b>9,002.5</b>	<b>3.00</b>	<b>282,131.5</b>	<b>9,092.1</b>	<b>3.22</b>
<b>Net interest income</b>		<b>6,440.5</b>			<b>5,937.2</b>	
<b>Net interest spread<sup>(6)</sup></b>			<b>1.72</b>			<b>1.74</b>
<b>Net interest margin<sup>(7)</sup></b>			<b>1.97</b>			<b>1.96</b>

*Notes:*

- (1) The daily average balances of interest-earning assets and interest-bearing liabilities are derived from our unaudited management accounts of the Bank.
- (2) Calculated by dividing interest income/expense by average balance.
- (3) Primarily includes interest income from debt investments and others; the main difference against interest income is that such item includes interest income from financial assets at fair value through profit or loss classified into net trading gains.
- (4) Primarily includes statutory deposit reserves, surplus deposit reserves and fiscal deposits reserves.
- (5) Primarily includes interbank certificates and tier-two capital bonds.
- (6) Represents the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.
- (7) Calculated by dividing net interest income by the daily average balance of interest-earning assets.

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

## Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2020 vs 2019 Increase/(decrease) due to		
	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	814.1	(693.9)	117.6
Investment securities and other financial assets	651.9	(9.8)	643.6
Deposits with banks	(138.8)	(65.3)	(204.0)
Financial assets held under resale agreements and placements with banks and other financial institutions	35.3	(136.2)	(101.3)
Deposits with the central bank	(39.5)	(2.6)	(42.2)
<b>Change in interest income</b>	<b>1,118.6</b>	<b>(727.9)</b>	<b>413.7</b>
<b>Interest-bearing liabilities</b>			
Deposits from customers	847.7	(263.0)	588.2
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	(153.8)	(26.1)	(179.8)
Debt securities issued	(122.8)	(239.1)	(360.4)
Deposits from banks and other financial institutions	(46.5)	25.8	(21.3)
Borrowings from the central bank	(38.9)	(77.0)	(116.0)
Lease liabilities	–	(0.3)	(0.3)
<b>Change in interest expense</b>	<b>538.7</b>	<b>(620.7)</b>	<b>(89.6)</b>
<b>Change in net interest income</b>	<b>579.9</b>	<b>(107.2)</b>	<b>503.3</b>

*Notes:*

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

(ii) **Interest income**

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

## Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2020		2019	
	Amount	% of total (%)	Amount	% of total (%)
Loans and advances to customers	10,088.3	65.2	9,970.7	66.4
Investment securities and other financial assets <sup>(1)</sup>	4,613.5	29.9	3,969.9	26.4
Deposits with banks	40.1	0.3	244.1	1.6
Financial assets held under resale agreements and placements with banks and other financial institutions	350.5	2.3	451.8	3.0
Deposits with the central bank	350.6	2.3	392.8	2.6
<b>Total</b>	<b>15,443.0</b>	<b>100.0</b>	<b>15,029.3</b>	<b>100.0</b>

Note:

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

Interest income increased by 2.8% from RMB15,029.3 million in 2019 to RMB15,443.0 million in 2020, primarily due to a 7.8% increase in the average balance of interest-earning assets, from RMB303,276.1 million in 2019 to RMB326,976.2 million in 2020, partially offset by a decrease in the average yield of interest-earning assets from 4.96% in 2019 to 4.72% in 2020. 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 Bank's active implementation of a series of policies by the relevant authorities of the PRC in response to the impact of COVID-19 pandemic, which helped the resumption of work and production of enterprises, reduced fees and surrendered partial profits to entity enterprises, and the drop of LPR.

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

Interest income from loans and advances to customers represented 66.4% and 65.2% of total interest income in 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)	Average balance <sup>(1)</sup>	Year ended December 31,				
		2020		2019		
		Interest income	Average yield (%)	Average balance <sup>(1)</sup>	Interest income	Average yield (%)
Corporate loans	109,974.0	7,017.5	6.38	106,724.7	7,103.5	6.66
Retail loans	35,950.6	2,243.0	6.24	27,547.6	1,888.8	6.86
Discounted bills	25,629.1	827.8	3.23	23,436.6	978.4	4.17
<b>Total loans and advances to customers</b>	<b>171,553.7</b>	<b>10,088.3</b>	<b>5.88</b>	<b>157,708.9</b>	<b>9,970.7</b>	<b>6.32</b>

## Management Discussion and Analysis

*Note:*

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

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

Interest income from investment securities and other financial assets increased by 16.2% from RMB3,969.9 million in 2019 to RMB4,613.5 million in 2020, primarily due to a 16.5% increase in the average balance of investment securities and other financial assets, from RMB97,736.0 million in 2019 to RMB113,831.3 million in 2020. The increase in average balance was primarily due to our increased investments in financial assets to diversify our asset portfolio. The average yield was basically unchanged.

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

Interest income from deposits with banks decreased by 83.6% from RMB244.1 million in 2019 to RMB40.1 million in 2020, primarily due to a 77.6% decrease in the average balance of deposits with banks, from RMB6,804.0 million in 2019 to RMB1,525.1 million in 2020, and a decrease in the average yield of deposits with banks, from 3.59% in 2019 to 2.63% in 2020. The decrease in average balance was due to our decreased investments in deposits with banks based on changes in interbank money market interest rates. The decrease in average yield was primarily because that the Bank took the initiative to adjust the asset structure, reduced the time deposits with banks which resulted in the decrease of average yield.

**(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 22.4% from RMB451.8 million in 2019 to RMB350.5 million in 2020, which was primarily due to a 11.2% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB14,972.2 million in 2019 to RMB16,645.5 million in 2020; a decrease in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 3.02% in 2019 to 2.11% in 2020, was offset, which in turn resulted in a decrease in returns from reverse repurchase transactions.

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

Interest income from deposits with the central bank decreased by 10.7% from RMB392.8 million in 2019 to RMB350.6 million in 2020, primarily due to a 10.1% decrease in the average balance of deposits with the central bank, from RMB26,055.0 million in 2019 to RMB23,420.6 million in 2020. The lower average balance was primarily due to a decrease of customer deposit reserve and a decrease of deposit reserve with the central bank, resulting in a decrease in average balance of deposits with the central bank.

# 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)	Year ended December 31,			
	2020		2019	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	7,171.3	79.7	6,583.1	72.4
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	82.8	0.9	262.6	2.9
Debt securities issued	1,219.2	13.5	1,579.6	17.4
Deposits from banks and other financial institutions	461.7	5.1	483.0	5.3
Borrowings from the central bank	61.2	0.7	177.2	1.9
Lease liabilities	6.3	0.1	6.6	0.1
<b>Total</b>	<b>9,002.5</b>	<b>100.0</b>	<b>9,092.1</b>	<b>100.0</b>

Interest expense decreased by 1.0% from RMB9,092.1 million in 2019 to RMB9,002.5 million in 2020, primarily due to a decrease in the average cost of interest-bearing liabilities, from 3.22% in 2019 to 3.00% in 2020. The decrease in the average cost of interest-bearing liabilities was due to the decrease in market interest rates and the Bank's strengthening of marketing activities and reduction of the cost of debt. The average balance of interest-bearing liabilities increased 6.4% from RMB282,131.5 million in 2019 to RMB300,088.1 million in 2020, primarily due to the increase of customer deposits of the Bank in line with business growth.

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

Interest expense on deposits from customers increased by 8.9% from RMB6,583.1 million in 2019 to RMB7,171.3 million in 2020, primarily due to a 13.4% increase in the average balance of deposits from customers, from RMB219,154.5 million in 2019 to RMB248,589.9 million in 2020, and a decrease in the average cost of deposits from customers, from 3.00% in 2019 to 2.88% in 2020. The increase in average balance of deposits from customers was mainly due to the increase of deposits from customers in line with the business growth. The decrease in the average cost of deposits from customers was due to lower market interest rates in, the enhancement of deposit marketing effort by the Bank and the reduction of deposit cost.

### (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 68.5% from RMB262.6 million in 2019 to RMB82.8 million in 2020 primarily due to a 65.0% decrease in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB7,913.8 million in 2019 to RMB2,768.6 million in 2020, and a decrease in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 3.32% in 2019 to 2.99% in 2020. The decrease in average balance was primarily because we entered into less repurchase transactions. The decrease in average cost was primarily due to a decrease in the cost of repurchase transactions.

## Management Discussion and Analysis

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

Interest expense on debt securities issued decreased by 22.8% from RMB1,579.6 million in 2019 to RMB1,219.2 million in 2020, primarily due to a 9.2% decrease in the average balance of debt securities issued, from RMB38,566.0 million in 2019 to RMB35,036.7 million in 2020, and a decrease in the average cost of debt securities issued, from 4.10% in 2019 to 3.48% in 2020. The decrease in average balance was primarily due to the maturity for repayment of certain issued bonds. The average cost decreased mainly because of the maturity for repayment of certain issued bonds with high interest rate, which lowered the average cost for the issued bonds and securities in general.

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

Interest expense on deposits from banks and other financial institutions decreased by 4.4% from RMB483.0 million in 2019 to RMB461.7 million in 2020, primarily due to a 9.1% decrease in the average balance of deposits from banks and other financial institutions, from RMB11,741.7 million in 2019 to RMB10,667.5 million in 2020, primarily because fund raising through deposits from banks and other financial institutions were reduced as a result of increase of deposits from customers and our issuance of interbank certificates. In 2019 and 2020, the average cost of deposits from banks and other financial institutions increased from 4.11% to 4.33%.

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

Interest expense on borrowings from the central bank decreased by 65.5% from RMB177.2 million in 2019 to RMB61.2 million in 2020, primarily due to a 38.8% decrease in the average balance of borrowings from the central bank, from RMB4,452.4 million in 2019 to RMB2,723.7 million in 2020, primarily due to the repayment of borrowings from the central bank for the period and the maturity of re-discounted bills. From 2019 to 2020. The average cost of borrowings from the central bank decreased from 3.98% to 2.25% in 2020, respectively.

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

Net interest spread decreased from 1.74% in 2019 to 1.72% in 2020, primarily due to a decrease in average yield of total interest-earning assets, from 4.96% to 4.72%, primarily due to (i) the impact of the pandemic. the relevant authorities of the PRC implemented a series of policies which help the resumption of work and production of enterprises, fee reduction and surrender of profit. The Bank proactively responded to the national policies and surrendered profits to entity enterprises; (ii) the decrease of LPR; (iii) the decrease in the average cost of total interest-bearing liabilities, from 3.22% to 3.00%, primarily due to decrease in market interest rate and the enhancement of liability marketing of the Bank, which reduced the liability cost.

Net interest margin increased from 1.96% in 2019 to 1.97% in 2020, the net interest margin basically remained stable.

## Management Discussion and Analysis

(v) Non-interest income

(A) *Net fee and commission income*

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2020	2019	Increase or decrease	Percentage change (%)
<b>Fee and commission income</b>				
Wealth management service fees	50.4	36.2	14.2	39.2
Agency service fees	68.2	120.6	(52.4)	(43.4)
Settlement and clearing fees	190.7	146.4	44.3	30.3
Bank acceptance bill service fees	41.5	27.6	13.9	50.4
Letters of guarantee fees	2.3	2.5	(0.2)	(8.0)
Others <sup>(1)</sup>	26.2	24.3	1.9	7.8
<b>Subtotal</b>	<b>379.3</b>	<b>357.6</b>	<b>21.7</b>	<b>6.1</b>
<b>Fee and commission expenses</b>	<b>(50.4)</b>	<b>(104.4)</b>	<b>54.0</b>	<b>(51.7)</b>
<b>Net fee and commission income</b>	<b>328.9</b>	<b>253.2</b>	<b>75.7</b>	<b>29.9</b>

Note:

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

Net fee and commission income increased by 29.9% from RMB253.2 million in 2019 to RMB328.9 million in 2020, primarily because the Bank actively promoted the transition of business, the optimization of business structure and the enhancement of marketing effort for product expansion.

Fee and commission expenses mainly included settlement and clearing service fees paid to third parties and debit card service fees. Fee and commission expenses decreased by 51.7% from RMB104.4 million in 2019 to RMB50.4 million in 2020, primarily because the Bank actively promoted the transition of business, the optimization of business structure and the enhancement of marketing effort for product expansion.

(B) *Net trading gains*

Net trading gains primarily included gains from disposal of financial assets and interest income from financial assets held for trading for the period. We had net trading gains of RMB1,489.8 million in 2019, and net trading gains of RMB716.3 million in 2020, primarily reflecting gains from disposal of, and holding financial assets. The decrease was mainly due to the fact that the Bank actively responded to the national policies, took the initiative to adjust the asset structure, enhanced the support for real economy and decreased the trading volume of investment assets which resulted in a large decrease of net trading gains, as well as the impact of COVID-19 pandemic, which resulted in floating losses on fair value of investments assets.

## Management Discussion and Analysis

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

The net gains arising from investment securities and other financial assets included net gains from selling investment securities and other financial assets and revaluation gains arising from the reclassification of other comprehensive income to gains or losses upon the disposal of assets. The net gains arising from investment securities and other financial assets of the Bank was RMB131.2 million in 2019. The net losses arising from investment securities and other financial assets of the Bank was RMB1.4 million in 2020. The net losses was mainly due to the difference of asset trading.

### (D) Net exchange (losses) gains

Net exchange gains mainly included net gains arising out of foreign exchange settlement and translation of foreign exchange investment assets. We had net exchange gains of RMB68.9 million in 2019 and net exchange losses of RMB279.7 million in 2020, primarily reflecting that the global economy was still in recession and the exchange rate continued to drop.

### (E) Other operating (expenses) income, net

Other operating income mainly included government subsidies, net income from the short-term leasing of fixed assets and assets disposal and others. Other operating income of the Bank was RMB2.3 million in 2019. In 2020, the other operating expenses of the Bank was RMB21.2 million, mainly due to the loss of asset disposal and increase of other expenses.

### (vi) Operating expenses

Operating expenses decreased by 1.6% from RMB2,356.5 million in 2019 to RMB2,319.5 million in 2020, primarily due to a decrease of staff costs.

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			Percentage change (%)
	2020	2019	Increase or decrease	
Staff costs	1,215.0	1,272.1	(57.1)	(4.5)
Premises and equipment expenses	562.8	565.0	(2.2)	(0.4)
General management and administrative expenses	449.1	443.3	5.8	1.3
Business tax and surcharge	92.6	76.1	16.5	21.7
<b>Total</b>	<b>2,319.5</b>	<b>2,356.5</b>	<b>(37.0)</b>	<b>(1.6)</b>
<b>Cost-to-income ratio<sup>(1)</sup>(%)</b>	<b>34.30</b>	<b>31.53</b>	<b>2.8</b>	<b>8.9</b>

Note:

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



# Management Discussion and Analysis

## (A) Staff costs

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2020	2019	Increase or decrease	Percentage change (%)
Salaries and bonuses	899.9	905.7	(5.8)	(0.6)
Social insurance	168.2	219.0	(50.8)	(23.2)
Housing allowances	72.7	67.1	5.6	8.3
Staff welfares	52.0	49.9	2.1	4.2
Labour union and staff education expenses	16.4	22.5	(6.1)	(27.1)
Others	5.8	7.9	(2.1)	(26.6)
<b>Total staff costs</b>	<b>1,215.0</b>	<b>1,272.1</b>	<b>(57.1)</b>	<b>(4.5)</b>

Staff costs decreased by 4.5% from RMB1,272.1 million in 2019 to RMB1,215.0 million in 2020, the social insurance decreased by 23.2% yoy, primarily because of the reduction of the premium of basic pension insurance, unemployment insurance and work related injury insurance by the enterprise in stages pursuant to the Notice of the Phased Reduction of Social Insurance by Enterprise issued by the Ministry of Human Resources and Social Security, Ministry of Finance and State Taxation Administration (《人力資源社會保障部財政部稅務總局關於階段性減免企業社會保險費的通知》)(Renshebufa [2020] No. 11).

## (B) Premises and equipment expenses

Premises and equipment expenses decreased by 0.4% from RMB565.0 million in 2019 to RMB562.8 million in 2020. The premises and equipment expenses basically remain unchanged.

## (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 1.3% from RMB443.3 million in 2019 to RMB449.1 million in 2020, mainly due to the impact of COVID-19, resulting in more expenses for pandemic prevention.

## (D) Business tax and surcharges

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges of the Bank increased by 21.7% from RMB76.1 million in 2019 to RMB92.6 million in 2020, mainly reflecting the increase in taxes in line with the business growth.

## Management Discussion and Analysis

### (vii) Impairment losses on credit/assets

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Increase or decrease	Percentage change (%)
	2020	2019		
Loans and advances to customers	3,104.9	3,598.3	(493.4)	(13.7)
Investment assets	650.5	677.3	(26.8)	(4.0)
Other assets	(9.4)	71.5	(80.9)	(113.1)
Acceptance bills, letters of guarantees and unused credit card commitments	8.5	(35.1)	43.6	(124.2)
<b>Total impairment losses on credit/assets</b>	<b>3,754.5</b>	<b>4,312.0</b>	<b>(557.5)</b>	<b>(12.9)</b>

Impairment losses on credit/assets decreased by 12.9% from RMB4,312.0 million in 2019 to RMB3,754.5 million in 2020, mainly due to the decrease in the provision for credit impairment for loans and advances to customers and investment assets.

Credit impairment losses on loans and advances to customers decreased by 13.7% from RMB3,598.3 million in 2019 to RMB3,104.9 million in 2020, mainly due to the improvement of asset quality in 2020, resulting in a decrease in provision for credit impairment loss.

Credit impairment losses on investment assets decreased from RMB677.3 million of provision in 2019 to RMB650.5 million of provision in 2020, basically remained stable.

### (viii) Income tax credit (expense)

Income tax expense in 2019 was RMB53.4 million while the income tax credit in 2020 was RMB141.8 million. The income tax expense was negative, mainly due to the increase in non-taxable income arising from treasury bonds and local bonds and the increase in written-off assets in 2020, forming a temporary difference of deductible loss, while recognizing the deferred income tax asset and deferred income tax expenses, resulting in the negative of income tax expense.

# Management Discussion and Analysis

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

### (i) Assets

As of December 31, 2020 and 2019, the total assets of the Bank were RMB342,363.8 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.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
<b>Assets</b>				
Loans and advances to customers, gross	181,825.7	53.0	170,449.2	50.9
Provision for impairment losses	(5,438.9)	(1.6)	(5,682.4)	(1.7)
Net loans and advances to customers	176,386.8	51.4	164,766.8	49.2
Investment securities and other financial assets <sup>(1)</sup>	105,982.7	31.0	113,508.7	33.9
Deposits with banks	3,716.1	1.1	3,967.5	1.2
Cash and deposits with the central bank	26,666.7	7.8	25,274.3	7.5
Financial assets held under resale agreements	19,150.1	5.6	16,264.0	4.9
Other assets <sup>(2)</sup>	10,461.4	3.1	11,263.2	3.3
<b>Total assets</b>	<b>342,363.8</b>	<b>100.0</b>	<b>335,044.5</b>	<b>100.0</b>

#### Notes:

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

### (A) Loans and advances to customers

As of December 31, 2020, the total loans and advances to customers of the Bank were RMB181,825.7 million, representing an increase of 6.7% as compared to the end of last year. Total loans and advances to customers accounted for 53.0% of the total assets of the Bank, representing an increase of approximately 2.1 percentage points as compared to the end of last year.

## Management Discussion and Analysis

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Corporate loans	110,853.4	61.0	111,292.0	65.3
Retail loans	41,359.8	22.7	34,265.5	20.1
Discounted bills	29,612.5	16.3	24,891.7	14.6
<b>Total loans and advances to customers</b>	<b>181,825.7</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, all of which are substantially denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 51.4% and 49.2% of total assets as of December 31, 2020 and 2019, respectively.

The Bank's corporate loans decreased by 0.4% from RMB111,292.0 million as of December 31, 2019 to RMB110,853.4 million as of December 31, 2020, the corporate loans basically remained stable.

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 20.7% from RMB34,265.5 million as of December 31, 2019 to RMB41,359.8 million as of December 31, 2020, primarily due to (i) the increased efforts of the Bank to develop the credit card overdraft business ; and (ii) the adjustment of the Bank's loan portfolio to increase personal housing mortgage loans and 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 December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Collateralized loans	83,120.4	45.7	79,970.4	46.9
Pledged loans	14,706.2	8.1	11,696.2	6.9
Guaranteed loans	60,822.4	33.5	60,326.3	35.4
Unsecured loans	23,176.7	12.7	18,456.3	10.8
<b>Total loans and advances to customers</b>	<b>181,825.7</b>	<b>100.0</b>	<b>170,449.2</b>	<b>100.0</b>

As of December 31, 2019 and 2020, collateralized loans, pledged loans and guaranteed loans in the aggregate represented 89.2% and 87.3% of total loans and advances to customers, respectively. Collateralized loans and pledged loans are subject to loan-to-value ratio limits based on the type of collateral. We usually only accept guarantees provided by listed companies or guarantee companies. We evaluate a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

## Management Discussion and Analysis

Unsecured loans increased by 25.6% from RMB18,456.3 million as of December 31, 2019 to RMB23,176.7 million as of December 31, 2020. The increase of unsecured loans was primarily due to the successive launching of certain online loan products with lower risk by utilizing big data resources and the enhancement on the development of the credit card overdraft business in 2020.

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

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

(Expressed in millions of RMB, unless otherwise stated)	2020	2019
As of January 1,	5,682.4	6,251.5
Charge for the year	3,104.9	3,598.3
Write-offs for the year and others	(3,463.1)	(4,204.2)
Reversal of write-offs of loans and advances for the previous years	114.7	36.8
<b>As of December 31,</b>	<b>5,438.9</b>	<b>5,682.4</b>

Provisions for impairment losses on loans decreased by 4.3% from RMB5,682.4 million as of December 31, 2019 to RMB5,438.9 million as of December 31, 2020, primarily due to provision for write-offs and other consumption loans exceeding provision for the loans for the period.

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

As of December 31, 2020 and 2019, the Bank's investment securities and other financial assets (original value) were RMB107,339.9 million and RMB114,835.7 million, representing 31.4% and 34.3% of its total assets, respectively.

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

Investment securities and other financial assets decreased by 6.5% from RMB114,835.7 million as of December 31, 2019 to RMB107,339.9 million as of December 31, 2020. This decrease was primarily due to the adjustment of the Bank's investment portfolio to reduce the investment assets based on the investment considerations, market conditions and other factors.

## Management Discussion and Analysis

### (ii) Liabilities

As of December 31, 2020 and 2019, the total liabilities were RMB310,899.0 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 December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	249,677.7	80.4	236,868.7	76.3
Deposits from banks and other financial institutions	11,625.7	3.7	13,621.9	4.4
Financial assets sold under repurchase agreements	8,730.1	2.8	5,398.6	1.7
Debt securities issued	23,551.5	7.6	39,459.2	12.7
Borrowings from the central bank	6,620.2	2.1	2,316.4	0.7
Placements from banks and other financial institutions	–	–	890.0	0.3
Other liabilities <sup>(1)</sup>	10,693.8	3.4	11,800.7	3.9
<b>Total liabilities</b>	<b>310,899.0</b>	<b>100.0</b>	<b>310,355.5</b>	<b>100.0</b>

Note:

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

## Management Discussion and Analysis

### (A) Deposits from customers

Deposits from customers are the largest component of total liabilities. As of December 31, 2019 and 2020, deposits from customers represented 76.3% and 80.4% of the total liabilities, respectively.

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
<b>Corporate deposits</b>				
Demand deposits	60,133.9	24.1	52,256.8	22.1
Time deposits	22,260.6	8.9	19,771.7	8.3
<b>Subtotal</b>	<b>82,394.5</b>	<b>33.0</b>	<b>72,028.5</b>	<b>30.4</b>
<b>Retail deposits</b>				
Demand deposits	31,259.5	12.5	26,217.0	11.1
Time deposits	117,781.6	47.2	110,243.6	46.5
<b>Subtotal</b>	<b>149,041.1</b>	<b>59.7</b>	<b>136,460.6</b>	<b>57.6</b>
<b>Pledged deposits</b>	<b>11,845.7</b>	<b>4.7</b>	<b>13,984.5</b>	<b>5.9</b>
<b>Others</b>	<b>6,396.4</b>	<b>2.6</b>	<b>14,395.1</b>	<b>6.1</b>
<b>Total deposits from customers</b>	<b>249,677.7</b>	<b>100.0</b>	<b>236,868.7</b>	<b>100.0</b>

Total deposits from customers increased by 5.4% from RMB236,868.7 million as of December 31, 2019 to RMB249,677.7 million as of December 31, 2020. The increases in deposits from customers were primarily attributable to our enhanced marketing efforts to grow retail deposits and corporate deposits.

## Management Discussion and Analysis

### (B) Debts securities issued

In April 2017, the Bank issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of five years and bear an interest rate of 5.00% per annum. In May 2018, the Bank issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.87% per annum.

From January 1, 2020 to December 31, 2020, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB31,910.0 million. These interbank certificates have terms of one month to one year and bear effective interest rates between 1.4% and 3.8% per annum.

### (iii) Shareholders' equity

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Share capital	15,069.8	47.9	10,069.8	40.8
Capital reserve	5,955.5	18.9	4,660.4	18.9
Defined benefit scheme reserve	(2.8)	–	(3.4)	–
Investment revaluation reserve	137.2	0.4	219.5	0.9
Surplus reserve	1,616.0	5.2	1,560.8	6.3
General reserve	4,539.0	14.4	4,471.0	18.1
Retained earnings	4,113.9	13.1	3,678.9	14.9
Non-controlling interests	36.2	0.1	32.0	0.1
<b>Total equity</b>	<b>31,464.8</b>	<b>100.0</b>	<b>24,689.0</b>	<b>100.0</b>



# Management Discussion and Analysis

## (c) Asset quality analysis

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

The Bank's non-performing loans are classified into substandard, doubtful and loss-making loans and advances to customers. As of December 31, 2020, the Bank's non-performing loans amounted to RMB4,144.6 million. The table below sets forth loans and advances to customers by loan classification as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Normal	170,790.3	93.9	157,040.6	92.1
Special mention	6,890.8	3.8	9,226.5	5.4
Substandard	1,055.9	0.6	1,270.1	0.8
Doubtful	2,553.2	1.4	2,609.6	1.5
Loss	535.5	0.3	302.4	0.2
<b>Total loans and advances to customers</b>	<b>181,825.7</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>4,144.6</b>	<b>2.28</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.

As of December 31, 2020 and 2019, the non-performing loan ratios of the Bank were 2.28% and 2.45%, respectively, representing a decrease of 0.17 percentage point.

# Management Discussion and Analysis

## (ii) Concentration of loans

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 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	15,077.9	8.3	814.7	5.40	17,757.9	10.4	821.1	4.62
Manufacturing	21,603.0	11.9	636.7	2.95	21,036.0	12.3	759.2	3.61
Agriculture, forestry, animal husbandry and fishing	7,955.7	4.4	349.3	4.39	7,605.1	4.5	257.7	3.39
Construction	12,364.9	6.8	320.9	2.60	10,461.0	6.1	122.2	1.17
Real estate	13,176.7	7.2	45.0	0.34	14,860.1	8.7	0.0	0.00
Mining	5,186.1	2.9	13.1	0.25	7,279.4	4.3	358.9	4.93
Water, environment and public facility management	2,494.2	1.4	0.0	0.00	3,078.7	1.8	0.0	0.00
Culture, sports and entertainment	3,428.7	1.9	29.6	0.86	2,914.5	1.7	14.8	0.51
Leasing and business services	10,080.6	5.5	42.7	0.42	8,815.5	5.2	13.5	0.15
Electricity, heating power, gas and water production and supply	3,064.6	1.7	23.4	0.76	3,512.3	2.1	399.5	11.37
Transportation, storage and postal services	5,344.8	2.9	23.0	0.43	3,247.8	1.9	11.0	0.34
Education	1,585.9	0.9	0.0	0.00	1,591.8	0.9	0.0	0.00
Accommodation and catering	2,654.1	1.4	66.1	2.49	2,666.9	1.6	42.5	1.59
Financial	1,860.0	1.0	0.0	0.00	2,996.5	1.8	-	-
Health and social services	2,230.1	1.2	3.8	0.17	1,876.5	1.1	4.8	0.26
Residents and other services	1,215.3	0.7	1.1	0.09	555.1	0.3	1.1	0.20
Scientific research, technical service and geological prospecting	1,315.6	0.7	20.0	1.52	913.1	0.5	-	-
Information transmission, computer service and software	118.5	0.1	9.7	8.18	103.8	0.1	3.0	2.89
Public administration, social security and social organizations	96.7	0.1	0.0	0.00	20.0	0.0	-	-
<b>Retail loans</b>	<b>41,359.8</b>	<b>22.7</b>	<b>1,745.5</b>	<b>4.22</b>	<b>34,265.5</b>	<b>20.1</b>	<b>1,372.8</b>	<b>4.01</b>
<b>Discounted bills</b>	<b>29,612.5</b>	<b>16.3</b>	<b>0.0</b>	<b>0.00</b>	<b>24,891.7</b>	<b>14.6</b>	<b>-</b>	<b>-</b>
<b>Total amount</b>	<b>181,825.7</b>	<b>100.0</b>	<b>4,144.6</b>	<b>2.28</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.

## 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 65.2% of total corporate loans as of December 31, 2019 and 2020, respectively.

As of December 31, 2020, non-performing loans of the Bank's loans were mainly concentrated in the wholesale and retail industries; agriculture, forestry, animal husbandry and fishing; construction; and manufacturing.

### (B) Borrower concentration

Indicators of concentration

Major regulatory indicators	Regulatory standard	As of December 31, 2020	As of December 31, 2019
Loan concentration ratio for the largest single customer (%)	≤ 10	9.23	10.3
Loan concentration ratio for the top ten customers (%)	≤ 50	46.31	46.2

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

### Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of December 31, 2020 and the balances of loans to these borrowers, all of which were classified as normal.

(Expressed in millions of RMB, unless otherwise stated)		As of December 31, 2020		
Customers	Industries involved	Amount	% of total loans (%)	% of regulatory capital (%)
Borrower A	Manufacturing	3,000.0	1.65	9.23
Borrower B	Construction	2,174.0	1.20	6.69
Borrower C	Leasing and business services	1,722.8	0.95	5.30
Borrower D	Manufacturing	1,600.0	0.88	4.92
Borrower E	Financial	1,500.0	0.82	4.61
Borrower F	Real estate	1,086.0	0.60	3.34
Borrower G	Manufacturing	1,000.0	0.55	3.08
Borrower H	Transportation, storage and postal services	1,000.0	0.55	3.08
Borrower I	Transportation, storage and postal services	1,000.0	0.55	3.08
Borrower J	Manufacturing	970.0	0.53	2.98
<b>Total</b>		<b>15,052.8</b>	<b>8.28</b>	<b>46.31</b>

## Management Discussion and Analysis

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 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>						
Working capital loans	68,982.6	1,842.3	2.67	70,930.1	1,390.0	1.96
Fixed asset loans	41,330.0	45.0	0.11	39,192.4	284.7	0.73
Others <sup>(2)</sup>	540.8	511.8	94.64	1,169.5	1,134.6	97.02
<b>Sub-total</b>	<b>110,853.4</b>	<b>2,399.1</b>	<b>2.16</b>	<b>111,292.0</b>	<b>2,809.3</b>	<b>2.52</b>
<b>Retail loans</b>						
Personal business loans	6,572.6	1,246.3	18.96	6,997.9	985.4	14.08
Personal consumption loans	13,877.0	234.9	1.69	10,196.9	196.4	1.93
Residential and commercial mortgage loans	20,910.2	264.3	1.26	17,070.7	191.0	1.12
<b>Sub-total</b>	<b>41,359.8</b>	<b>1,745.5</b>	<b>4.22</b>	<b>34,265.5</b>	<b>1,372.8</b>	<b>4.01</b>
<b>Discounted bills</b>	<b>29,612.5</b>	<b>0.0</b>	<b>0.00</b>	<b>24,891.7</b>	<b>-</b>	<b>-</b>
<b>Total loans</b>	<b>181,825.7</b>	<b>4,144.6</b>	<b>2.28</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 by 0.36 percentage point from 2.52% as of December 31, 2019 to 2.16% as of December 31, 2020.

The non-performing loan ratio of retail loans increased by 0.21 percentage point from 4.01% as of December 31, 2019 to 4.22% as of December 31, 2020.

# Management Discussion and Analysis

## (D) Loan aging schedule

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Loans not overdue	171,082.8	94.1	154,803.3	90.8
Loans past due for:				
1 to 90 days	7,011.9	3.9	11,689.7	6.9
91 days to 1 year	1,607.7	0.9	3,068.4	1.8
1 to 3 years	1,897.0	1.0	720.9	0.4
3 years or more	226.3	0.1	166.9	0.1
<b>Subtotal</b>	<b>10,742.9</b>	<b>5.9</b>	<b>15,645.9</b>	<b>9.2</b>
<b>Total loans and advances to customers</b>	<b>181,825.7</b>	<b>100.0</b>	<b>170,449.2</b>	<b>100.0</b>

## (d) Segments information

### (i) Summary of business segment

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2020		2019	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking	2,510.1	38.7	3,238.4	44.8
Retail banking	2,015.3	31.0	1,461.4	20.2
Financial market operations	2,242.6	34.5	2,438.1	33.7
Others <sup>(1)</sup>	(274.8)	(4.2)	95.4	1.3
<b>Total operating income</b>	<b>6,493.2</b>	<b>100.0</b>	<b>7,233.3</b>	<b>100.0</b>

Note:

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

## Management Discussion and Analysis

### (ii) Summary of geographical segment information

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

### (e) Off-balance sheet commitments

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020	As of December 31, 2019
<b>Credit commitments:</b>		
Bank acceptances <sup>(1)</sup>	18,488.8	22,576.5
Letters of guarantee <sup>(2)</sup>	1,686.5	1,510.5
Letters of credit	903.8	40.4
Unused credit card commitment	5,857.3	872.4
<b>Subtotal</b>	<b>26,936.4</b>	<b>24,999.8</b>
<b>Capital commitments</b>	<b>30.2</b>	<b>16.0</b>
<b>Total</b>	<b>26,966.6</b>	<b>25,015.8</b>

#### Notes:

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

Off-balance sheet commitments increased by 7.8% from RMB25,015.8 million as of December 31, 2019 to RMB26,966.6 million as of December 31, 2020. The increase in off-balance sheet commitments were primarily due to the enhancement of the promotion effort on credit card business of the Bank in 2020 and the unused limit of credit card has significantly increased.

### (f) Miscellaneous

- During the Reporting Period, the Bank launched the business related to the sub-loan ("ADB Sub-loan") of Asian Development Bank ("ADB"). ADB Sub-loan refers to the RMB denominated loans extended by the Bank to the final borrowers who meet the requirements of the ADB and the Bank leveraging on the capital funded by the ADB to the Chinese government, which shall be used to satisfy the production and operation needs of such borrowers. The ADB Sub-loan consists of two parts, with one part directly channeled from ADB funds and the other supported by the self-owned capital of the Bank. As of December 31, 2020, the Group has granted a total of RMB20.70 million ADB Sub-loan. Currently, it has applied for 4 reimbursement withdrawals totaling US\$3,144,800.

## Management Discussion and Analysis

2. During the Reporting Period, the Bank actively promoted the development of inclusive business. As of the end of 2020, the Banks' balance of the inclusive loans to small and micro enterprises amounted to RMB10.312 billion, representing an increase of RMB2.146 billion or 26.28% over the previous year, which was 25.06 percentage points higher than the growth rate of other loans, fulfilling the requirements for loan growth in the "Two Increases (兩增)". Firstly, the Bank implemented the extension policy, handled a total of RMB1.716 billion of the deferred principal repayment with a deferred principal repayment rate of 44.41%; secondly, the Bank carried out costs reduction and benefits offering, offered 50 basis points of internal fund transfer pricing for inclusive loans to small and micro enterprises, and granted a moderate reduction within 50 basis points of loans to cultural tourism, accommodation and catering, wholesale and retail industries that have been severely affected by the pandemic on the basis of the original interest rate; thirdly, the Bank carried out the first loan campaign, and won 313 new first loan customers, among which 125 were corporate customers with a loan amount of RMB421 million; 188 were personal customers with a loan amount of RMB38 million; fourthly, the Bank assisted in the resumption of work and production. A total of RMB7.418 billion loans were granted to 2,201 inclusive small and micro enterprises throughout the year; fifthly, we innovated in financial products, launched the "anti-pandemic loans" product, and offered 76 loans to 68 anti-pandemic enterprises with a loan amount of RMB260 million. The Bank promoted "entrepreneurial loans" for the unemployed and entrepreneurs, allocated 2,869 loans with loan amount of RMB343 million. We developed the "government procurement loans" product, which went online for five months and invested RMB22 million. At the end of the year, we launched the "quick housing loans" product and realized online application, real-time approval and recycling, with the total investment of RMB10 million.

# Management Discussion and Analysis

## BUSINESS REVIEW

### (a) Corporate banking

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

In addition, the Bank commits to seeking to develop long-term relationships with customers by closely monitoring their financial needs and by offering tailored financial solutions. As of December 31, 2020, the Bank had over 3,240 corporate borrowers with total loans of RMB110,853.4 million, and more than 77,098 corporate deposit customers with total deposits of RMB82,394.5 million. In 2019 and 2020, operating income from the Bank's corporate banking business accounted for 44.8% and 38.7% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's corporate banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percentage change (%)
	2020	2019	
Net external interest income <sup>(1)</sup>	4,887.9	4,977.2	(1.8)
Net inter-segment interest expenses <sup>(2)</sup>	(2,588.6)	(1,874.0)	38.1
Net interest income	2,299.3	3,103.2	(25.9)
Net fees and commission income	210.7	135.2	55.8
<b>Operating income</b>	<b>2,510.0</b>	<b>3,238.4</b>	<b>(22.5)</b>
Operating expenses	(896.6)	(1,055.0)	(15.0)
Impairment losses on assets	(2,736.1)	(3,193.4)	(14.3)
<b>Operating loss</b>	<b>(1,122.7)</b>	<b>(1,010.0)</b>	<b>11.2</b>
<b>Loss before tax</b>	<b>(1,122.7)</b>	<b>(1,010.0)</b>	<b>11.2</b>

*Notes:*

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

### (i) Corporate loans

Corporate loans constituted the largest component of the Bank's loan portfolio. As of December 31, 2020 and 2019, corporate loans amounted to RMB110,853.4 million and RMB111,292.0 million, accounting for 61.0% and 65.3% of the Bank's total loans and advances to customers, respectively.



# Management Discussion and Analysis

## (ii) Discounted bills

The Bank purchases bank and commercial acceptance bills with remaining maturities of up to one year at discounted prices to satisfy the short-term funding needs of banks and corporate customers. As of December 31, 2020 and 2019, discounted bills totaled RMB29,612.5 million and RMB24,891.7 million, accounting for 16.3% 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 USD, HKD and EUR) from corporate customers. As of December 31, 2020 and 2019, corporate deposits totaled RMB82,394.5 million and RMB72,028.5 million, accounting for 33.0% and 30.4% of the Bank's total customer deposits, respectively.

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

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

### (A) *Wealth management services*

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

In 2020 and 2019, wealth management products sold to corporate customers totaled RMB212.9 million and RMB762.8 million, respectively.

### (B) *Entrusted loans*

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

The Bank charges agency fees based on the principal amount of entrusted loans. The Bank's corporate customers bear the risk of default associated with these loans. In 2020 and 2019, service fees charged to corporate customers for entrusted loans totaled RMB17.3 million and RMB26.1 million, respectively.

### (C) *Settlement services*

The Bank offers corporate customers domestic and international settlement services.

**Domestic Settlement Services.** The Bank provides domestic settlement services in the form of Bank acceptance bills, collections and telegraphic transfers. In 2019 and 2020, the Bank's total domestic settlement transaction volumes were approximately RMB762.74 billion and RMB840.28 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.

In 2019 and 2020, the Bank's international settlement transaction volumes were US\$129 million and US\$103 million, respectively.

# Management Discussion and Analysis

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

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

## (b) Retail banking

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

As of December 31, 2020, we had 158,720 retail borrowers with total loans of RMB41,359.8 million and over 6.129 million retail deposit customers with total deposits of RMB149,041.1 million. In 2020 and 2019, operating income from the Bank's retail banking business accounted for 31.0% and 20.2% of our total operating income, respectively.

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

As of December 31, 2020, the Bank had over 226,500 wealthy customers and over 487 private banking customers. The Bank continues to grow our wealthy customer and private banking customer base by expanding its product and service portfolio. The table below sets forth the financial performance of its retail banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percentage change (%)
	2020	2019	
Net external interest expenses <sup>(1)</sup>	(2,798.7)	(2,568.0)	9.0
Net inter-segment interest income <sup>(2)</sup>	4,763.5	3,963.1	20.2
Net interest income	1,964.8	1,395.1	40.8
Net fee and commission income	50.4	66.3	(24.0)
<b>Operating income</b>	<b>2,015.2</b>	<b>1,461.4</b>	<b>37.9</b>
Operating expenses	(719.9)	(476.1)	51.2
Impairment losses on assets	(389.2)	(404.8)	(3.9)
<b>Operating profit</b>	<b>906.1</b>	<b>580.5</b>	<b>56.1</b>
<b>Profit before tax</b>	<b>906.1</b>	<b>580.5</b>	<b>56.1</b>

### Notes:

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

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

# Management Discussion and Analysis

## (i) Retail loans

The Bank offers retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of December 31, 2020 and 2019, total retail loans were RMB41,359.8 million and RMB34,265.5 million, accounting for 22.7% 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 December 31, 2020 and 2019, retail deposits totaled RMB149,041.1 million and RMB136,460.6 million, accounting for 59.7% and 57.6% of the Bank's total customer deposits, respectively.

## (iii) Bank card services

### (A) Debit cards

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

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

- Social Security Card (社會保障卡): The Bank works with the Department of Human Resources and Social Security of Gansu Province (甘肅省人力資源和社會保障廳) to issue social security cards, which can be used for making social security contributions and social security information inquiries.
- Housing Provident Fund Co-branded Cards (公積金聯名卡): The Bank works with the local housing provident fund management center to issue housing provident fund co-branded cards, which can be used for withdrawal and transfer of housing provident funds, loan distribution and account inquiries.
- Longyuan Transportation Cards (隴原交通卡): The Bank works with the Gansu 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 December 31, 2020, the Bank had issued approximately 8.62 million debit cards. As of December 31, 2019 and 2020, holders of these debit cards conducted transactions of approximately RMB18,015.0 million and RMB57,813.3 million, respectively.

# Management Discussion and Analysis

## *(B) Credit cards*

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

As of December 31, 2020, the Bank had issued 324,416 credit cards, including 305,528 credit cards and 18,888 business cards. The revolving credit card line was RMB7,294 million, of which RMB6,870 million and RMB424 million were granted to credit cards and business cards, respectively. Balance of overdraft recorded was RMB1,579.0073 million, of which RMB1,545.7234 million and RMB33.2839 million were made by holders of credit cards and business cards, respectively. Overdraft accounts reached 136,076, including 133,632 credit card accounts and 2,444 business card accounts. The total credit card income amounted to RMB64.2267 million, of which RMB45.9161 million was recorded by intermediary business, and RMB18.3106 million was included in interest income.

## *(C) POS settlement services*

As a payment settlement service provider, the Bank provides selected merchants with transaction fund settlement services. As of December 31, 2020, the Bank had 86,000 selected merchant customers for POS settlement services and the total settlement amount was approximately RMB25,948 million.

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

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

## *(A) Wealth management services*

The Bank offers retail customers wealth management products under its Huifu (匯福) series based on their risk and return preferences. The Bank invests funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products. In 2020 and 2019, wealth management products sold to retail customers totaled RMB44,400.07 million and RMB39,546.09 million, respectively. As of December 31, 2020, the Bank had over 235,604 retail wealth management clients and the return rate of its retail wealth management products was between 4.08% and 4.33% in 2020.

## *(B) Agency services*

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

**Insurance Products:** As of December 31, 2020, the Bank had entered into agency agreements with 6 nationwide insurance companies to promote and distribute their insurance products.

**Precious Metal Products:** the Bank received approval to distribute precious metals in China in August 2015. In 2020 and 2019, the Bank sold an aggregate of RMB71.19 million and RMB105 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.

# 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 December 31, 2020, the Bank had over 3,359,267 payroll customers. In 2019 and 2020, the Bank paid, in the role of paying agent, average monthly salaries of approximately RMB3,128.19 million and RMB2,516.78 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 fee and commission-based products and services

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

## (c) Financial market operations

The Bank's financial market operations, primarily including money market transactions, investment business and investment in interbank wealth management products, are one of its most important revenue sources. In 2020 and 2019, operating income from financial market operations accounted for 34.5% and 33.7% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's treasury operations for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percentage change (%)
	2020	2019	
Net external interest income <sup>(1)</sup>	3,661.2	2,878.7	27.2
Net inter-segment interest expenses <sup>(2)</sup>	(2,175.0)	(2,089.1)	4.1
Net interest income	1,486.2	789.6	88.2
Net fee and commission income	41.5	27.6	50.4
Net trading gains	716.3	1,489.8	(51.9)
Net (expenses) income arising from investment securities	(1.4)	131.2	(101.1)
<b>Operating income</b>	<b>2,242.6</b>	<b>2,438.2</b>	<b>(8.0)</b>
Operating expenses	(801.1)	(794.3)	0.9
Impairment losses on assets	(630.2)	(677.3)	(7.0)
<b>Operating profit</b>	<b>811.3</b>	<b>966.6</b>	<b>(16.1)</b>
<b>Profit before tax</b>	<b>811.3</b>	<b>966.6</b>	<b>(16.1)</b>

Notes:

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

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

## Management Discussion and Analysis

### (i) Money market transactions

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

#### (A) Interbank deposits

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

As of December 31, 2020 and 2019, deposits from banks and other financial institutions totaled RMB11,625.7 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 RMB3,716.1 million and RMB3,967.5 million, respectively.

#### (B) Interbank placements

The balance of our placements with banks and other financial institutions as of December 31, 2020 and 2019 were both nil. As of the same dates, placements from banks and other financial institutions totaled RMB0.0 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 December 31, 2020 and 2019, financial assets held under resale agreements totaled RMB19,150.1 million and RMB16,264.0 million, and financial assets sold under repurchase agreements totaled RMB8,730.1 million and RMB5,398.6 million, respectively.

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

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

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Financial assets at fair value through profit or loss	25,837.5	24.4	36,729.9	32.4
Financial assets at fair value through other comprehensive income	10,891.5	10.3	14,766.3	13.0
Financial assets at amortized costs	68,932.1	65.0	61,697.4	54.4
Other equity instrument investments	321.6	0.3	315.1	0.2
<b>Total amount of investment securities and other financial assets</b>	<b>105,982.7</b>	<b>100.00</b>	<b>113,508.7</b>	<b>100.0</b>

## Management Discussion and Analysis

Total amount of investment securities and other financial assets decreased by 6.6% from RMB113,508.7 million as of December 31, 2019 to RMB105,982.7 million as of December 31, 2020.

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Repayable on demand	20,065.4	18.9	760.0	0.7
Due in three months or less	8,187.1	7.7	21,546.8	19.0
Due between three months and one year	23,288.7	22.0	18,554.8	16.3
Due between one year and five years	38,121.3	36.0	60,192.3	53.0
Due over five years	13,529.7	12.8	7,808.3	6.9
Indefinite <sup>(1)</sup>	2,790.5	2.6	4,646.5	4.1
<b>Total</b>	<b>105,982.7</b>	<b>100.0</b>	<b>113,508.7</b>	<b>100.0</b>

Note:

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

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

### (C) Holding of government bonds

As of December 31, 2020, the balance of face value of government bonds held by the Bank amounted to RMB26,228.37 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of December 31, 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)	3,900.00	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
20 Interest-bearing treasury bond 10 (20付息國債10)	1,120.00	2.15	July 16, 2021
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

# Management Discussion and Analysis

## (D) Holding of financial bonds

As of December 31, 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 RMB22,932.21 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of December 31, 2020.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum (%)	Maturity date
18 ADBC bond 01 (18農發01)	1,110.00	4.98	January 12, 2025
18 ADBC bond 08 (18農發08)	1,080.00	4.37	May 25, 2023
19 EIBC bond 05 (19進出05)	1,000.00	3.28	February 11, 2024
15 CDB bond 16 (15國開16)	750.00	3.94	July 10, 2022
18 CDB bond 08 (18國開08)	700.00	4.07	April 27, 2021
18 ADBC bond 09 (18農發09)	700.00	4.24	June 1, 2021
16 ADBC bond 21 (16農發21)	570.00	2.96	July 27, 2021
20 CDB bond 06 (20國開06)	570.00	1.11	April 17, 2021
16 EIBC bond 02 (16進出02)	550.00	3.07	February 22, 2021
19 CDB bond 15 (19國開15)	550.00	3.45	September 20, 2029

## (d) Distribution network

### (i) Physical outlets

As of December 31, 2020, the Bank had 1 head office operational department, 12 branches, 188 sub-branches, 6 micro-to-small sub-branches and 3 community sub-branches. The Bank branch network covered all of Gansu's cities and prefectures and approximately 95% of its counties and districts. The details of branches are shown in the following table.

Name of organisation	Business Address (PRC)	Postcode	Number of organisation
Head office operational department	122 Gannan Road, Chengguan District, Lanzhou City	730000	9
Baiyin Branch	No. 35 Lanzhou Road, Baiyin District, Baiyin City	730900	20
Pingliang Branch	No. 38 East Street, Kongtong District, Pingliang City	744000	23
Qingyang Branch	Gansu Bank Building, Honghua West Road, Xifeng District, Qingyang City	735000	15
Dingxi branch	No. 13 Zhonghua Road, Anding District, Dingxi City	743000	12
Tianshui branch	Floor 1-2, Tianlin Longcheng Mingzhu Building, Jihebei Road, Qinzhou District, Tianshui City	741000	14
Longnan Branch	No.1 Building, Jing'an Mingdu, South End of Jianshe Road, Chengguan Town, Wudu District, Longnan City	746000	13
Jiuquan Branch	No. 2 Suzhou Road, Suzhou District, Jiuquan City	735000	16
Jiayuguan Branch	No. 1289 Yingbin East Road, Jiayuguan City	735100	5
Zhangye Branch	No. 37 West Street, Ganzhou District, Zhangye City	734000	10
Wuwei Branch	No. 7 Xihuan Road, Liangzhou District, Wuwei City	733000	10



## Management Discussion and Analysis

Name of organisation	Business Address (PRC)	Postcode	Number of organisation
Linxia Branch	No. 49 Hongyuan Road, Linxia City	731100	11
Gannan Branch	No. 125 Dangzhou Street, Hezuo City, Gannan Prefecture	747000	4
Jinchang Sub-branch	No. 4 Tianjin Road, Jinchang City	737100	5
Lanzhou Chengguan Sub-branch	Family Accommodation, Quality Supervision Bureau, Nanchang Road, Chengguan District, Lanzhou City	730000	12
Lanzhou Qilihe Sub-branch	No. 3 Xijin West Road, Qilihe District, Lanzhou City	730000	13
Lanzhou Anning Sub-branch	No.1952-1956 Jianning West Road, Anning District, Lanzhou City	730070	4
Lanzhou Xigu Sub-branch	No. 2 East Fourth Block, Fuli West Road, Xigu District, Lanzhou City	730060	2
Lanzhou Central Square Sub-branch	No. 437-451 Jiuquan Road, Chengguan District, Lanzhou City	730000	8
Lanzhou New District Sub-branch, Lanzhou City	Security Housing B50, Weiyi Road, Lanzhou New District, Lanzhou City	730000	4
<b>Total</b>			<b>210</b>

### (ii) Electronic banking business

#### (A) Internet banking

Through the Internet, the Bank offers customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of December 31, 2020, the Bank had over 3,321,300 Internet banking customers, consisting of 44,500 corporate customers and over 3,276,800 retail customers. As of December 31, 2020, the Bank's corporate customers conducted over 3.14 million online transactions with a total transaction amount of approximately RMB551,845 million, while retail customers conducted approximately 11.98 million online transactions with a total transaction amount of approximately RMB168,660 million.

#### (B) Direct banking platform

The Bank launched its direct banking platform in August 2016. Through the platform, our customers can achieve electronic account management, smart saving, investment and financing, and purchases of financial products and services. As of December 31, 2020, the Bank's direct banking platform had over 1,072,500 registered users with total transaction amounts of RMB12,136 million. The sales of direct banking platform products exceeded RMB3,977 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 December 31, 2020, the Bank had approximately 2,673,700 mobile phone banking customers that had conducted approximately 11.15 million transactions through mobile phones, with total transaction amounts of approximately RMB138,180 million.

## Management Discussion and Analysis

### *(D) Telephone banking*

The Bank provides customers with loan and deposit account inquiries, personal debit card account transfers, bill inquiries, lost declarations and business inquiry services through an interactive self-service voice system and live customer service. As of December 31, 2020, the Bank had 458,621 registered telephone banking customers, which were all individual customers.

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

The Bank provides convenient banking services to customers at lower operating costs through self-service facilities. The Bank's self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of December 31, 2020, the Bank had 200 outlets, 122 off-bank self-service zones, 747 self-service facilities and 349 intelligent counters.

### *(F) WeChat banking*

WeChat has become an important channel that provides value-added services to retail customers. Through WeChat banking, customers can access the Bank's products and services; accounts management, transaction inquiries, payment and convenience services; and the Bank's outlet locations inquiry service. As of December 31, 2020, the Bank had over 826,600 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 December 31, 2020, the platform had 969 merchants and 443,800 users, with total transaction amounts of approximately RMB10.14 million.

### *(e) Information on the subsidiary*

#### **Jingning Chengji Rural Bank**

In September 2008, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with 4 other legal entities and 7 individuals. As of December 31, 2020, the Bank held an approximately 62.73% equity interest in Jingning Chengji Rural Bank. Jingning Chengji Rural Bank, a joint stock company with limited liability incorporated in the PRC, carries out its business in the PRC, primarily engaging in offering financial products and services, including loans, deposits and fee and commission-based products and services to local corporate and retail customers.

As of December 31, 2020, Jingning Chengji Rural Bank had 35 corporate loan customers, 801 corporate deposit customers, 5,096 retail loan customers and 88,075 retail deposit customers. As of December 31, 2020, Jingning Chengji Rural Bank had 12 outlets and 116 employees.

As of December 31, 2020, Jingning Chengji Rural Bank had total assets of RMB1,544.9 million, total deposits of RMB935.7 million and total loans of RMB1,361.1 million. In 2019 and 2020, operating income attributable to Jingning Chengji Rural Bank totaled RMB41.2 million and RMB43.9 million, accounting for 0.57% and 0.68% of the Bank's total operating income, respectively.

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

# Management Discussion and Analysis

## (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 2019 and 2020, the Bank's investments in its IT system totaled approximately RMB301.3 million and RMB209.5 million, respectively.

The Bank fully launched digital transformation in early 2020 and formulated a digital transformation plan for the whole Bank, for the purpose of "serving the grassroots, driving the business, strengthening the management as well as preventing and controlling risks". The Bank kept pace with the digital era, and facilitated the transformation and development of the Bank's business operations. In terms of implementation, 13 key projects have been implemented in accordance with the principle of "order of priority, overall planning and step-by-step implementation". Through "implementing a set of mechanisms, creating three platforms, enhancing five applications, consolidating six markets and building ten themes", the Bank supported the rapid integration and innovation of financial technology and financial business application scenarios and promoted the Bank's digital transformation.

The Bank launched the data governance project at the beginning of 2020. Through the implementation of the data governance project, a complete long-term mechanism of data governance has been formed to strengthen the awareness of internal data usage, establish a good data culture, and integrate data governance into the whole process of operation management, business development and risk management; through standard formulation, implementation, quality inspection and problem tracking and solving, a virtuous cycle regarding the operation of data has been formed to ensure unified management and efficient operation of data, and give full play to its value in operation management.

In November 2020, the Bank completed the project of smart marketing service platform and put it into operation, transforming the traditional marketing mode and strategy, in reliance on the presence of offline smart outlets and online activities, in combination with the precise marketing activities of the marketing platform to achieve the effects of user attraction, promotion and conversion, providing customers with appropriate financial services, deepening co-operation and enhancing customer value, so as to finally realize online and offline multi-channel collaborative marketing, and promote the digital and intelligent transformation of retail marketing.

At the beginning of November 2020, the Bank's new off-site disaster recovery center located in Jiuquan, Gansu Province was officially put into operation. The disaster recovery level of the new off-site disaster recovery center has been considerably enhanced as compared to that of the original disaster recovery center. Seven key transaction systems such as the core, ESB and counter are deployed at the application level, and the other 18 systems are data-level disaster recovery systems. This structure can ensure that the Bank avoids large-scale business interruption caused by catastrophic events in the cities or regions where the production center and the disaster recovery center are located. During the reconstruction of the production center, the off-site disaster recovery center can provide the most basic business of deposits and withdrawals.

The Bank has also implemented safeguards to maintain the confidentiality, integrity and availability of information. These safeguards include firewalls, anti-virus measures, data encryption, user authentication and authorization, desk site security, intrusion prevention and detection, filing and evaluation of 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.

## 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.

# Management Discussion and Analysis

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

## (i) Credit risk management

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

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

In accordance with 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 and 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 adopts a different credit policy for each industry category.

Industries	Credit Policies
Pharmaceutical manufacturing, health industry, education, advanced manufacturing industry, expressway, environmental treatment industry, power generation and supply, information technology, internet-related fields, etc. ("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, textile industry, automobile manufacturing industry, mining and wholesale industries ("presence sustaining" 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 and 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.

# Management Discussion and Analysis

## (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.

### (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, and 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.

The table below sets forth the results of the Bank's gap analysis based on the earlier of (i) the expected next repricing dates; and (ii) the final maturity dates for its assets and liabilities as of December 31, 2020.

(Expressed in millions of RMB, unless otherwise stated)	Total	As of December 31, 2020				
		Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>						
Cash and deposits with the central bank	26,666.7	600.9	26,065.8	–	–	–
Deposits with banks	3,716.1	–	3,648.0	68.1	–	–
Financial assets held under resale agreement	19,150.1	–	19,150.1	–	–	–
Interest receivable	4,152.0	4,152.0	–	–	–	–
Loans and advances to customers	176,386.8	4,824.1	50,309.4	66,543.8	43,633.7	11,075.8
Investments	105,982.7	2,790.5	18,326.0	23,288.7	48,047.7	13,529.8
Others <sup>(1)</sup>	6,309.4	6,309.4	–	–	–	–
<b>Total assets</b>	<b>342,363.8</b>	<b>18,676.9</b>	<b>117,499.3</b>	<b>89,900.6</b>	<b>91,681.4</b>	<b>24,605.6</b>

## Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Total	As of December 31, 2020				
		Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Liabilities</b>						
Borrowings from the central bank	6,620.2	–	2,517.3	4,102.9	–	–
Deposits from banks and other financial institutions	11,625.7	55.8	1,974.9	9,595.0	–	–
Financial assets sold under repurchase agreements	8,730.1	–	8,730.1	–	–	–
Deposits from customers	249,677.7	–	121,398.5	33,593.8	94,685.4	–
Interest payable	7,629.7	7,629.7	–	–	–	–
Debt securities issued	23,551.5	–	13,949.3	8,102.7	1,499.5	–
Others <sup>(2)</sup>	3,064.1	2,781.3	–	113.2	166.5	3.1
<b>Total liabilities</b>	<b>310,899.0</b>	<b>10,466.8</b>	<b>148,570.1</b>	<b>55,507.6</b>	<b>96,351.4</b>	<b>3.1</b>
<b>Asset-liability gap</b>	<b>31,464.8</b>	<b>8,210.1</b>	<b>(31,070.8)</b>	<b>34,393.0</b>	<b>(4,670.0)</b>	<b>24,602.5</b>

(Expressed in millions of RMB, unless otherwise stated)	Total	As of December 31, 2019				
		Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>						
Cash and deposits with the central bank	25,274.3	405.8	24,868.5	–	–	–
Deposits with banks	3,967.5	–	3,967.5	–	–	–
Financial assets held under resale agreement	16,264.0	–	16,264.0	–	–	–
Interest receivable	2,202.1	2,202.1	–	–	–	–
Loans and advances to customers	164,766.8	8,669.9	64,506.7	56,228.7	29,158.3	6,203.2
Investments	113,508.7	315.1	26,953.4	18,554.8	60,192.3	7,493.1
Others <sup>(1)</sup>	9,061.1	9,061.1	–	–	–	–
<b>Total assets</b>	<b>335,044.5</b>	<b>20,654.0</b>	<b>136,560.1</b>	<b>74,783.5</b>	<b>89,350.6</b>	<b>13,696.3</b>

## Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Total	As of December 31, 2019				
		Non- interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Liabilities</b>						
Borrowings from the central bank	2,316.4	–	1,903.0	413.4	–	–
Deposits from banks and other financial institutions	13,621.9	54.4	7,177.5	6,390.0	–	–
Placements from banks and other financial institutions	890.0	–	580.0	310.0	–	–
Financial assets sold under repurchase agreements	5,398.6	–	5,398.6	–	–	–
Deposits from customers	236,868.6	–	92,738.9	24,280.8	119,848.9	–
Interest payable	8,761.5	8,761.5	–	–	–	–
Debt securities issued	39,459.2	–	10,030.3	23,732.9	999.5	4,696.5
Others <sup>(2)</sup>	3,039.3	2,755.4	–	101.4	180.4	2.1
<b>Total liabilities</b>	<b>310,355.5</b>	<b>11,571.3</b>	<b>117,828.3</b>	<b>55,228.5</b>	<b>121,028.8</b>	<b>4,698.6</b>
<b>Asset-liability gap</b>	<b>24,689.0</b>	<b>9,082.7</b>	<b>18,731.8</b>	<b>19,555.0</b>	<b>(31,678.2)</b>	<b>8,997.7</b>

*Notes:*

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31,			
	2020	2019	2020	2019
	Change in net profit	Change in equity	Change in net profit	Change in equity
Increase by 100 basis points	143.9	(617.9)	60.4	(675.9)
Decrease by 100 basis points	(143.9)	617.9	(60.4)	675.9

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

- Interest rate movements at the end of each Track Record Period apply to the Bank's non-derivative financial instruments;

## Management Discussion and Analysis

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

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

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

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

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

### *(iii) Operational risk management*

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

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

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

The risk 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.



# Management Discussion and Analysis

## (iv) Liquidity risk

### (A) *Liquidity risk management*

Liquidity risk refers to the risk of failing to acquire sufficient funds at a reasonable cost and in a timely manner to pay the debts when due, fulfill other payment obligations and meet other funding requirements for normal business operations. Factors affecting our liquidity of the Bank include the term structure of its assets and liabilities and changes to financial industry policies, such as changes in the requirements relating to its statutory required reserve ratio. The Bank is exposed to liquidity risks primarily in its lending, trading and investment activities, as well as in the management of its cash flow positions.

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

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

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

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

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

### (B) *Liquidity risk analysis*

The Bank funds its loan and investment portfolios principally through customer deposits. Deposits from customers have been, and the Bank believes will continue to be, a stable source of funding. Customer deposits with remaining maturities of less than one year represented 62.1% and 49.4% deposits from customers as of December 31, 2020 and 2019, respectively.

## Management Discussion and Analysis

The table below sets forth the remaining maturity of the Bank's assets and liabilities as of December 31, 2020 and 2019.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2020						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>							
Cash and deposits with the central bank	20,986.1	5,680.6	-	-	-	-	26,666.7
Deposits with banks	-	3,648.0	-	68.1	-	-	3,716.1
Financial assets held under resale agreements	-	-	19,150.1	-	-	-	19,150.1
Financial assets at fair value through profit or loss	-	2,468.9	2,111.2	1,160.8	19,262.7	833.9	25,837.5
Interest receivable	-	632.7	1,661.2	1,581.8	250.6	25.7	4,152.0
Loans and advances to customers	3,783.6	1,040.5	24,474.2	69,452.7	47,725.0	29,910.8	176,386.8
Financial assets at fair value through other comprehensive income	-	-	360.1	2,274.4	6,624.2	1,954.4	11,213.1
Financial assets at amortised costs	2,687.4	7,451.5	5,715.8	19,853.5	22,160.9	11,063.0	68,932.1
Others <sup>(1)</sup>	5,668.4	-	-	-	641.0	-	6,309.4
<b>Total assets</b>	<b>33,125.5</b>	<b>20,922.2</b>	<b>53,472.6</b>	<b>94,391.3</b>	<b>96,664.4</b>	<b>43,787.8</b>	<b>342,363.8</b>
<b>Liabilities</b>							
Borrowings from the central bank	-	-	2,517.3	4,102.9	-	-	6,620.2
Deposits from banks and other financial institutions	-	950.7	1,080.0	9,595.0	-	-	11,625.7
Financial assets sold under repurchase agreements	-	-	8,730.1	-	-	-	8,730.1
Deposits from customers	-	93,738.9	27,659.6	33,593.8	94,685.4	-	249,677.7
Interest payable	-	3,013.6	1,749.5	1,251.2	1,615.4	-	7,629.7
Debt securities issued	-	-	13,949.3	8,102.7	1,499.5	-	23,551.5
Others <sup>(2)</sup>	23.7	2,095.3	662.3	113.2	166.5	3.1	3,064.1
<b>Total liabilities</b>	<b>23.7</b>	<b>99,798.5</b>	<b>56,348.1</b>	<b>56,758.8</b>	<b>97,966.8</b>	<b>3.1</b>	<b>310,899.0</b>
<b>New working capital</b>	<b>33,101.8</b>	<b>(78,876.3)</b>	<b>(2,875.5)</b>	<b>37,632.5</b>	<b>(1,302.4)</b>	<b>43,784.7</b>	<b>31,464.8</b>

# Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>							
Cash and deposits with the central bank	20,334.8	4,939.5	-	-	-	-	25,274.3
Deposits with banks	-	3,895.8	71.7	-	-	-	3,967.5
Financial assets held under resale agreements	-	-	16,264.0	-	-	-	16,264.0
Financial assets at fair value through profit or loss	-	-	14,657.9	3,193.2	17,991.7	887.1	36,729.9
Interest receivable	-	26.1	653.6	1,031.2	398.4	92.8	2,202.1
Loans and advances to customers	4,075.2	4,996.6	19,538.1	63,138.2	50,620.1	22,398.6	164,766.8
Financial assets at fair value through other comprehensive income	-	-	495.7	2,832.2	7,667.0	4,086.5	15,081.4
Financial assets at amortised costs	4,646.6	760.0	6,393.2	12,529.4	34,533.5	2,834.7	61,697.4
Others <sup>(1)</sup>	5,569.8	-	-	-	3,491.3	-	9,061.1
<b>Total assets</b>	<b>34,626.4</b>	<b>14,618.0</b>	<b>58,074.2</b>	<b>82,724.2</b>	<b>114,702.0</b>	<b>30,299.7</b>	<b>335,044.5</b>
<b>Liabilities</b>							
Borrowings from the central bank	-	-	1,903.0	413.4	-	-	2,316.4
Deposits from banks and other financial institutions	-	601.9	6,630.0	6,390.0	-	-	13,621.9
Placements from banks and other financial institutions	-	-	580.0	310.0	-	-	890.0
Financial assets sold under repurchase agreements	-	-	5,398.6	-	-	-	5,398.6
Deposits from customers	-	82,717.2	10,021.7	24,280.8	119,848.9	-	236,868.6
Interest payable	-	8,381.7	135.5	155.1	35.2	54.0	8,761.5
Debt securities issued	-	-	10,030.3	23,732.9	999.5	4,696.5	39,459.2
Others <sup>(2)</sup>	26.4	1,994.2	734.8	101.4	180.4	2.1	3,039.3
<b>Total liabilities</b>	<b>26.4</b>	<b>93,695.0</b>	<b>35,433.9</b>	<b>55,383.6</b>	<b>121,064.0</b>	<b>4,752.6</b>	<b>310,355.5</b>
<b>New working capital</b>	<b>34,600.0</b>	<b>(79,077.0)</b>	<b>22,640.3</b>	<b>27,340.6</b>	<b>(6,362.0)</b>	<b>25,547.1</b>	<b>24,689.0</b>

**Notes:**

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

# Management Discussion and Analysis

## *The Bank's liquidity coverage ratio*

	December 31, 2020	December 31, 2019
Liquidity coverage ratio (%)	268.73	199.59

## *The Bank's net stable funding ratio*

(Expressed in millions of RMB, unless otherwise stated)	December 31, 2020	September 30, 2020
Closing amount of available stable funds	232,804.6	228,247.6
Closing amount of required stable funds	182,925.2	191,021.0
Net stable funding ratio (%)	127.27	119.49

### (v) Reputational risk management

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

### (vi) Legal compliance risk management

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

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;
- 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;

# Management Discussion and Analysis

- 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 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.

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;

## Management Discussion and Analysis

- formulating solutions and responsive measures; and
- reporting to the Board of Directors.

This leadership group is led by the president of the Bank and the office is set up at the legal and compliance department. The members of the leadership group consists of the anti-money laundering leadership management department, the business management department, the responsible persons from the middle and back-end cooperation departments and other parties.

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.

## 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.

## Management Discussion and Analysis

The table below sets forth certain information relating to its capital adequacy ratio as of December 31, 2020 and 2019.

(Expressed in millions of RMB, unless otherwise stated)	December 31, 2020	December 31, 2019
<b>Core capital</b>		
Paid-up capital	15,069.8	10,069.8
Qualifying portion of capital reserve	5,955.5	4,660.4
Defined benefit plan reserve	(2.8)	(3.4)
Investment revaluation reserve	137.2	219.5
Surplus reserve	1,616.0	1,560.8
General risk reserve	4,539.0	4,471.0
Retained earnings	4,113.9	3,678.9
Qualifying portion of non-controlling interest	20.5	17.5
Core tier-one capital deductions <sup>(1)</sup>	(249.0)	(253.8)
<b>Net core tier-one capital</b>	<b>31,200.1</b>	<b>24,420.7</b>
Other tier-one capital <sup>(2)</sup>	2.7	2.3
<b>Net tier-one capital</b>	<b>31,202.8</b>	<b>24,423.0</b>
<b>Tier-two capital</b>		
Instruments issued and share premium	–	3,197.2
Surplus reserve for loan impairment	1,294.3	1,500.3
Eligible portion of non-controlling interest	5.5	4.7
<b>Net capital base</b>	<b>32,502.6</b>	<b>29,125.2</b>
<b>Total risk-weighted assets</b>	<b>242,733.5</b>	<b>246,208.0</b>
Core tier-one capital adequacy ratio (%)	12.85	9.92
Tier-one capital adequacy ratio (%)	12.85	9.92
Capital adequacy ratio (%)	13.39	11.83

Notes:

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

# Report of the Board of Directors

The Board is pleased to present the Report of the Board of Directors together with the audited financial statements of the Group for the year ended December 31, 2020. All relevant sections of this annual report referred to in this Report of the Board of Directors form part of this Report of the Board of Directors. Unless otherwise specified, the financial data disclosed in this report are prepared in accordance with the IFRSs.

## 1. BUSINESS REVIEW

The Bank is the only provincial urban commercial bank in Gansu Province of China, and has established a comprehensive business network across Gansu Province. The Group is engaged in a range of banking services and related financial services. The information on business review of the Group for the year ended December 31, 2020 is set out in the section headed “Management Discussion and Analysis — Business Review” of this annual report.

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

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

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

## 3. RELATIONSHIP BETWEEN THE BANK AND ITS EMPLOYEES

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

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

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



# Report of the Board of Directors

## 4. RELATIONSHIP BETWEEN THE BANK AND ITS CUSTOMERS

### (1) Retail Customers

In respect of retail banking, the Bank offers its retail customers a wide range of financial products and services, including loans, deposits, bank card services and fee and commission-based products and services. The Bank categorizes retail customers into regular customers (with average financial asset balances of under RMB50,000), wealth management customers (with average financial asset balances of RMB50,000 or above but less than RMB200,000), wealthy customers (with average financial asset balances of RMB200,000 or above but less than RMB3.0 million) and private banking customers (with average financial asset balances of RMB3.0 million or above). As of December 31, 2020, the Bank had 226,481 wealthy customers and 487 private banking customers. This sizable retail customer base provides a stable source of deposits and opportunities to cross-sell and develop our retail business.

### (2) Corporate Customers

The Bank offers corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fee and commission-based products and services. The Bank's corporate customers primarily include government agencies, public organizations, SOEs, private enterprises and foreign-invested enterprises. The Bank is committed to serving local customers with a focus on small and micro enterprises. In addition, the Bank commits to seeking to develop long-term relationships with customers by closely monitoring their financial needs and offering tailored financial solutions.

## 5. PROFITS AND DIVIDEND

### (1) Dividend Policy

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

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

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

## Report of the Board of Directors

According to the relevant MOF regulations, before a financial institution makes any profit distribution, the balance of the Bank's statutory general reserve shall in principle not be lower than 1.5% of the balance of risk assets at the end of the period. As of December 31, 2020, the Bank set aside RMB68.0 million as general reserves, in line with relevant regulations.

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

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

The CBIRC has discretionary authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated any other PRC banking regulations, from paying dividends or making other forms of distributions. As of December 31, 2020, the Bank had a capital adequacy ratio of 13.39%, a tier-one capital adequacy ratio of 12.85% and a core tier-one capital adequacy ratio of 12.85%, all of which comply with the relevant CBIRC requirements.

### (2) Final dividend for 2019

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, recommended no 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.

### (3) Profit and profit distribution plan for 2020

The Group's revenue for the year ended December 31, 2020 and the Group's financial position as of the same date are set out in the consolidated financial statements of this annual report.

To lay a solid foundation of the Bank's development, and taking into account the need for future growth in a long run as well as other factors, at the Board meeting of the Bank held on March 29, 2021, the Board recommended no distribution of any 2020 final dividend. The Board will submit the above profit distribution plan to the 2020 annual general meeting for approval. In the case of any change in the dividend distribution arrangement mentioned above, the Bank will make an announcement in a timely manner.

## 6. ISSUANCE OF DOMESTIC SHARES AND ISSUANCE OF H SHARES

In order to replenish the core tier 1 capital of the Bank, continue to comply with regulatory requirements, enhance its risk-resistance capacity, boost market confidence and optimize its equity structure, on December 29, 2020, the issuance of 3.75 billion Domestic Shares and 1.25 billion H Shares to eligible subscribers were completed by the Bank, among which, 1.55 billion Domestic Shares were issued to Gansu State-owned Assets Investment, 1.5 billion Domestic Shares to Gansu Highway Aviation Tourism, 350 million Domestic Shares to Jiuquan Iron & Steel and 350 million Domestic Shares to Jinchuan Group (Gansu State-owned Assets Investment, Gansu Highway Aviation Tourism, Jiuquan Iron & Steel and Jinchuan Group being substantial shareholders or associates of the Bank). In addition, 1.25 billion H Shares were issued by the Bank to Gansu Financial Holding Group Co., Ltd. (an independent third party). Immediately after the completion of the issuance of Domestic Shares and H Shares, the registered capital of the Bank was increased to RMB15,069,791,330, and the total number of the Bank's Shares was increased to 15,069,791,330 Shares, including 11,275,991,330 Domestic Shares and 3,793,800,000 H Shares.

## Report of the Board of Directors

As agreed in the relevant subscription agreement, the subscription prices for the Issuance of Domestic Shares was RMB1.26 per share and the subscription price for the Issuance of H Shares was HK\$1.49 per share (equivalent to RMB1.26), representing a premium of approximately 14.62% to the closing price of H Shares of approximately HK\$1.30 per Share as quoted on the Stock Exchange as at the date of execution of relevant subscription agreement. The net proceeds raised from the Issuance after deducting related issuance costs is approximately RMB6.294 billion (equivalent to HK\$7.442 billion), which have been entirely used to replenish core tier 1 capital of the Bank. For further details of the issuance of Domestic Shares and H Shares, please refer to the announcements dated March 30, 2020 and April 17, 2020, the circular dated May 18, 2020, the announcement on the poll results of 2020 first extraordinary general meeting and class meetings dated June 3, 2020 and the announcements dated December 11, 2020 and December 29, 2020.

### 7. ANNUAL GENERAL MEETING AND BOOK CLOSURE DATE

The 2020 annual general meeting of the Bank will be held on Monday, May 24, 2021. In order to determine the holders of H Shares who are eligible to attend the 2020 annual general meeting of the Bank, the H share register of the Bank will be closed from Saturday, April 24, 2021 to Monday, May 24, 2021 (both days inclusive), during which period no transfer of H Shares will be registered. In order to qualify for attending the 2020 annual general meeting of the Bank, share certificates accompanied by transfer documents must be lodged with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, April 23, 2021. Holders of H Shares of the Bank who have been registered with Computershare Hong Kong Investor Services Limited on Monday, May 24, 2021 are entitled to attend the 2020 annual general meeting of the Bank.

### 8. CHANGES IN THE RESERVES

Details of the Group's changes in the reserves and the distributable profit reserve for the year ended December 31, 2020 are set out in "Consolidated Statement of Changes in Equity" of this annual report. The distributable profit reserves as of December 31, 2020 were RMB4,113,915,504.72.

### 9. SUMMARY OF FINANCIAL INFORMATION

The summary of the operating results for the year ended December 31, 2020 and assets and liabilities as of December 31, 2020 of the Group is set out in the section headed "Financial Highlights" of this annual report.

### 10. DONATIONS

For the year ended December 31, 2020 the Group made charity and other donation of RMB9,251,289.90 in aggregate.

### 11. PROPERTY AND EQUIPMENT

Details of the changes in property and equipment of the Group for the year ended December 31, 2020 are set out in note 27 to the consolidated financial statements of this annual report.

## 12. RETIREMENT BENEFITS

The Group offers two non-contributory defined benefit retirement benefit plans, including:

### (i) Supplemental retirement benefits

The Group pays supplemental retirement benefits for employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for employees at the end of the reporting year. As at December 31, 2020, the present value of the obligations under the supplemental retirement benefits was RMB17.3 million. The Group's obligations in respect of the supplemental retirement benefits were assessed using projected unit credit actuarial cost method by an external independent actuary, Wills Towers Watson (a member of Society of Actuaries in America), with 25 January 2021 as the assessment date. The adopted actuarial assumption of the actuarial assessment result is set out in the Table 1 below:

Point of time	December 31, 2020
Discount rate- benefits after resignation	3.25%
Discount rate- benefits after layoff	2.75%
Annual resignation rate	2.00%
Death rate	China Life Tables (2010 to 2013) Pension business for male/female
Annual growth rate of large supplemented amount for medical insurance contributions after official retirement of existing retired personnel, existing internal retired personnel and entitled incumbent staff members	6.00%
Annual growth rate of basic medical insurance contributions after official retirement of existing retired personnel, existing internal retired personnel and entitled incumbent staff members	6.00%

The contribution rate for on-going operation of the abovementioned plan was 3.25%. The plan has sufficient assets to cover liabilities due to instant dissolution or on-going operation.

### (ii) Other long-term staff welfare payable:

The Group pays compensation for termination benefits of employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for employees at the end of the reporting year. As at December 31, 2020, the present value of other long-term staff welfare payable was RMB5.2 million. The Group's obligations in respect of other long-term staff welfare payable were assessed using projected unit credit actuarial cost method by an external independent actuary, Wills Towers Watson (a member of Society of Actuaries in America), with January 25, 2021 as the assessment date. The main assumption is stated as the above Table 1.

The contribution rate for on-going operation of the abovementioned plan was 2.75%. The plan has sufficient assets to cover liabilities due to instant dissolution or on-going operation.

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

## 13. SUBSTANTIAL SHAREHOLDERS

Details of the substantial Shareholders as of December 31, 2020 are set out in the section headed "Changes in Share Capital and Particulars of Shareholders – II. Particulars of Shareholders – (II) Interests and Short Positions of Substantial Shareholders and Other Persons" of this annual report.

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

In order to replenish the core tier 1 capital of the Bank, continue to comply with regulatory requirements, enhance its risk-resistance capacity, boost market confidence and optimize its equity structure, on December 29, 2020, the Bank completed the issuance of 3.75 billion Domestic Shares and 1.25 billion H Shares to eligible subscribers, among which, 1.55 billion Domestic Shares were issued to Gansu State-owned Assets Investment, 1.5 billion Domestic Shares to Gansu Highway Aviation Tourism, 0.35 billion Domestic Shares to Jiuquan Iron & Steel and 0.35 billion Domestic Shares to Jinchuan Group (Gansu State-owned Assets Investment, Gansu Highway Aviation Tourism, Jiuquan Iron & Steel and Jinchuan Group being substantial shareholders or associates of the Bank). In addition, 1.25 billion H Shares were issued by the Bank to Gansu Financial Holding Group Co., Ltd. (an independent third party). Immediately after the completion of the issuance of Domestic Shares and H Shares, the registered capital of the Bank was increased to RMB15,069,791,330, and the total number of the Bank's Shares was increased to 15,069,791,330 Shares, including 11,275,991,330 Domestic Shares and 3,793,800,000 H Shares.

As agreed in the relevant subscription agreements, the subscription price for the issuance of domestic shares was RMB1.26 per share and the subscription price for the issuance of H shares was HK\$1.49 per share (equivalent to RMB1.26), representing a premium of approximately 14.62% to the closing price of H Shares of approximately HK\$1.30 per Share as quoted on the Stock Exchange as at the date of execution of relevant subscription agreements. The net proceeds raised from the issuance after deducting related issuance costs is approximately RMB6.294 billion (equivalent to HK\$7.442 billion), which have been entirely used to replenish core tier 1 capital of the Bank. For further details of the issuance of domestic shares and H Shares, please refer to the announcements dated March 30, 2020, April 17, 2020, June 3, 2020, December 11, 2020 and December 29, 2020, and the circular dated May 18, 2020.

Save for the above-mentioned non-public issuance of domestic shares and H shares, the Bank and any of its subsidiaries had not purchased, sold or redeemed any of the Bank's listed securities during the Reporting Period.

### 15. PRE-EMPTIVE RIGHTS

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

### 16. MAJOR CUSTOMERS

As of December 31, 2020, the Group's five largest depositors and five largest borrowers accounted for less than 30% of the respective total deposits from customers and total loans and advances to customers.

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

### 17. SHARE CAPITAL

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

# Report of the Board of Directors

## 18. DIRECTORS AND SUPERVISORS OF THE BANK

During the Reporting Period, the Board of Directors includes:

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

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

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

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

As at December 31, 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>	0.003	0.002
Mr. Xu Yongfeng	Employee Supervisor	Domestic Shares	Beneficial owner	225,514(L) <sup>(1)</sup>	0.002	0.001
Mr. Luo Zhenxia	Employee Supervisor	Domestic Shares	Beneficial owner	205,711(L) <sup>(1)</sup>	0.002	0.001
Mr. Li Yongjun	Shareholder Supervisor	Domestic Shares	Interest in the controlled corporation <sup>(2)</sup>	239,326,800(L) <sup>(1)</sup>	2.122	1.588

# Report of the Board of Directors

## Notes:

- (1) L represents long position.
- (2) Mr. Li Yongjun, a Supervisor of the Bank and his spouse together directly hold 2.0% equity interest in Yong Xin Hua Holdings Group Co., Ltd. (永新華控股集團有限公司). 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 Group Co., Ltd.

Save as disclosed above, none of the Directors, Supervisors and chief executive of the Bank held any interests or short positions in the Shares, underlying Shares or debentures of the Bank or its associated corporations as at December 31, 2020.

## 20. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

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

## 22. MANAGEMENT CONTRACT

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

## 23. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESSES

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

## 24. CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance. Details of the Group's corporate governance are set out in the section headed "Corporate Governance Report" of this annual report. During the Reporting Period, the Bank has complied with the compulsory code provisions contained in the Corporate Governance Code.

## 25. CONNECTED TRANSACTIONS

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

### Exempt Continuing Connected Transactions

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

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

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

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

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

#### (2) *Taking deposits from connected persons*

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

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



## Report of the Board of Directors

### (3) Other banking services and products

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

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

### (II) Property leasing agreements with connected persons

The Bank entered into a property leasing agreement (the "Zhongtian Leasing Agreement") with JISCO Zhongtian Property Co., Ltd. (酒鋼集團中天置業有限公司) (an associate of Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, "Zhongtian Property"). Pursuant to the Zhongtian Leasing Agreement, Zhongtian Property leased a property located in Jiayuguan, Gansu province to the Bank as the Bank's business office, with a leasing term from January 1, 2020 to December 31, 2020 and at an annual rental of RMB562,200. The transaction is conducted on normal commercial terms.

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

Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, holds 31.58% equity interest in Jiuquan Iron & Steel, while Zhongtian Property is a subsidiary of Jiuquan Iron & Steel. Zhongtian Property is therefore a connected person of the Bank. Gansu Highway Aviation Tourism, a substantial Shareholder of the Bank, holds 18.3% equity interest in the Bank, while HAT Asset Management is a subsidiary of Gansu Highway Aviation Tourism. HAT Asset Management is therefore a connected person of the Bank. As the highest applicable percentage ratios of the transactions under the Zhongtian Leasing Agreement and the HAT Leasing Agreement calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are both, on an annual basis, less than 0.1%, the continuing connected transactions contemplated under the Zhongtian Leasing Agreement and the HAT Leasing Agreement constitute *de minimis* transaction, and therefore is exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

### (III) Property management agreement with a connected person

The Bank entered into a property management agreement with Lanzhou Changhong Property Management Co., Ltd. (蘭州長虹物業管理有限公司) (an associate of Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, “Changhong Property Management”). Pursuant to this agreement, Changhong Property Management agreed to provide property management services to the Bank for the Bank of Gansu Tower situated at Chengguan District of Lanzhou, Gansu Province, with a term from January 1, 2020 to December 31, 2020 and at a total annual fee of RMB4,146,400. The transaction is conducted on normal commercial terms.

Gansu State-owned Assets Investment, a substantial Shareholder of the Bank, holds 31.58% equity interest in Jiuquan Iron & Steel, which holds 100% equity interest in JISCO Lanzhou Judong Real Estate Development Co., Ltd. JISCO Lanzhou Judong Real Estate Development Co., Ltd. holds 100% equity interest in Changhong Property Management. Therefore, Changhong Property Management is a connected person of the Bank. As the highest applicable percentage ratios of the above transaction calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules are expected to be, on an annual basis, less than 0.1%, the continuing connected transaction contemplated under the above property management services agreement constitutes *de minimis* transaction, and therefore is exempt from all the reporting, annual review, announcement and independent Shareholders’ approval requirements pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules.

### Non-exempt Connected Transactions

#### (IV) Subscription of bonds of Gansu Assets Management

On November 24, 2020, Gansu Assets Management Co., Ltd. (甘肅資產管理有限公司) (“Gansu Assets Management”), a subsidiary of Gansu State-owned Assets Investment which is a substantial Shareholder of the Bank, conducted a public issuance of credit enhancement collective bonds for small and micro enterprises in RMB (the “Bonds”) to domestic institutional investors in the PRC, with a total amount of RMB800 million and at an interest rate of 3.97%. On November 25, 2020, the Bank successfully subscribed for the Bonds in a total nominal value of RMB170 million. The total consideration was approximately RMB170 million.

The Bonds have a term of four years, the value date of which was November 26, 2020 and the payment date is November 26, 2024. The total issuance amount is RMB800 million at a fixed interest rate of 3.97% per annum. The coupon rate per annum is set at benchmark interest rate of Shanghai Interbank Offered Rate (“Shibor Benchmark Interest Rate”) plus a basic spread. At the end of the third year during the effective term of the Bonds, the issuer has the option to raise or lower the coupon rate of the Bonds by 0 to 300 basis points (both inclusive and one basis point representing 0.01%). For the fourth year during the effective term of the Bonds, the coupon rate of the Bonds will remain unchanged. The Bonds bear a simple interest rate on an annual basis, with no compound interest accrued. Interest shall be paid once a year and the principal shall be repaid on the date of maturity in a lump sum. The last installment of interest shall be paid together with the principal.

As a part of the financial management of the Bank, it will increase its comprehensive income through external investment in financial bonds or otherwise from time to time. The Bank is of the view that the interest rate of bonds is equivalent to the average interest rate of similar products in the market and believes that subscription for and holding of bonds will bring in stable income for the Bank. The Bank is expected to receive an interest of RMB6,749,000 per annum during the effective term of the Bonds. During the Reporting Period, the Bank has not received any interest.

## Report of the Board of Directors

Gansu State-owned Assets Investment is a substantial Shareholder of the Bank and is thus a connected person of the Bank, and Gansu Assets Management is a subsidiary of Gansu State-owned Assets Investment and is thus a connected person of the Bank. The subscription and holding of the Bonds constitutes financial assistance to the Bank to Gansu Assets Management, and therefore constitutes a connected transaction of the Bank under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the subscription of the Bonds exceed(s) 0.1% but all percentage ratios are less than 5%, the transaction is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules, but is exempt from circular (including independent financial advice) and independent shareholders' approval requirements.

### (V) Issuance of Domestic Shares

On December 29, 2020, the Bank completed the issuance of 3.75 billion Domestic Shares to the connected persons of the Bank, Gansu State-owned Assets Investment, Gansu Highway Aviation Tourism, Jiuquan Iron & Steel and Jinchuan Group. For details, please refer to the “– 6. Issuance of Domestic Shares and Issuance of H Shares” in this chapter.

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

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

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

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

The remuneration provided by the Bank for its executive Directors, employee Supervisors and senior management who are also the Bank's employees concurrently include salaries, discretionary bonus, social security plans, housing provident fund plans and other benefits. The remuneration provided by the Bank for its non-executive Directors, independent non-executive Directors and other Supervisors are determined by their responsibilities. Please refer to note 12 to the consolidated financial statements in this annual report for the details of the remuneration of the Directors and Supervisors.

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

## 27. PUBLIC FLOAT

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 25.17% of the total issued share capital of the Bank, which satisfies the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules.

## 28. TAX RELIEF

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

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

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

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

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation rules and the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (Announcement of the State Administration of Taxation 2015 No. 60) (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》(國家稅務總局公告2015年第60號)) (the "Tax Convention Announcement"), the Bank has the obligation to withhold and pay individual income tax on behalf of the individual shareholders whose names appear on the H Share register ("Individual H Shareholder(s)") in the distribution of final dividend for 2020. However, Individual H Shareholders are entitled to the relevant favorable tax treatments pursuant to the provisions in the tax treaties between the countries (regions) in which they are domiciled and the PRC, and the tax arrangements between the PRC and Hong Kong (or Macau). As such, the Bank will withhold and pay individual income tax on behalf of the Individual H Shareholders in accordance with the following arrangements:

## Report of the Board of Directors

- for Individual H Shareholders receiving dividends who are Hong Kong or Macau residents or citizens from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Bank will withhold and pay individual income tax at the rate of 10% in the distribution of final dividend;
- for Individual H Shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Bank will withhold and pay individual income tax at the rate of 10% in the distribution of final dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Bank will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Convention Announcement. Qualified shareholders shall submit in time a letter of entrustment and all application materials as required under the Tax Convention Announcement to the Bank's H share registrar, Computershare Hong Kong Investor Services Limited. The Bank will then submit the above documents to competent tax authorities and, after their examination and approval, the Bank will assist in refunding the excess amount of tax withheld and paid;
- for Individual H Shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Bank will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty in the distribution of final dividend;
- for Individual H Shareholders receiving dividends who are residents from countries (regions) that have entered into a tax treaty with the PRC stipulating a tax rate of 20% or without tax treaties with the PRC or under other circumstances, the Bank will withhold and pay the individual income tax at the rate of 20% in the distribution of final dividend.

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

## 29. AUDITORS

Shinewing Certified Public Accountants LLP was engaged by the Bank as the auditor for the financial statements of the Bank prepared under the PRC GAAP for 2020. SHINEWING (HK) CPA Limited was engaged by the Bank as the auditor for financial statements of the Bank prepared under the IFRSs for 2020. Please also refer to the section headed "Corporate Governance Report – II. Corporate Governance – (IX) External Auditors and Remuneration of Auditors" of this annual report for the information on the auditors' remuneration.

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

## 30. PERMITTED INDEMNITY PROVISION

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

### 31. MAJOR RISKS AND UNCERTAINTIES

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

### 32. FUTURE DEVELOPMENT OF BUSINESS

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

### 33. KEY FINANCIAL PERFORMANCE INDICATORS

As of December 31, 2020, according to the financial data prepared under the IFRSs, the total assets of the Group amounted to RMB342,363.8 million, representing a year-on-year increase of 2.2%; total loans and advances to customers amounted to RMB181,825.7 million, representing a year-on-year increase of 6.7%; the non-performing loan ratio was 2.28%; total deposits from customers amounted to RMB249,677.7 million, representing a year-on-year increase of 5.4%; the operating income of the Group amounted to RMB6,493.3 million, representing a year-on-year decrease of 10.2%; and the net profit of the Group amounted to RMB562.4 million, representing a year-on-year increase of 10.0%. As of December 31, 2020, the Group’s capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio was 13.39%, 12.85% and 12.85%, respectively.

### 34. ENVIRONMENTAL PROTECTION POLICY AND IMPLEMENTATION

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

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

### 35. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2020, the Bank has complied with the “comply or explain” provisions set forth in the Environmental, Social and Governance Reporting Guide. For details, please refer to the 2020 Environmental, Social and Governance Report of the Bank to be published in accordance with the Hong Kong Listing Rules.

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

## 36. COMPLIANCE WITH LAWS AND REGULATIONS

The Board pays close attention to the policies and regulations in relation to compliance with laws and regulatory requirements. As of December 31, 2020, to the best knowledge of the Board, the Group has complied in all material respects with all applicable laws and regulations which could materially affect the Group.

### (1) Legal and compliance risk management of the Bank

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

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

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

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

### (2) Anti-money laundering management

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

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

The Bank has established anti-money laundering leadership groups at its head office, branches and sub-branches. The anti-money laundering leadership group at its head office leads and coordinates our bank-wide anti-money laundering efforts. It is primarily responsible for:

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

This leadership group is led by the president of the Bank and the office is set up at the legal and compliance department. The members of the leadership group consist of the anti-money laundering leadership management department, the business management department, the responsible persons from the middle and back-end cooperation departments and other parties.

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

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



# Report of the Board of Directors

## 37. BUSINESS QUALIFICATIONS

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

## 38. LEGAL PROCEEDINGS

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

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

## 39. ISSUANCE OF BONDS

For the year ended December 31, 2020, the Bank has issued debt securities during the Reporting Period to supplement its capital, the details of which are set out as follows:

### Interbank certificates

For the year ended December 31, 2020, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate principal amount of RMB31,910.0 million. The interbank certificates have terms of one month to one year and bear effective interest rates between 1.40% and 3.80% per annum.

### Financial bonds

At the meeting of the Board of Directors convened on March 27, 2019, the Board of Directors advised the Bank to issue 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 2018 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 2019 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.

## 40. EQUITY-LINKED AGREEMENT

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

## 41. REVIEW OF ANNUAL RESULTS

Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited have audited the consolidated financial statements of the Group prepared in accordance with the PRC GAAP and IFRSs, respectively, and issued standard unqualified auditors' reports. The Board of Directors and the Audit Committee of the Bank have reviewed the results and financial report of the Bank for the year ended December 31, 2020 and recommended the Board of Directors to approve these documents.

## 42. BUSINESS ACTIVITIES INVOLVING SANCTIONED COUNTRIES

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

The Bank does not engage, and have not in the past five years engaged, in a transaction or dealing, directly or indirectly, involving a Sanctioned Country other than Iran. The Bank's Iran-related transactions and dealings have been limited to the provision of RMB and Euro ("EUR") settlement services to PRC merchants that the Bank believes sell daily necessities and commercial electronic devices to Iranian companies (the "Iran-related Business"). The Bank has called a complete halt to our Iran-related Business since October 23, 2018 and frozen the money in all Irani banks' settlement accounts with the Bank and would cut off all communications with them until such sanctions are lifted. The monetary value of the Iran-related settlement transactions the Bank has handled from 2018 to 2020, as well as the commission income the Bank received in connection with these settlement services and the percentage of our total operating income that this commission income represents, are set out as follows:

Year	Settlement Amount	Commission Income	Percent of Total
2018	US\$859 million	RMB22 million	0.25
2019	Nil	Nil	N/A
2020	Nil	Nil	N/A

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

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

## Report of the Board of Directors

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

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

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

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

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

## 43. COMPANY SECRETARIES

The current company secretary of the Bank is Mr. Wong Wai Chiu (黃偉超), whose appointment was effective on January 26, 2021. Prior to that, the company secretary of the Bank is Ms. Fok Po Yi (霍寶兒), whose resignation was effective on January 26, 2021.

## 44. MISCELLANEOUS

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

By Order of the Board  
Liu Qing  
*Chairman*

# Work Report of the Board of Supervisors

In 2020, in accordance with the provisions and requirements of the Company Law, the Guidelines on Corporate Governance of Commercial Banks, Guidelines on the Functioning of the Board of Supervisors of Commercial Banks and the Articles of Association of the Bank, the Board of Supervisors studied and made judgement on the macroeconomic situation, adapted to changes in operation and management, innovated its working methods, highlighted the focus of supervision and performed duties in accordance with the law, and played an active role in promoting the steady development of business, strengthening risk internal control and management and improving corporate governance.

## I. THE MAJOR TASKS OF THE BOARD OF SUPERVISORS IN 2020

### (I) Continuously strengthened its own construction and improved the level of supervision

Since 2020, learning materials have been sent to Supervisors by the Board of Supervisors regularly and a regular study and discussion system for the Board of Supervisors has been established. During the year, the Board of Supervisors issued 6 important supervisory systems and work systems of the Board of Supervisors. Through the study of rules and regulations such as the work guidelines of the Board of Supervisors, corporate governance, equity management, major and material risk exposure, liquidity management, employee behavior management, the Articles of Association, and rules of procedures of the Board of Supervisors, it clarified the latest requirements of the supervisory authority and the basic duties of the Board of Supervisors and Supervisors, which have gradually improved the Supervisor's own professional ability and performance level.

### (II) Effectively deepened the performance evaluation and promoted the improvement of performance efficiency

In accordance with relevant regulations of supervision, in order to regulate and supervise the performance of the Board and senior management, strengthen supervision of performance, and facilitate self-discipline of the Board of Supervisors, the Board of Supervisors revised and improved three evaluation methods, namely the Evaluation Measures of the Board of Supervisors of Bank of Gansu Co., Ltd. on the Duty Performance of Supervisors (provisional), the Evaluation Measures of the Board of Supervisors of Bank of Gansu Co., Ltd. on the Duty Performance of Directors (provisional) and the Evaluation Measures of the Board of Supervisors of Bank of Gansu Co., Ltd. on the Performance Supervision of the Management and the Senior Management of the Bank (provisional), conscientiously carried out and completed the performance evaluation of Directors, Supervisors and senior management members. The Board of Supervisors understood and supervised the performance of Directors and senior management members by means such as attending meetings of the Board and senior management, reviewing the speeches of the Board meeting, organizing, investigating and reviewing the meeting materials of the Board and senior management, and improving the performance supervision files of Directors and senior management. The Board of Supervisors continuously conducted supervision on the performance of the Board, the senior management, Directors and senior management members, and submitted the results of the evaluation of the supervision performance to the general meeting for consideration and reported to the supervisory department in a timely manner.

## Work Report of the Board of Supervisors

### (III) Standardized and organized the meetings of the Board of Supervisors and conscientiously performed duties and responsibilities

In 2020, a total of 5 meetings of the Board of Supervisors were organized and convened, including 1 on-site meeting and 4 communication voting meetings. The notice, convening and voting procedures of each meeting was in compliance with the provisions of the Company Law and the Articles of Association. All Supervisors were able to attend the meeting by person and delivered their deliberations. The Supervisors well performed their responsibilities for participation, consideration and supervision, and ensured the effectiveness of supervision. In 2020, a total of 58 resolutions were considered by the Board of Supervisors, and 2 of which were reported to the general meeting. The Nomination Committee and Supervisory Committee of the Board of Supervisors followed the working rules of the special committees of the Board of Supervisors to carry out corresponding supervision, inspection, assessment and evaluation. A total of 7 special committee meetings were held throughout the year, among which 2 were held by the Nomination Committee and 5 were held by the Supervision Committee. In general, the special committee performed careful reviews before meetings, carefully considered at the meeting, and actively put forward opinions and suggestions, which not only gave play to the deliberative role of the special committee, but also improved various resolutions.

### (IV) Participated in important meetings seriously and carried out meeting supervision actively

In 2020, Supervisors presented 1 Board meeting, 13 banking meetings, 13 office meetings of the president, and 1 general meeting, and conducted on-site supervision of the compliance of the agenda and resolutions of the Board meetings, banking meetings and office meetings of the president in accordance with the law. On the basis of a full and comprehensive understanding of the Bank's business decision-making, management, and various major issues, the Board of Supervisors expressed independent opinions or suggestions on the resolutions of the Board meeting, banking meetings and office meetings of the president, and performed the supervisory duties of the Board of Supervisors. The Board of Supervisors participated in the consideration process of the general meeting, and reported to the general meeting of the work of the Board of Supervisors in 2019, the evaluation results of the Board of Supervisors on the duty performance of the Board, the Board of Supervisors, the senior management and its members, and its opinions on the audit reports of the external auditing firms, etc., reflected the Board of Supervisors' functional positioning of being responsible to the general meeting and the Company, Shareholders, employees, creditors and other stakeholders.

### (V) Strengthened special supervision and carried out supervision around key points

Firstly, the Board of Supervisors strengthened special inspection and supervision. In 2020, based on the supervision of the Bank's operating decision-making and execution, risk management, internal control, related party transactions, case prevention and control, etc., the Board of Supervisors carried out special supervision mainly on credit business management and the establishment of committees under senior management. Two supervisory opinions were issued and four reasonable suggestions were put forward by the Board of Supervisors to the Board and senior management. In addition, it also supervised the implementation and rectification of the opinions.

## Work Report of the Board of Supervisors

Secondly, the Board of Supervisors carried out supervision on key points with the help of internal and external audit and inspections. According to business development, it recommended the internal audit department to arrange special audits in a timely manner or increase the frequency of audits in key areas such as write-off of bad debts, large non-performing loans, new loans, and information technology. It suggested that major matters such as write-off of bad debts should be submitted to the Party Committee for pre-consideration. Regarding the problems found in the audit and inspection, the Board of Supervisors continued to track the rectification of the supervision problems, sorted out and analyzed some of the problems that were repeatedly investigated and committed, and carried out on-site inspection and supervision. In 2020, the Board of Supervisors carried out on-site supervision and rectification of the relevant issues found in the special audit of the bad debt write-off business of Baiyin Branch and Zhangye Branch in 2019 and the dynamic monitoring audit of the credit business. Regarding the rectification work of the regulatory opinions of the regulatory agencies, the Board of Supervisors organized a supervision meeting on the rectification of the regulatory opinions, tracked the progress of the rectification, carried out supervision of the implementation of the rectification, put forward suggestions and advises for improvement, and continued to strengthen its efforts on the rectification of problems found in supervision. It mainly supervised and rectified the problems found in the on-site inspection of the risk management and internal control effectiveness of the CBIRC in 2019, with a problem rectification rate of 88.5%.

### (VI) Paid attention to in-depth research at the primary level and conducted extensive inspections and supervision

It organized Supervisors to conduct surveys and study on Baiyin Branch, Zhangye Branch, Tianshui Branch, Longnan Branch, Jiuquan Branch, Jiayuguan Branch, head office operational department, Lanzhou Chengguan Sub-branch, Qilihe Sub-branch and other branches, in order to understand the operation management, key product application and business promotion, risk management and internal control. Six research reports were written, and 21 targeted opinions and suggestions were put forward, which not only helped to understand the actual situation at the primary level, but also carried out on-site supervision.

### (VII) Continuously enhanced the system construction and improved the operating mechanism

It improved the rules of procedures and further standardized the working mechanism. On the basis of full investigation and research, and combined with the amendments to the Articles of Association of the Bank, the Board of Supervisors made amendments to the Rules of Procedures of the Board of Supervisors of Bank of Gansu Co., Ltd., the Rules of Work for the Nomination Committee of the Board of Supervisors of Bank of Gansu Co., Ltd. as well as the Rules of Work of the Supervisory Committee of the Board of Supervisors of Bank of Gansu Co., Ltd., which created more prefect basic conditions for the standardized performance of duties and efficient operation of the Board of Supervisors.

### (VIII) Reinforced the study and training of Supervisors, and effectively promoted the performance of Supervisors

In 2020, Supervisors were organized in batches to participate in training on the "Work Practices of the Board of Supervisors and the Construction of the Company's General Supervision System (監事會工作實務暨公司大監督體系建設)" and the "Governance of the Board of Supervisors of Commercial Banks and the Practice of Enhancement of Supervisors' Duty Performance (商業銀行監事會治理與監事履職能力提升實務)". Through systematic study and training, Supervisors further understood and mastered the corporate governance of commercial banks, the operation of the Board of Supervisors, the general supervision system as well as the main responsibilities and positioning of the Board of Supervisors, and enhanced the ability and level of Supervisors to perform their duties.

## II. ASSESSMENT ON THE PERFORMANCE OF DUTIES

### (I) Assessment of the Performance of Duties of the Board of Directors and Its Members

In 2020, the Board of Directors of the Bank strictly followed the laws, regulations and the Articles of Association, implemented regulatory requirements, actively adapted to and grasped the new normal of the economy, strengthened the decision-making on major issues, and earnestly discharged the responsibilities entrusted by the Shareholders' general meeting and the Articles of Association of the Bank. It earnestly implemented the resolutions of Shareholders' general meeting, strictly followed the laws and regulations and relevant provisions of the Articles of Association of the Bank in terms of authorization procedures, voting procedures, anti-money laundering, related party transaction and information disclosure, and earnestly performed their duties. It earnestly carried out the spirit of relevant meetings of the central and provincial Party committee, deeply understood the importance of adapting to the trend of strict supervision and maintaining compliance, deeply promoted the formulation and implementation of the development plan of the Bank, and facilitated the transformation of the operations; it led to complete the work of the capital and share increase and successfully issued 5 billion shares, laying a solid capital foundation for the implementation of the development plan. In addition, it urged the senior management to strictly conduct the regulatory policies, united and lead the whole bank to spare no effort to implement the tasks in a solid manner through unwavering and tenacious hard work, so as to achieve stable development of the Bank. The members of the Board of Directors could consciously observe the laws, regulations and the Articles of Association, performed their duties with honest and trustworthy manner in accordance with law, actively safeguard the interests of the Bank, Shareholders and other stakeholders and voluntarily subject themselves to supervision, and no violation of the laws and regulations, the national policies and the Articles of Association and no damage to the equity interests of the Shareholders have been found. The annual performance appraisal results were all competent.

### (II) Assessment of the Performance of Duties of the Senior Management of the Bank and Its Members

In accordance with the laws, regulations, the Articles of Association of the Bank and the authorization of the Board of Directors, the senior management of the Bank insisted on the concept of steady operation, united and led the staff of the Bank to actively deal with the complicated economic and financial situation, and by following the underlying principle of making progress while maintaining stability, it closely linked to the two main lines of development and risk resolution, and strived to work hard over difficulties and make progress, by which, all businesses have achieved steady development in 2020. The senior management earnestly implemented the resolutions of Shareholders' general meeting and the Board of Directors, reported the operation and management situation to the Board of Directors and the Board of Supervisors in a timely manner, and actively accepted the guidance of the Board of Directors and the supervision of the Board of Supervisors. The senior management built a comprehensive risk management system, focused on the asset quality and operational risk control, strengthened case prevention and control, gave priority to liquidity, credit, market, operation, information technology, reputation and other risks, and stuck to the bottom line of risks. They strengthened capital management, enhanced the awareness of capital saving, paid attention to the utilization of capital, accelerated the development of light capital business and constantly improved the capital-used efficiency. The members of the senior management could consciously observe the laws, regulations and the Articles of Association, performed their duties in accordance with the law in a diligent and dedicated manner, and worked in unity and cooperation, actively safeguard the interests of the Bank, shareholders and other stakeholders, and no violation of the laws and regulations and the Articles of Association and no damage to the equity interests of the shareholders have been found. The annual performance appraisal results were all competent.



## Work Report of the Board of Supervisors

### (III) Assessment of the Performance of Duties of the Board of Supervisors and Its Members

According to the regulatory requirements, the Board of Supervisors organized and carried out the assessment of the performance of duties of the Board of Supervisors and Supervisors in 2020. It formulated the assessment method of the performance of duties, organized and carried out the self-assessment, mutual assessment and assessment of the Board of Supervisors, consulted the relevant meeting materials, referred to performance records, combined with the results of the self-assessment, mutual assessment and assessment of the Board of Supervisors, and formulated the final assessment results after synthesis.

The Board of Supervisors considered that in 2020, the Board of Supervisors of the Bank standardized its operation, performed its duties in place and supervised effectively, and had played an active role in corporate governance, risk management, internal control and financial management of the Bank, and had better fulfilled the responsibilities and obligations stipulated in the Articles of Association. The members of the Board of Supervisors of the Bank could consciously performed the responsibilities and obligations of Supervisors as stipulated in laws, regulations and the Articles of Association of the Bank, scrupulously discharged their duties in a diligent, faithful and self-disciplined manner, actively gave full play to their professional expertise, so as to earnestly safeguard the interests of the Bank, Shareholders, employees and other stakeholders, and no violation of the laws and regulations and the Articles of Association and no damage to the interests of the Shareholders have been found. The annual performance appraisal results were all competent.

## III. INDEPENDENT OPINIONS ON RELEVANT MATTERS

### (I) Operation in compliance with laws

The operation activities of the Bank conform to the provisions of the Company Law, the Commercial Bank Law and the Articles of Association of the Bank, and the decision-making procedure was legal and effective; and no violation of the laws and regulations, the Articles of Association of the Bank or no damage to the interests of the Bank and shareholders have been found when the Directors and senior management of the Bank performed their duties.

### (II) Truthfulness of financial reports

The financial reports have been audited by Shinewing Certified Public Accountants with standard unqualified audit report issued. The financial reports fairly reflected the financial conditions and operating results of the Bank.

### (III) Related party transactions

The Bank further standardized the management of related party transactions, and the Board of Supervisors found no acts violating the principle of fairness or damaging the interests of the Bank and the Shareholders.

### (IV) Internal control

The Bank continued to strengthen and improve the internal control, and no major defects in the internal control system and implementation of the Bank were founded by the Board of Supervisors.

## Work Report of the Board of Supervisors

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

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

### (VI) Fulfillment of Social Responsibilities

The Bank earnestly performed its social responsibilities. The Board of Supervisors had no disagreement upon the 2020 Environmental, Social and Governance Report.

## IV. WORK PLANS IN 2021

In 2020, the Board of Supervisors has made certain achievements and played a positive role in promoting the business development of Bank of Gansu. However, there are still some shortcomings and still remains a certain gap with regulatory requirements and certain deficiencies exist with respect to the following aspects: firstly, the daily communication between the Board of Supervisors and the Board of Directors and the senior management needs to be further strengthened; secondly, the measures and methods for appraisal on performance of duties of Directors and senior management by the Board of Supervisors need to be further improved; thirdly, the means and methods of supervision by the Board of Supervisors need to be strengthened; fourthly, the policy level, financial knowledge and supervision capability of the members of the Board of Supervisors need to be further enhanced and reinforced.

In 2021, in strict accordance with the regulatory requirements, and taking into account the new situation of economic development and the redeployment for the development of the Bank, the Board of Supervisors will enhance efforts in supervision and inspection, earnestly perform its duties of supervision, and attach great importance to the risk prevention and control, so as to promote the compliant and healthy development of the Bank.

### (I) Convening various meetings in a standard manner

In strict accordance with the requirements of the Articles of Association and the Rules of Procedure of the Board of Supervisors, we shall convene meetings of the Board of Supervisors and its special committees in a standardized manner, carefully consider the reports including work report of the Board of Supervisors, financial report, profit distribution plan, anti-money laundering, major related party transactions and performance evaluation, and listen to the notification of regulatory opinions and special reports on key businesses. In the meantime, we will actively attend relevant general meetings, the Board meetings and senior management meetings to ensure compliance and efficiency in the notification, convening, discussion, decision-making and disclosure of various meetings.

### (II) Conducting in-depth research and supervision

We will further enrich and improve our working methods, improve our research links, enrich our research methods, broaden the scope of our research, enrich our research force, conduct in-depth research work at the grassroots level, fully reflect the difficulties and problems encountered by our branches in their operation and management, and actively provide feedback to the Board of Directors and senior management. We will continue to enhance the value and gold content of our research work, identify the research topics based on the Bank's concerns and conduct special research in key areas. By adding a "post-evaluation" part, we will regularly track the implementation of strategies and other related work, and ensure that the supervision and inspection opinions from the Board of Supervisors are put into practice through supervision and coordination.



## Work Report of the Board of Supervisors

### (III) Continuing to elevate the ability of supervisors to perform their duties

We will continue to strengthen the contact and communication with government departments and regulatory authorities to obtain timely guidance and support for our work; enhance learning and communication with interbank to learn from their strengths and complement each other's weaknesses, improve our working methods and enrich the content of our work; and strengthen feedback with the Board of Directors and the management to keep abreast of the Bank's business conditions and better perform the role of supervision. At the same time, we will continue to do a good job in training supervisors and integrate their expertise in different fields such as finance, law and management, so that they can work together to improve their political judgment, political understanding and political execution, as well as enhance capabilities and levels of supervisors to perform their duties of supervision.

### (IV) Enhancing the foresight of the work of the Board of Supervisors

At the current stage, the environment in which the banking industry exists and develops is undergoing comprehensive, profound and continuous changes. To this end, the Board of Supervisors will place greater emphasis on the assessment of the economic situation and improve the foresight of its work. In future supervisory work, the Board of Supervisors will proactively adapt to the new development stage, implement the new development concept, actively integrate into the new development pattern, pay attention to and understand the economic and financial strategic hotspots in a timely manner, continuously strengthen its study and research, track the changes in supervisory policies, and conduct forward-looking supervision and guidance.

# Changes in Share Capital and Particulars of Shareholders

## I. CHANGES IN SHARE CAPITAL OF THE BANK

### (I) Share Capital

As of December 31, 2020, the share capital of the Bank was as follows:

Description of Shares	Number of Shares	Approximate Percentage of Issued Share Capital (%)
Domestic Shares	11,275,991,330	74.83
H Shares	3,793,800,000	25.17
<b>Total</b>	<b>15,069,791,330</b>	<b>100.00</b>

### (II) Changes in Share Capital

During the Reporting Period and up to the Latest Practicable Date, save for completion by the Company of non-public issuance of 3.75 billion Domestic Shares and 1.25 billion H Shares on December 29, 2020, there has been no changes in the share capital of the Bank.

## II. PARTICULARS OF SHAREHOLDERS

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

As of December 31, 2020, the 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 December 31, 2020 <sup>(1)</sup>	Shareholding Percentage as at December 31, 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	2,657,154,433	17.63	2,657,154,433	17.63	0
2	Gansu State-owned Assets Investment	1,909,250,972	12.67	1,909,250,972	12.67	0
3	Jiuquan Iron & Steel	983,972,303	6.53	983,972,303	6.53	0
4	Jinchuan Group	983,972,303	6.53	983,972,303	6.53	0
5	Mengshang Bank Co., Ltd.	845,296,403	5.61	845,296,403	5.61	0
6	Gansu Electric Power Investment	633,972,303	4.21	633,972,303	4.21	0
7	Jingyuan Coal Industry Group Limited	239,326,800	1.59	239,326,800	1.59	0
8	Yong Xin Hua Holdings Group Co., Ltd.	239,326,800	1.59	239,326,800	1.59	239,326,800
9	Duzhe Publishing Group Limited	211,324,101	1.40	211,324,101	1.40	0
10	Ningxia Tianyuan Manganese Limited Company (寧夏天元錳業有限公司)	201,083,333	1.33	201,083,333	1.33	0
	Jingye Group Co., Ltd. (敬業集團有限責任公司)	201,083,333	1.33	201,083,333	1.33	0

## Changes in Share Capital and Particulars of Shareholders

### Notes:

- (1) The shareholding in this table refers to the number of Domestic Shares directly held in the Bank.
- (2) As at the end of the Reporting Period, so far as the Bank was aware, the Bank's 975,398,035 Shares, representing 6.47% of the Shares issued, were pledged.

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

To the best knowledge of the Bank, as of December 31, 2020, the following persons (other than the Bank's Directors, Supervisors and chief executive) had or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares as recorded in the register of interests required to be kept by the Bank pursuant to section 336 of Part XV of the SFO and which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, were interested in 5% or more of the nominal value of any class of the Bank's share capital carrying rights to vote in all circumstances at the shareholders' general meetings of any other member of the Bank:

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held <sup>(2)</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	1,909,250,972(L) <sup>(1)</sup>	12.67	16.93
	Interest in controlled corporation <sup>(3)</sup>	Domestic Shares	1,617,944,606(L) <sup>(1)</sup>	10.74	14.35
Gansu Highway Aviation Tourism	Beneficial owner <sup>(4)</sup>	Domestic Shares	2,657,154,433(L) <sup>(1)</sup>	17.63	23.56
	Interest in controlled corporation <sup>(4)</sup>	Domestic Shares	100,541,667(L) <sup>(1)</sup>	0.67	0.89
Mengshang Bank Co., Ltd.	Beneficial owner <sup>(5)</sup>	Domestic Shares	845,296,403(L) <sup>(1)</sup>	5.61	7.50
Jiuquan Iron & Steel	Beneficial owner	Domestic Shares	983,972,303(L) <sup>(1)</sup>	6.53	8.73
Gansu Electric Power Investment	Beneficial owner <sup>(3)</sup>	Domestic Shares	633,972,303(L) <sup>(1)</sup>	4.21	5.62
Jinchuan Group	Beneficial owner <sup>(3)</sup>	Domestic Shares	983,972,303(L) <sup>(1)</sup>	6.53	8.73
Gansu Financial Holding Group Co., Ltd. (甘肅金融控股集團有限公司)	Beneficial owner	H Shares	1,250,000,000(L) <sup>(1)</sup>	8.29	32.95
Gansu Province Xinye Asset Management Co. Ltd.* (甘肅省新業資產經營有限責任公司)	Beneficial owner	H Shares	300,033,000(L) <sup>(1)</sup>	2.00	7.91
The Pacific Securities Co., Ltd	Other <sup>(6)</sup>	H Shares	458,535,000(L) <sup>(1)</sup>	3.04	12.09
Pacific Securities Overseas Gong Ying No. 3 Single Asset Management Plan	Other <sup>(6)</sup>	H Shares	458,535,000(L) <sup>(1)</sup>	3.04	12.09
China Foreign Economy and Trade Trust Co., Ltd.	Trustee <sup>(7)</sup>	H Shares	360,577,000(L) <sup>(1)</sup>	2.39	9.50
Harvest Ahead International Holdings Limited	Beneficial owner	H Shares	358,405,115(L) <sup>(1)</sup>	2.38	9.45

## 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 (%)
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>(6)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	1.87	7.43
Beijing Kadapu Investment Co., Ltd.(北京卡達普投資有限公司)	Interest in controlled corporation <sup>(6)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	1.87	7.43
Beijing Annatuoliya Investment Co., Ltd.(北京安納托利亞投資有限公司)	Interest in controlled corporation <sup>(6)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	1.87	7.43
Cui Wei	Interest in controlled corporation <sup>(6)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	1.87	7.43
Sang Chunhua	Interest in controlled corporation <sup>(6)</sup>	H Shares	282,064,000(L) <sup>(1)</sup>	1.87	7.43

### Notes:

- (1) L represents long position.
- (2) 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.
- (3) Gansu State-owned Assets Investment directly held 1,909,250,972 Domestic Shares of the Bank, representing approximately 12.67% of the total issued share capital of the Bank. Gansu SASAC and Jiuquan Iron & Steel hold 84% and 16% 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 47.97% 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.
- (4) Gansu Highway Aviation Tourism held 2,657,154,433 Domestic Shares of the Bank, representing approximately 17.63% 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 0.67% 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.

## Changes in Share Capital and Particulars of Shareholders

- (5) The 845,296,403 Domestic Shares of the Bank previously 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.
- (6) Jialong Investment Group Co., Ltd. (佳龍投資集團有限公司) is the asset trustor of the PACIFIC SECURITIES OVERSEAS GONG YING NO. 3 SINGLE ASSET MANAGEMENT PLAN (Wealth management product registration number: SLE891)(太平洋證券海外共贏3號單一資產管理計劃(理財產品登記號: SLE891)), and The Pacific Securities Co., Ltd. is the asset manager, of the PACIFIC SECURITIES OVERSEAS GONG YING NO. 3 SINGLE ASSET MANAGEMENT PLAN. Pursuant to the Securities and Futures Ordinance, The Pacific Securities Co., Ltd. is deemed as holding equity interests in the Shares of the Bank held by the PACIFIC SECURITIES OVERSEAS GONG YING NO. 3 SINGLE ASSET MANAGEMENT PLAN.
- (7) 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.
- (8) 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..

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

### (III) Shareholders Holding 5% or More of the Share Capital

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

### (IV) Particulars of Controlling Shareholders and De Facto Controller

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

# Directors, Supervisors, Senior Management, Employees and Organizations

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

During the Reporting Period and up to the Latest Practicable Date, the information of the Directors, Supervisors and senior management members of the Bank is as follows:

### Directors

Name	Age	Date of joining the Bank	Date of appointment as Director <sup>(1)</sup>	Position held as of the Latest Practicable Date	Responsibilities
Mr. Liu Qing (劉青)	55	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, strategic development and responsible for promoting the operation and management of the Bank; in charge of the Office of the Board of Directors, the Strategy and Development Department, and the Organization Department under the Party Committee (the Human Resources Department)
Mr. Wang Wenyong (王文永)	55	December 2018	December 3, 2018	Executive Director	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; giving priority to promote the resolution, settlement and disposal of the risk assets, and in charge of the Planning and Financial 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



## 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)	50	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)	48	November 2016	November 20, 2016	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member
Mr. Liu Wanxiang (劉萬祥)	53	December 2018	December 3, 2018 <sup>(2)</sup>	Non-executive Director	See Note <sup>(2)</sup>
Ms. Tang Xiuli (唐岫立)	52	August 2017	August 12, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing regulatory and compliance-related advice to the Bank based on her extensive experience in banking regulation in the PRC, and performing her duties as a Director through the Board of Directors, audit committee, nomination and remuneration committee, related party transaction and risk management committee and the Consumer Rights Protection Committee

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

Name	Age	Date of joining the Bank	Date of appointment as Director <sup>(1)</sup>	Position held as of the Latest Practicable Date	Responsibilities
Ms. Luo Mei (羅玫)	45	August 2017	August 12, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice on finance and accounting to the Bank based on her extensive experience in finance and accounting, and performing her duties as a Director through the Board of Directors, audit committee, nomination and remuneration committee and related party transaction and risk management committee
Mr. Wong Sincere (黃誠思)	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 transaction 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 transaction and risk management committee and the Consumer Rights Protection Committee

*Notes:*

- (1) The date of appointment as a Director stated here represents the date on which the relevant person was first elected as a Director at the general meetings of the Bank.
- (2) Mr. Liu Wanxiang was appointed as a non-executive Director at the first extraordinary general meeting of the Bank dated December 3, 2018, but his appointment shall take effect upon obtaining the approval of his directorship qualification by the regulatory authority.

# Directors, Supervisors, Senior Management, Employees and Organizations

## Supervisors

Name	Age	Date of joining the Bank	Date of appointment as Supervisor <sup>(1)</sup>	Position held as of the Latest Practicable Date	Responsibilities
Ms. Tang Lan (湯瀾)	58	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, institutional construction and logistical support. In charge of the Office of the Board of Supervisors, Audit Department, Institutional Management Department (Security Department), Administrative Affairs Department
Mr. Xu Yongfeng (許勇鋒)	57	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)	57	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 <sup>(2)</sup> (劉永翀)	55	November 2016	November 20, 2016	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Li Yongjun <sup>(2)</sup> (李永軍)	52	October 2011	October 15, 2011	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Zeng Lehu (曾樂虎)	50	June 2019	June 3, 2019	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Yang Zhenjun <sup>(2)</sup> (楊振軍)	52	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Dong Ying (董英)	58	August 2017	August 12, 2017	External Supervisor	Supervising the Board of Directors and the senior management
Mr. Luo Yi (羅藝)	41	June 2018	June 1, 2018	External Supervisor	Supervising the Board of Directors and the senior management

### Notes:

- (1) The date of appointment as a Supervisor stated here represents the date on which the relevant person was first elected as a Supervisor by the Shareholders' general meetings or the employee representatives' meetings (for employee Supervisors only) of the Bank.
- (2) Mr. Liu Yongchong, Mr. Li Yongjun and Mr. Yang Zhenjun submitted their letters of resignation to the Board of Supervisors of the Bank on May 27, 2020, March 29, 2021 and October 16, 2019, respectively. The Bank is seeking out suitable candidates to succeed the positions of Supervisors, and will otherwise publish announcements in due course. Prior to appointment of new Supervisors, Mr. Liu, Mr. Li and Mr. Yang will continue to perform the duties as Shareholder Supervisors and members of relevant committees of the Bank.

# Directors, Supervisors, Senior Management, Employees and Organizations

## Senior Management

Name	Age	Date of joining the Bank	Date of appointment as senior management	Position held as of the Latest Practicable Date	Responsibilities
Mr. Wang Wenyong (王文永)	55	December 2018	December 3, 2018	Executive Director, president	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; giving priority to promote the resolution, settlement and disposal of the risk assets, and in charge of the Planning and Financial Department
Mr. Qiu Jinhu (仇金虎)	59	January 2015	January 23, 2015	Vice president	Responsible for individual business as well as work relating to poverty alleviation; and support of the Bank. In charge of the individual business department, internet finance department, credit card centre and poverty alleviation and support office
Ms. Hao Jumei (郝菊梅)	52	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, Asset Preservation Department, Special Assets Management Center, Credit Approval Department, and Legal and Compliance Department and assisting the chairman to take charge of the Office of the Board of Directors and Strategic Development Department. Assisting the president in giving priority to promote the resolution, settlement and disposal of the risk assets
Mr. Chen Jinhui (陳金輝)	52	July 2012	December 27, 2019	Vice president	Responsible for corporate banking and product innovation business, in charge of Corporate Business Department, Inclusive Finance Department and Investment Banking Department
Mr. Du Jing (杜晶)	45	December 2011	December 27, 2019	Vice president	Responsible for operating supporting, technical supporting, financial interbank, asset management and digital transformation related work, in charge of Asset Management Department, Financial Interbank Department, Accounting and Operation Department and Information Technology Department
Mr. Feng Yuhui (馮煜輝)	57	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 Sub-branch

# Directors, Supervisors, Senior Management, Employees and Organizations

## II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

### (I) Changes in Directors

There was no change to the members of the Board of Directors during the Reporting Period.

### (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 Nomination Committee of the Bank. The Board of Supervisors also received the letter of resignation from Mr. Li Yongjun, a Shareholder Supervisor, on March 29, 2021. Due to the work rearrangement, Mr. Li requests to resign as a Shareholder Supervisor, and a member of the Nomination Committee of the Bank. The Bank is seeking out suitable candidates to succeed the positions of Shareholder Supervisors of Mr. Liu and Mr. Li, and will otherwise publish announcements in due course. Prior to appointment of the new supervisors, each of Mr. Liu and Mr. Li will continue to perform the duties of Shareholder Supervisor and a member of nomination committee of the Bank. Each of Mr. Liu and Mr. Li 's resignation as Shareholder Supervisor and a member of the Nomination Committee of the Bank will come into effect from the date when the Bank duly appoints the new Shareholder Supervisors.

### (III) Changes in Senior Management Members

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.

Mr. Wang Chunyun has ceased to act as the senior executive officer of the Internal Control and Compliance Department of the Bank since September 27, 2020 due to work rearrangement.

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

### III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

#### (I) Biographies of Directors

##### Executive Directors

**Mr. Liu Qing (劉青)**, aged 55, has been an executive Director and the chairman of the Bank since December 3, 2018. Mr. Liu served as a cadre at Agricultural Bank of China Limited (“China Agricultural Bank”) Pingliang Branch from December 1984 to December 1987, office secretary of the Administration Office of Pingliang from December 1987 to October 1992, senior staff member at the education department of the Gansu Branch of PBOC from October 1992 to April 1993, deputy general manager of Gansu Securities Company from April 1993 to March 1997, and member of the Party leadership group, vice president, member of the Party committee, vice president and secretary of the discipline inspection commission of the Baiyin Branch of PBOC from March 1997 to December 1998. Mr. Liu also concurrently served as a deputy director-general of the Baiyin Bureau of the State Administration of Foreign Exchange of the PRC from March to September 1997, and director of the discipline inspection group and director of the inspection office of CPC Baiyin Commission for Discipline Inspection Designated to Financial Institutions from September 1997 to October 1998. Mr. Liu served as the deputy chief of Lanzhou Regulatory Office of PBOC, secretary to the Party committee and president of the Baiyin Branch of PBOC from December 1998 to December 2003, secretary to the Party committee and director-general of the CBRC Baiyin Office from December 2003 to December 2005, and a member of the Party committee and deputy director-general of the CBRC Gansu Office from December 2005 to May 2011. Mr. Liu was appointed as deputy secretary to the Party committee and vice president of Dunhuang Bank Co., Ltd. (the former name of the Bank used during the Bank’s incorporation process) in May 2011, and has been an executive director of the Bank from October 2011 to November 2017. Mr. Liu also served as a vice president of the Bank from October 2011 to October 2016, and served as the president of the Bank from October 2016 to November 2017. Mr. Liu worked at Gansu Province Rural Credit Union from November 2017 to September 2018, serving as director-general and secretary to the Party committee. Mr. Liu served as secretary to the Party committee of the Bank from October to December 2018.

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

**Mr. Wang Wenyong (王文永)**, aged 55, has been an executive Director and the president of the Bank since December 3, 2018. Mr. Wang served as an office cadre, office deputy director, deputy director and director of credit card department at Pingliang Central Branch of China Construction Bank Corporation (“China Construction Bank”), successively from December 1988 to December 1997. Mr. Wang served as a cadre, section-level inspector and deputy director of inspection office of Gansu Branch of China Construction Bank from December 1997 to December 2004. Mr. Wang served as president and secretary to the Party committee of Changqing Sub-branch of China Construction Bank from December 2004 to November 2005. He served as president and secretary to the Party committee of Qingyang Branch of China Construction Bank from November 2005 to August 2006. Mr. Wang served as president assistant of Gansu Branch of China Construction Bank from August 2006 to October 2008. He served as secretary of the discipline inspection commission and member of the Party committee of Xinjiang Branch of China Construction Bank from October 2008 to December 2009. Mr. Wang served as vice president and member of the Party committee of Gansu Branch of China Construction Bank from December 2009 to September 2018. Mr. Wang served as deputy party secretary of the Bank from October 2018 to December 2018.

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

# Directors, Supervisors, Senior Management, Employees and Organizations

## Non-executive Directors

**Ms. Wu Changhong (吳長虹)**, aged 57, has been a non-executive Director since November 20, 2016. Ms. Wu is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member.

Ms. Wu has been a member of the Party committee and the deputy general manager of Gansu Highway Aviation Tourism since May 2011, and the chief financial officer of Gansu Highway Aviation Tourism from November 2015 to October 2019. She held a number of positions at Jinchuan Group from July 1984 to May 2011, including accountant of the cost division of the finance department, deputy head and head of the capital division of the finance and audit department, head of the assets management division of the finance and audit department, deputy director of the finance department and general manager of the audit department.

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

**Ms. Zhang Hongxia (張紅霞)**, aged 42, has been a non-executive Director since October 15, 2011. Ms. Zhang is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which she is a member.

Ms. Zhang has been the co-leader of the Development Research Department of Mengshang Bank since May 2020. She served as an officer of the human resources department and director of the department of Party affairs of Baoshang Bank from November 1998 to July 2008 and as a deputy director (presiding over the work) of the office of the board of directors of Baoshang Bank from August 2008 to June 2018. She served as the director of the office of the board of directors of Baoshang Bank from June 2018 to October 2019. From October 2019 to May 2020, she served as the senior office manager of Baoshang Bank.

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

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

**Mr. Guo Jirong (郭繼榮)**, aged 50, has been a non-executive Director since November 20, 2016. Mr. Guo is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.

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

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

**Mr. Zhang Youda (張有達)**, aged 48, has been a non-executive Director since November 20, 2016. Mr. Zhang is primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.

Mr. Zhang has been a member of the standing committee of the Party committee and the deputy general manager of Jinchuan Group since July 2018. He served as deputy head and head of the finance division of the testing center, head of the finance division of the smelting plant of Jinchuan Group, head of the cost division of the finance department, deputy director of the finance department and deputy general manager of the finance department (presiding over the work) of Jinchuan Group from April 2002 to December 2011. Mr. Zhang has been the general manager of the finance department of Jinchuan Group since December 2011. Mr. Zhang has been a non-executive director of Jinchuan Group International Resources Co. Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 2362) since August 2017 and has been appointed as the chairman of the board of directors and the non-executive director of Jinchuan Group International Resources Co. Ltd. since March 2019.

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



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

Mr. Liu Wanxiang (劉萬祥), aged 53, has been a non-executive Director of the Bank since December 3, 2018. Mr. Liu will be primarily responsible for participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.

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

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

### Independent Non-executive Directors

Ms. Tang Xiuli (唐岫立), aged 52, has been an independent non-executive Director since August 12, 2017. Ms. Tang is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing regulatory and compliance-related advice to the Bank based on her extensive experience in banking regulation in the PRC, and performs her duties as a Director through the Board of Directors, audit committee and related party transaction and risk management committee.

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

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

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

**Ms. Luo Mei (羅玫)**, aged 45, has been an independent non-executive Director since August 12, 2017. Ms. Luo is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice on finance and accounting to the Bank based on her extensive experience in finance and accounting, and performs her duties as a Director through the Board of Directors, audit committee, nomination and remuneration committee and related party transaction and risk management committee.

Ms. Luo joined Tsinghua University in June 2007 and is currently a professor and a PHD tutor of the Department of Accounting at the School of Economics and Management of Tsinghua University, and the director of the Research Center for Digital Financial Assets, School of Economics and Management, Tsinghua University. She worked at Mellon Capital Management, an assets management company in San Francisco, the United States, and was responsible for the strategy of quantitative investment in the stock market. She also taught at the Department of Accounting in University of Illinois at Urbana-Champaign, the United States. Ms. Luo was an independent director of Canaan Inc. (a company listed on the NASDAQ, stock code: CAN) from December 2019 to July 2020, and an independent director of Beijing Gehua CATV Network Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600037) from March 2013 to March 2019. Ms. Luo was an independent director of Beijing Baofeng Technology Co., Ltd. (now known as “Baofeng Group Co., Ltd.”, a company listed on the Shenzhen Stock Exchange, stock code: 300431) from June 2013 to December 2014.

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

**Mr. Wong Sincere (黃誠思)**, aged 56, has been an independent non-executive Director since August 12, 2017. Mr. Wong is primarily responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank in relation to compliance with Hong Kong laws and the Hong Kong Listing Rules based on his extensive experience in legal and compliance works, and performs his duties as a Director through the Board of Directors, nomination and remuneration committee and related party transaction and risk management committee.

Mr. Wong became the founder and has been the principal of Sincere Wong & Co. (currently renamed as Wong Heung Sum & Lawyers) since May 2016. He was an in-house counsel for Hutchison Whampoa Group from September 1996 to January 2005 and China Resources Enterprise, Limited (now known as China Resources Beer (Holdings) Company Limited) from February 2005 to November 2006, chief legal officer of Shui On Construction and Materials Limited from November 2006 to June 2010, as well as the head of the legal department and company secretary of Sateri Holdings Limited (a company previously listed on the Hong Kong Stock Exchange, the name of which was later changed to Bracell Limited but has subsequently been privatized) from July 2010 to May 2011. He worked at the Hong Kong Stock Exchange from August 2011 to April 2016, and was a vice president of Listing & Regulatory Affairs Division at the time of his departure from the Hong Kong Stock Exchange, primarily responsible for reviewing listing applications and providing recommendations to the Listing Committee of the Hong Kong Stock Exchange regarding listing applications. Mr. Wong was appointed as an independent non-executive director of U Banquet Group Holding Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1483) in September 2018. Mr. Wong was appointed as a non-executive director of MOS House Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1653) from January 2019 to March 2020. Mr. Wong was appointed as an independent non-executive director of Fulu Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 2101) in August 2020.

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

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

**Mr. Dong Ximiao (董希淼)**, aged 43, has been an independent non-executive Director since December 3, 2018 and is a senior economist and an associate financial planner. He is currently the chief researcher of Zhongguancun Internet Finance Institute, a researcher of the Think Tank of Asian Financial Cooperation Association and a member of Digital Finance Working Committee of Internet Society of China and the independent director of Bozhou Yaodu Rural Commercial Bank Co., Ltd. Mr. Dong also serves as a special economic analyst of Xinhua News Agency, a part-time researcher of Financial Research Institute of Fudan University, an adjunct professor of Lanzhou University, a master's tutor of the School of Finance of Zhongnan University of Economics and Law, and a guest professor of School of Economics of Sichuan Agricultural University. Mr. Dong joined China Construction Bank Corporation ("China Construction Bank") in July 2000 and successively served as the office secretary, deputy business manager and business manager of Zhejiang Branch of China Construction Bank. Since March 2009, he served as the vice president and a senior manager of the private banking department of the sub-branch directly under Zhejiang Branch of China Construction Bank. Mr. Dong served as the executive dean of its Research Institute of Hengfeng Bank Co., Ltd. from July 2015 to October 2018. In December 2017, he was elected as the deputy director of the Industry Development Research Committee of China Banking Association. Mr. Dong has served as an independent director of Bozhou Yaodu Rural Commercial Bank Co., Ltd. since February 2020.

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

### (II) Biographies of Supervisors

**Ms. Tang Lan (湯瀾)**, aged 58, was elected as an employee Supervisor on November 12, 2018 and was appointed as the chairman of the Board of Supervisors on December 3, 2018. Ms. Tang is responsible for overall work of the Board of Supervisors and supervising the work of the Board of Directors and management to ensure compliance with laws and regulations, and responsible for auditing, security, institutional construction and work concerning the logistics support. She is also in charge of the Office of the Board of Supervisors, Audit Department, Institutional Management Department, Security Department and Administration Affairs Department.

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

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

**Mr. Xu Yongfeng (許勇鋒)**, aged 57, has been an employee Supervisor of the Bank since October 15, 2011, primarily responsible for supervising the Board of Directors and the senior management on behalf of the employees of the Bank. Mr. Xu has been the general manager of the Institution Management Department of the Bank since February 2013, and the general manager of the Security Department of the Bank since September 2015.

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

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

**Mr. Luo Zhenxia (羅振夏)**, aged 57, has been an employee Supervisor of the Bank since October 15, 2011, primarily responsible for supervising the Board of Directors and the senior management on behalf of the employees of the Bank. Mr. Luo has been the general manager of the Party-masses Work Department of the Bank since February 2020.

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

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

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

**Mr. Liu Yongchong (劉永翀)**, aged 55, has been a Shareholder Supervisor of the Bank since November 20, 2016. Mr. Liu is primarily responsible for supervising the Board of Directors and the senior management.

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

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

**Mr. Li Yongjun (李永軍)**, aged 52, has been a Shareholder Supervisor of the Bank since October 15, 2011. Mr. Li is primarily responsible for supervising the Board of Directors and the senior management.

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

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

**Mr. Zeng Lehu (曾樂虎)**, aged 50, has been a Shareholder Supervisor of the Bank since June 3, 2019. Mr. Zeng is primarily responsible for supervising the Board of Directors and the senior management.

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

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

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

**Mr. Yang Zhenjun (楊振軍)**, aged 52, has been an external Supervisor of the Bank since August 12, 2017. Mr. Yang is primarily responsible for supervising the Board of Directors and the senior management.

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

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

**Mr. Dong Ying (董英)**, aged 58, has been an external Supervisor of the Bank since August 12, 2017. Mr. Dong is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Dong has been a director of Wuwei Economic Development and Investment (Group) Co., Ltd. ("Wuwei Economic Development and Investment") since June 2015, deputy general manager of Wuwei Economic Development and Investment since May 2013 and executive deputy general manager of Wuwei Economic Development and Investment since November 2016. Mr. Dong has also been a legal representative of Wuwei Testing Center of Quality of Urban-Rural Construction Projects since December 2016. Mr. Dong was head of the marketing department of Wuwei Urban Construction & Investment (Group) Co., Ltd. from February 2004 to March 2008, director of the general office of Wuwei Economic Development Investment from March 2008 to July 2015, as well as deputy secretary-general and secretary of the Party branch of Wuwei Economic Development Investment at the same time from September 2010 to June 2015. Mr. Dong has served as chairman of Gansu Wuwei Gaoba Construction Co., Ltd. (甘肅武威高埠建築公司) since December 2018.

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

**Mr. Luo Yi (羅藝)**, aged 41, has been an external Supervisor of the Bank since June 1, 2018. Mr. Luo is primarily responsible for supervising the Board of Directors and the senior management.

Mr. Luo has been worked since June 2002 in Gansu University of Political Science and Law where he now serves as an associate professor and master's supervisor in the School of Law, a postdoctoral fellow at East China University of Political Science and Law, a visiting scholar of Renmin University of China in "Program of Middle and Western Backbone Teachers Visiting Scholar of the Ministry of Education", the head of the Research Center for the Construction of Western Ecological Civilization of Gansu University of Political Science and Law, Gansu Recycling Economic Research Center, Gansu Provincial Research Center for Promoting Social Governance by Law, and concurrently served as a discipline editor of Western Law Review of Gansu Institute of Political Science and Law from January 2009 to December 2011.

Mr. Luo obtained a bachelor's degree in law from Gansu University of Political Science and Law in Gansu Province, the PRC in June 2002, majoring in economic law, a master's degree in law from Northwest Normal University in Gansu Province, the PRC in June 2009, majoring in legal theory, and a doctorate's degree in law from Wuhan University in Hubei Province, the PRC in December 2017, majoring in environment and nature resources protection law. Mr. Luo obtained the 2nd prize of Social Science Achievement Award of Gansu Province in 2017 and was honored the title of Outstanding Instructor in the Challenge Cup of Gansu Province, he won the third prize of the 15th "Western Rule of Law Forum" of the Chinese Law Society in November 2020.

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

### (III) Biographies of Senior Management Members

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

**Mr. Qiu Jinhu (仇金虎)**, aged 59, has been the vice president of the Bank since January 2015. Mr. Qiu is primarily responsible for the individual business and work relating to poverty alleviation and support of the Bank. He is also in charge of the individual business department, internet finance department, credit card centre and poverty alleviation and support office.

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

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

**Ms. Hao Jumei (郝菊梅)**, aged 52, has been the vice president and the secretary of the Board of Directors of the Bank since December 3, 2018. Ms. Hao is responsible for the daily work of the Board of Directors, and work on internal risk control segment, as well as the coordination and liaison with the controlling company or associated company (rural banks, etc.) of the Bank. She is in charge of Risk Management Department, Asset Preservation Department, Special Assets Management Center, Credit Approval Department and Legal and Compliance Department and assisting the Chairman to take charge of the Office of the Board of Directors and Strategic Development Department. She also assists the president in giving priority to promote the resolution, settlement and disposal of the risk assets.

Ms. Hao was the accountant of the accounting department of the Jingyuan sub-branch of the PBOC from July 1989 to April 1994 and the accountant of the Baiyin City branch of PBOC from April 1994 to December 1996. She was the deputy director of Yinxing Urban Credit Union of Baiyin City from December 1996 to July 2002, manager of business department of Urban Credit Union of Baiyin City from July 2002 to December 2003 and assistant to the general manager and director of Urban Credit Union of Baiyin City from December 2003 to April 2004. Ms. Hao was the deputy general manager and director of Urban Credit Union of Baiyin City from April 2004 to December 2009, deputy general manager, director and member of the Party committee of Urban Credit Union of Baiyin City from December 2009 to June 2010, and member of the Party committee, director and vice president of Baiyin City Commercial Bank from June 2010 to February 2012. Ms. Hao was the member of the Party committee of the Baiyin branch of the Bank from February 2012 to March 2012, member of the Party committee and vice president of the Baiyin branch of the Bank from March 2012 to June 2012, deputy general manager of the planning and finance department of the Bank from June 2012 to September 2012, member of the discipline inspection committee and deputy general manager of the planning and finance department of the Bank from September 2012 to June 2014, and member of the discipline inspection committee and general manager of the planning and finance department of the Bank from June 2014 to December 2016.

She was a member of the Party committee and general manager of the planning and finance department of the Bank from December 2016 to December 2018, and served as a member of the Party committee and the secretary of the Board of Directors of the Bank from December 2018 to April 2019. Ms. Hao obtained a bachelor's degree in accounting from Lanzhou University of Technology in Lanzhou City, Gansu Province, the PRC in July 2004.

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

**Mr. Chen Jinhui (陳金輝)**, aged 52, has been a vice president of the Bank since December 2019. Mr. Chen is responsible for the corporate banking segment and product innovation, in charge of the Corporate Banking Department, Inclusive Finance Department, and Investment Banking Business Department.

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

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

**Mr. Du Jing (杜晶)**, aged 45, has been a vice president of the Bank since December 2019. Mr. Du is responsible for works related to the operations security, technical support, financial interbank and asset management as well as digital transformation, in charge of the Asset Management Department, Financial Interbank Department, Accounting Operation Department and Information Technology Department.

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

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

**Mr. Feng Yuhui (馮煜輝)**, aged 57, has been the chief business officer of the Bank since July 2020. Mr. Feng is responsible for the operation and management of the relevant business lines, and is also the secretary of the Party Committee and the president of Qilihe Sub-branch in Lanzhou.

From October 1986 to April 1987, Mr. Feng worked at Cheng County Construction Engineering Company in Gansu. From April 1987 to February 1999, he served successively as the deputy section chief of the Credit Construction and Economic Department of the Longnan District Central Sub-branch of China Construction Bank, the manager of the Construction Consulting Company (section-level), and the president of the Wen County Sub-branch. From February 1999 to September 2012, he served successively as the president of Cheng County Sub-branch, a member of the Party Committee, the vice president, the director of Labor Union, and the secretary of the Party Committee and president of Longnan Branch of China Construction Bank. From September 2012 to July 2020, he served successively as the director of the Longnan Office of the Bank of Gansu, the president of Jianshe Road Sub-branch, the secretary of the Party Committee and the president of Longnan Branch, and the secretary of the Party Committee and the president of Qilihe Sub-branch in Lanzhou.

Mr. Feng obtained his bachelor's degree in finance from Lanzhou Commercial College (now known as Lanzhou University of Finance and Economics) in Lanzhou, Gansu Province, the PRC, in December 2004; and obtained his master's degree in business administration from Lanzhou University in Lanzhou, Gansu Province, the PRC, in June 2011. In November 2009, he obtained the certificate of the qualification of intermediate economist issued by the Bureau of Human Resources and Social Security of Gansu Province.



# Directors, Supervisors, Senior Management, Employees and Organizations

## IV. COMPANY SECRETARY

During the Reporting Period, the company secretary of the Bank is Ms. Fok Po Yi (霍寶兒), who has resigned as the company secretary of the Bank since January 26, 2021. Ms. Fok has confirmed that she has no disagreements with the Board of Directors, and there are no matters in relation to her resignation which need to be brought to the attention of the Stock Exchange and the Shareholders of the Bank. Ms. Fok has participated in relevant professional training of not less than 15 hours during the Reporting Period.

Mr. Wong Wai Chiu was appointed as the company secretary of the Bank on January 26, 2021. Mr. Wong is the associate director of SWCS Corporate Services Group (Hong Kong) Limited. Mr. Wong has over 30 years of professional services and senior management experience including acting as the chief financial officer, company secretary, information technology director and law enforcement officer in the areas of finance, accounting, regulations, internal control, corporate governance, company secretarial work, trust and forensics accounting in multi-national banking, insurance, securities and information technology corporations and listed companies in Hong Kong as well as government departments and the Hong Kong Stock Exchange. Mr. Wong is a fellow member of The Hong Kong Institute of Chartered Secretaries, a fellow member of the Chartered Governance Institute, a member of CPA Australia, a member of the Hong Kong Trustee Association and a certified trust practitioner. Mr. Wong possesses a B. Soc. Sc (Hon.) in Accounting from the University of Hong Kong and various master degrees and diploma in law, alternate dispute resolution, corporate governance and information technology from renowned universities of U.K., Australia and Hong Kong.

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

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

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

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

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

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

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

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

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

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

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

Name	Position held with the Bank	Name of the shareholder company	Position held in the shareholder company
Ms. Wu Changhong	Non-executive Director	Gansu Highway Aviation Tourism	Member of the Party committee and deputy general manager
Ms. Zhang Hongxia	Non-executive Director	Mengshang Bank Co., Ltd.	Co-leader of development research department
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
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.	Director, the branch secretary and head of financial department of the Readers Group
Mr. Dong Ying	External Supervisor	Wuwei Economic Development and Investment (Group) Co., Ltd.	Deputy general manager

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

Save as disclosed above, during the Reporting Period, the Bank was not aware of any change in the information of Directors, Supervisors and senior management which is required to be disclosed pursuant to the requirements of the Rule of 13.51B(1) of the Hong Kong Listing Rules.

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

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

#### (I) Staff Composition

As of December 31, 2020, the Group had 4,164 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	892	21.42
Retail banking	977	23.46
Financial market operations	16	0.38
Finance and accounting	475	11.41
Risk management, internal audit and legal compliance	328	7.88
Information technology	112	2.69
Management	177	4.25
Bank teller	964	23.15
Others	223	5.36
<b>Total</b>	<b>4,164</b>	<b>100.00</b>

The Bank has a young and highly educated team of employees. As of December 31, 2020, the average age of the employees was 33.6, and over 90.15% of them had a bachelor's degree or higher. The following table sets forth the number of the employees by age as of December 31, 2020.

	Number of employees	Percentage (%)
Under 30 (inclusive) years old	1,775	42.63
31 to 40 years old	1,621	38.93
41 to 50 years old	597	14.33
Above 50 (exclusive) years old	171	4.11
<b>Total</b>	<b>4,164</b>	<b>100.00</b>

The following table sets forth the number of the employees of the Bank by education degree as of December 31, 2020.

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

	Number of employees	Percentage (%)
Master's degree or higher	263	6.32
Bachelor's degree	3,491	83.83
Others	410	9.85
<b>Total</b>	<b>4,164</b>	<b>100.00</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 provides training programs for employees in different business lines. It has built a team of internal training providers under its human resources department.

### (IV) Labor Union

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

## X. THE SUBSIDIARY OF THE BANK

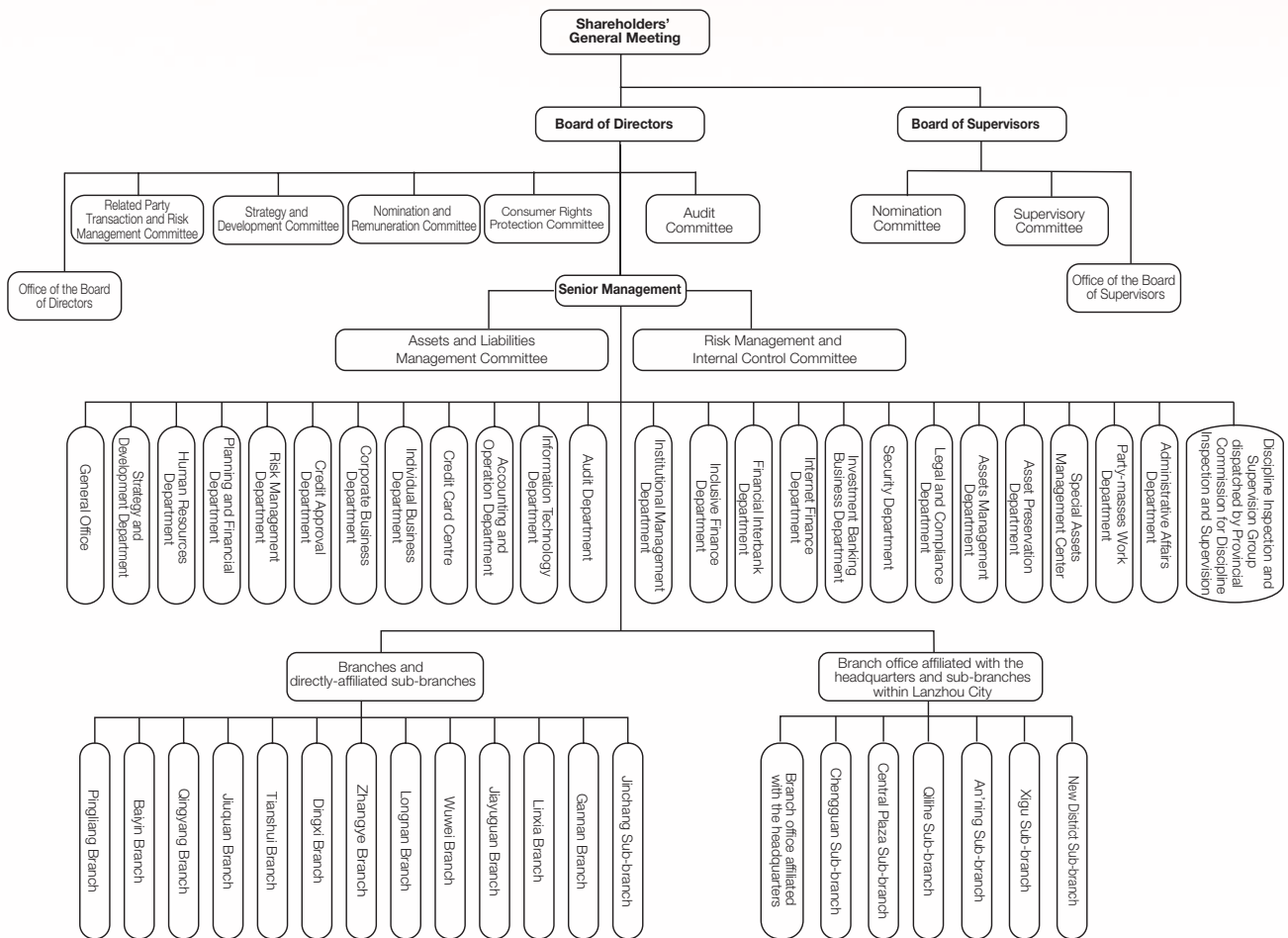
Jingning Chengji Rural Bank is the sole subsidiary of the Bank. The Bank holds 62.73% equity interest in Jingning Chengji Rural Bank, the financials of which have been consolidated into the Bank's financial statements. Jingning Chengji Rural Bank was established on September 18, 2008, which was originally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

# Corporate Governance Report

## I. CORPORATE GOVERNANCE STRUCTURE

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

Organizational Structure Chart of Bank of Gansu



## II. CORPORATE GOVERNANCE

### (I) Overview

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

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

The Bank has incorporated the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by the CBRC (the "Guidelines") into the Bank's governance structure and policies. The Corporate Governance Code and Guidelines are well reflected in the Articles of Association and the Terms of Reference of the Shareholders' General Meeting, the Board of Directors and committees under the Board of Directors. The Bank's Shareholders' general meeting, the Board of Directors and the Board of Supervisors perform their respective duties, forming good corporate governance structure.

The Bank closely monitors its operation to ensure it complies with the relevant requirements under applicable laws, regulations, codes, guidelines and the Bank's internal policies.

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

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

### (II) The Board Nomination and Diversity Policy

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

## Corporate Governance Report

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

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

During the Reporting Period, there were no changes in the members of the Board of Directors of the Bank. In general, when identifying the candidate for the member of the Board of Directors, the Bank will first select potential candidates within and beyond the social network of the members of the Board of Directors by means of referrals by its existing Directors, recommendations by third parties as well as by the Shareholders of the Company. Then, the suitability of these potential candidates shall be reviewed by the Bank through interview, background investigation, brief introduction and statement before the candidate for the Director is finalized. The Bank fully considered the importance of diversity of the Board members, took into a comprehensive consideration of gender, age, cultural and educational background, region, professional skills, knowledge, tenure and other factors, and paid attention to the diversity, unique insights and valuable contributions that the candidate would bring to the Board of Directors by leveraging his/her experience and expertise. The diversity analysis for the new session of Board of Directors is as follows. Currently, the ages of the members of the Board range from 43 to 57, and there are four female out of eleven Directors in total. The professional experiences and skills of the Directors cover banking, financial and accounting, finance, economics, law, engineering and other areas. In light of the foregoing, the Board of Directors believes that, during the Reporting Period, its composition, membership background and procedures for selecting new Directors are in compliance with the requirements of the Diversification Policy for the Members of the Board of Directors.

Director	Gender	Age	Seniority	Banking	Accounting and finance major	Other majors	Directorship in other companies (number of companies)
Liu Qing	Male	55	37	✓			
Wang Wenyong	Male	55	39	✓			
Wu Changhong	Female	57	37		✓		1
Zhang Hongxia	Female	42	23	✓		Economics	
Guo Jirong	Male	49	25		✓		1
Zhang Youda	Male	48	30		✓	Economics	1
Liu Wanxiang	Male	53	32			Engineering	2
Tang Xiuli	Female	52	30	✓		Economics	
Luo Mei	Female	45	17		✓		
Wong Sincere	Male	56	25			Law	2
Dong Ximiao	Male	43	20	✓		Economics	1

## (III) General Meeting of the Bank

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

### (1) 2019 Annual General Meeting

The annual general meeting of the Bank for 2019 was convened on June 3, 2020, at which the following resolutions were considered and approved by the Shareholders:

#### *Ordinary resolutions*

- (i) To consider and approve the proposal regarding the work report of the Board of Directors for 2019;
- (ii) To consider and approve the proposal regarding the financial audit report for 2019;
- (iii) To consider and approve the proposal regarding the final financial report for 2019;
- (iv) To consider and approve the proposal regarding the profit distribution proposal for 2019;
- (v) To consider and approve the proposal regarding the annual financial budget for 2020;
- (vi) To consider and approve the proposal regarding the annual report for 2019;
- (vii) To consider and approve the proposal regarding the engagement of external auditing firms for 2020;
- (viii) To consider and approve the proposal regarding the work report of Independent Directors for 2019;
- (ix) To consider and approve the proposal regarding the Board's evaluation results on the performance of duties by Directors and senior management for 2019;
- (x) To consider and approve the proposal regarding the remuneration distribution and settlement plan for Directors and Supervisors in 2019;
- (xi) To consider and approve the proposal regarding the work report of the Board of Supervisors for 2019;
- (xii) To consider and approve the proposal regarding the report on the implementation of related-party transactions for 2019;
- (xiii) To consider and approve the proposal regarding the estimated cap of related-party/connected transactions for 2020;
- (xiv) To consider and approve the proposal regarding the plan on authorization by Shareholders' general meeting to the Board of Directors;
- (xv) To consider and approve the proposal regarding the amendments to the Rules of Procedure for Shareholders' General Meetings;



# Corporate Governance Report

- (xvi) To consider and approve the proposal regarding the amendments to the Rules of Procedure for the Board of Directors;
- (xvii) To consider and approve the proposal regarding the amendments to the Rules of Procedure for Board of Supervisors;

## *Special resolutions*

- (xviii) To consider and approve the proposal regarding the general mandate to issue Shares;
- (xix) To consider and approve the proposal regarding the amendments to the Articles of Association;
- (xx) To consider and approve the proposal regarding the public issuance of secondary capital bonds.

## **(2) 2020 First Extraordinary General Meeting and Class Meetings**

The Bank held the 2020 first extraordinary general meeting, the 2020 first domestic shareholders class meeting and the 2020 first H shareholders class meeting on June 3, 2020, at which the following resolutions were considered and approved by the Shareholders :

## *Ordinary resolution*

- (i) To consider and approve the substantial shareholders of the Bank and/or their respective designated entities to participate in the subscription of the domestic shares to be issued under the non-public issuance;

## *Special resolutions*

- (ii) To consider and individually approve the following items in respect of the proposal regarding the non-public issuance of domestic shares by way of specific mandate, including type and par value of shares to be issued; number of shares to be issued; target investors and the arrangement for existing shareholders to subscribe on pre-emptive basis; method of pricing; method of issuance; lock-up arrangement; use of proceeds; distribution of retained profit; validity period;
- (iii) To consider and individually approve the following items in respect of the proposal regarding the non-public issuance of H shares by way of specific mandate, including type and par value of shares to be issued; number of shares to be issued; target investors; method of pricing; method of issuance; use of proceeds; distribution of retained profit; validity period; listing arrangement;
- (iv) To consider and approve the proposal regarding the authorization to the Board to complete matters related to the non-public issuance of domestic shares and non-public issuance of H shares;
- (v) To consider and approve the resolution on the change of the registered capital of the Bank upon completion of the Issuance;
- (vi) To consider and approve the proposal regarding the proposed amendments to the Articles of Association in relation to the Issuance.

## (IV) Board of Directors

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

### (1) Composition of the Board of Directors

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

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

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

# Corporate Governance Report

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

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

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

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

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

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

## (4) Changes of Directors

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

## (5) Operation of the Board of Directors

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

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

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

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

## (6) Functions and Powers of the Board of Directors

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

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

## Corporate Governance Report

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

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

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

## **(7) Responsibilities of the Directors**

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

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

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

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

The Directors have acknowledged their responsibilities in the preparation of financial statements of the Bank for the year ended December 31, 2020. The Directors are responsible for reviewing and confirming the financial statements for each accounting period to ensure that the financial statements truly and fairly reflect the financial conditions, operating results and cash flows of the Bank. In preparing the consolidated financial statements of the Bank for the year ended December 31, 2020, the Directors have adopted appropriate accounting policies which have been applied consistently, and prudent and reasonable judgments have been made.

# Corporate Governance Report

## (9) Meetings of the Board of Directors

During the Reporting Period, the Bank has convened 5 meetings (including teleconference) of the Board of Directors. Attendance of Directors at the meetings of the Board of Directors, meetings of Board committees and general meetings of the Bank are set out in the table as follows:

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

Note:

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

### (10) Independent Non-executive Directors

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

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

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

### (11) Continuing professional development plan for Directors

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

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



# Corporate Governance Report

Trainings participated in by the Directors are as follows:

Directors	Contents of the trainings
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Guo Jirong, Zhang Youda, Liu Wanxiang, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	Guidance for Boards and Directors by Hong Kong Stock Exchange
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Guo Jirong, Zhang Youda, Liu Wanxiang, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	The Securities and Futures Ordinance of the Securities and Futures Commission of Hong Kong
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Guo Jirong, Zhang Youda, Liu Wanxiang, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	Changes of Continuing Compliance and Regulatory Rules for Listing in Hong Kong
Liu Qing, Wang Wenyong, Wu Changhong, Zhang Hongxia, Guo Jirong, Zhang Youda, Liu Wanxiang, Luo Mei, Tang Xiuli, Wong Sincere, Dong Ximiao	Practical Manual of Anti-Money Laundering Regulations of Anti-money Laundering Bureau of the People's Bank of China

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

## (12) Corporate governance functions of the Board of Directors

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

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

During the Reporting Period, the Board meeting considered and approved the following proposals:

the work report of the Board of Directors for 2019; the work report of senior management for 2019 and the work plan for 2020; the annual results for 2019; the financial audit report for 2019; the final financial report for 2019; the profit distribution proposal for 2019; the annual financial budget for 2020; the integrated business plan for 2020; the annual report for 2019 (draft); the engagement of external auditing firms for 2020; the general mandates to issue Shares; the work report of Independent Directors for 2019; the appraisal result of directors and senior management from the Board for 2019; the remuneration distribution and settlement plan for Directors and Supervisors in 2019; the remuneration distribution and settlement plan for senior management in 2019; the plan on authorization of the shareholders' general meeting to the Board; the plan for authorization to management by the Board; the amendments to the Articles of Association; the amendments to the rules of procedure for shareholders' general meetings; the amendments to the rules of procedure for Board of Directors; the non-public issuance of Domestic Shares; the non-public issuance of overseas listed foreign shares (H Shares); the authorization to the Board to complete matters related to the non-public issuance of Domestic Shares and non-public issuance of H Shares; the change of the registered capital upon completion of the non-public issuance of Domestic Shares and H Shares; the amendments to the Articles of Association upon the non-public issuance of Domestic Shares and H Shares; the substantial shareholders and/or their respective designated entities to participate in the subscription of the Domestic Shares to be issued under the non-public issuance; the formation of independent board committee; the public issuance of secondary capital bonds; the appointment of Feng Yuhui as the chief business officer; the 2019 environmental, social and governance (ESG) report; the convening of the 2019 annual general meeting; the convening of the 2020 first extraordinary general meeting, domestic shareholders class meeting and H shareholders class meeting; the work report of consumer rights protection for 2019; the work report of audit for 2019; the audit plan for 2020; the amendments to the Administrative Measures for Liquidity Risk of Bank of Gansu; the amendments to the Administrative Measures for Pressure Testing of Liquidity Risks of Bank of Gansu; the amendments to the Contingency Plan for Liquidity Risks of Bank of Gansu; the formulation of the Administrative Measures for Interest Rate Risk of Banking Book of Bank of Gansu; the report on particulars of related-party transactions for 2019; the estimated cap of related party/connected transactions for 2020; the work report on anti-money laundering for 2019; the work report on the self-assessment of money laundering and terrorist financing risks for 2019; the report on the assessment of the basic position of the substantial shareholders for 2019; the overall risk report for 2019; the formation of the Administrative Measures for the Risk Appetite of Bank of Gansu; the risk appetite statement for 2020; the risk management strategy proposal for 2020; the credit risk and market risk limit management plan for 2020; the internal control self-assessment report of Bank of Gansu Co., Ltd. for 2019; Interim Results for 2020; Interim Report for 2020 (Draft); the change of the acquisition by Mengshang Bank of shareholdings in the Bank held by Baoshang Bank; the adjustment of part of the integrated business plan for 2020; the overall risk report for the first half of 2020; the work report of internal audit for the first half of 2020; the report on particulars of related-party transactions for the first half of 2020; the credit policy guidelines for the industry of Bank of Gansu; the report on the implementation of the digital transformation of Bank of Gansu; the adjustment of risk limits for certain businesses of Bank of Gansu in 2020; the related party transactions on the investment of bonds issued by Gansu Assets Management Co., Ltd.; the proposal on rectification plan for the wealth management stock asset of Bank of Gansu.

# Corporate Governance Report

## (13) Board Committees

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

### (i) *Strategy and Development Committee*

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

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

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

During the Reporting Period, the strategy and development committee held 2 meetings in total, at which the resolutions regarding the amendments to the Articles of Association, the amendments to the rules of procedure for shareholders' general meetings, the amendments to the rules of procedure for Board of Directors; the non-public issuance of Domestic Shares, the non-public issuance of overseas listed foreign shares (H Shares), the explanation of the option to conduct a simultaneous non-public issuance of H Shares and Domestic Shares to replenish capital, the change of the registered capital upon completion of the non-public issuance of H Shares and Domestic Shares, the amendments to certain Articles of Association upon completion of the non-public issuance of Domestic Shares and H Shares, the public issuance of secondary capital bonds, the 2019 environmental, social and governance (ESG) report, the change of the acquisition by Mengshang Bank of shareholdings in Bank of Gansu held by Baoshang Bank were considered and approved.

### (ii) *Audit Committee*

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

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

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

During the Reporting Period, the audit committee held 3 meetings in total, at which the resolutions regarding the annual results for 2019, the financial audit for 2019, the final report for 2019, the profit distribution proposal for 2019, the annual financial budget for 2020, the integrated business plan for 2020, the annual report for 2019 (draft), the engagement of external auditing firms for 2020, the work report of audit for 2019, the audit plan for 2020, the internal control self-assessment report for 2019, interim results for 2020, interim report for 2020 (draft), the adjustment of part of the integrated business plan for 2020, the work report of internal audit for the first half of 2020 were considered and approved.

### *(iii) Nomination and Remuneration Committee*

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

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

Responsibilities regarding nomination:

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

Responsibilities regarding remuneration and evaluation:

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

## Corporate Governance Report

During the Reporting Period, the nomination and remuneration committee held 1 meeting in total, at which the resolutions regarding the work report of Independent Directors for 2019, the appraisal result of Directors and senior management from the Board for 2019, the remuneration distribution and settlement plan for Directors and Supervisors in 2019, the remuneration distribution and settlement plan for senior management in 2019 and the appointment of Mr. Feng Yuhui as chief business officer were considered and approved.

### *(iv) Related Party Transaction and Risk Management Committee*

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

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

Responsibilities regarding management of related party transaction:

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

Responsibilities regarding risk management:

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

During the Reporting Period, the related party transaction and risk management committee held 3 meetings in total, at which the resolutions regarding the plan on authorization of the shareholders' general meeting to the Board, the plan for authorization to management by the Board, the non-public issuance of Domestic Shares constituting connected transaction, the amendments to the Administrative Measures for Liquidity Risks of Bank of Gansu, the formulation of the Administrative Measures for Interest Rate Risk of Banking Book of Bank of Gansu, the report on particulars of related-party transactions for 2019, the estimated cap of related party/connected transactions for 2020, the work report on anti-money laundering for 2019, the work report on the self-assessment of money laundering and terrorist financing risks for 2019, the overall risk report for 2019, the formation of the Administrative Measures for the Risk Appetite of Bank of Gansu, the risk appetite statement for 2020, the risk management strategy proposal for 2020, the credit risk and market risk limit management plan for 2020, the related party transactions on the investment of bonds issued by Gansu Assets Management Co., Ltd., the overall risk report for the first half of 2020, the report on particulars of related-party transactions for the first half of 2020, the credit policy guidelines for the industry of Bank of Gansu, the adjustment of risk limits for certain businesses of Bank of Gansu in 2020 were considered and approved.

### (v) *Consumer Rights Protection Committee*

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

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

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

During the Reporting Period, the consumer rights protection committee held 1 meeting in total, at which the resolutions such as the work report of consumer rights protection for 2019 were considered and approved.

# Corporate Governance Report

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

Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited (collectively as “Shinewing”) carried out the 2020 audit on the Bank by two stages, the preliminary audit and year-end audit. In the preliminary audit stage, Shinewing conducted the audit on internal control, carried out internal control test at the entity level to the Bank’s level and business process level, and evaluated the effectiveness of the internal control design and whether it has been effectively implemented during the audit. Through the interview, Shinewing understood the Bank’s control environment, the main operation conditions, business innovation, system updates and fraud risk. Shinewing conducted a preliminary audit on major subjects of financial statements, such as financial instruments, operating income, investment income and other subjects. Shinewing also made a testing and evaluation on the main information system used by the Bank and discussed timely the finding of preliminary audit with the Bank’s management. At the end of year-end audit, Shinewing followed up the finding on the preliminary audit stage and conducted detailed audit procedures for all major subjects, and communicated timely the finding of year-end audit with the Bank’s management.

In order to successfully complete the audit work in 2020 and issue relevant reports with scheduled time, the audit committee of the Board of Directors authorized the finance department of the Bank to discuss with Shinewing about the planning of audit work, audit progress, scope of consolidation, timing of initial draft and final draft of the auditor’s report, etc. During the audited period, the audit committee made multiple rounds of supervision. On March 29, 2021, Shinewing issued the standard unqualified auditor’s reports to the Bank within the scheduled time.

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

## (V) Board of Supervisors

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

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

## (1) Composition of the Board of Supervisors

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

- Ms. Tang Lan (Chairman of the Board of Supervisors, Employee Supervisor)
- Mr. Xu Yongfeng (Employee Supervisor)
- Mr. Luo Zhenxia (Employee Supervisor)
- Mr. Liu Yongchong (Shareholder Supervisor)
- Mr. Li Yongjun (Shareholder Supervisor)
- Mr. Zeng Lehu (Shareholder Supervisor)
- Mr. Yang Zhenjun (External Supervisor)
- Mr. Dong Ying (External Supervisor)
- Mr. Luo Yi (External Supervisor)

## (2) Chairman of the Board of Supervisors

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

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



# Corporate Governance Report

## (3) Changes of Supervisors

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

## (4) Responsibilities of the Board of Supervisors

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

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

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

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

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

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

# Corporate Governance Report

## (5) Meetings of the Board of Supervisors

During the Reporting Period, the Board of Supervisors convened 5 meetings and there was no objection to the matters concerning the supervision of the Board of Supervisors.

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

Supervisors	Attendance in person	Attendance through proxy	No. of required attendance
Ms. Tang Lan	5	0	5
Mr. Xu Yongfeng	5	0	5
Mr. Luo Zhenxia	5	0	5
Mr. Liu Yongchong	5	0	5
Mr. Li Yongjun	5	0	5
Mr. Zeng Lehu	5	0	5
Mr. Yang Zhenjun	5	0	5
Mr. Dong Ying	5	0	5
Mr. Luo Yi	5	0	5

During the Reporting Period, the Board of Supervisors had considered and approved the following resolutions:

the work report of the Board of Directors for 2019; the work report of the Board of Supervisors for 2019; the work report of senior management for 2019 and the work plan for 2020; the annual results report for 2019; the financial audit report for 2019; the final financial report for 2019; the profit distribution proposal for 2019; the annual financial budget for 2020; the integrated business plan for 2020; the annual report for 2019 (draft); the engagement of external auditing firms for 2020; the general mandates to issue Shares; the remuneration distribution and settlement for Directors and Supervisors in 2019; the remuneration distribution and settlement for senior management in 2019; the amendments to the plan on authorization of the shareholders' general meeting to the Board; the amendments to the plan for authorization to management by the Board; the amendments to the Articles of Association of Bank of Gansu Co., Ltd.; the amendments to the rules of procedure for shareholders' general meetings; the non-public issuance of Domestic Shares; the non-public issuance of overseas listed foreign shares (H Shares); the explanation of the option to conduct a simultaneous non-public issuance of H Shares and Domestic Shares to replenish capital; the change of the registered capital upon completion of the non-public issuance of H Shares and Domestic Shares; the amendments to certain Articles of Association upon the non-public issuance of H Shares and Domestic Shares; the non-public issuance of Domestic Shares constituting related-party/connected transaction; the public issuance of secondary capital bonds; the appointment of Feng Yuhui as the chief business officer; the 2019 environmental, social and governance (ESG) report; the work report of consumer rights protection for 2019; the work report of internal audit for 2019; the audit plan for 2020; the amendments to the Administrative Measures for Liquidity Risk; the amendments to the Administrative Measures for Pressure Testing of Liquidity Risks; the amendments to the Contingency Plan for Liquidity Risks; the formulation of the Administrative Measures for Interest Rate Risk of Banking Book; the report on particulars of related party/connected transactions for 2019; the estimated cap of related-party/connected transactions for 2020; the work report on anti-money laundering for 2019; the work report on the self-assessment of money laundering and terrorist financing risks for 2019; the report on the assessment of the basic position of the substantial shareholders; the overall risk report for 2019; the formation of the administrative measures for the risk appetite; proposal for the risk appetite statement for 2020; the risk strategy proposal for 2020; the credit risk and market risk limit management plan for 2020; the internal control self-assessment report for 2019; the adjustment of the Shareholder Supervisors and external Supervisors of Bank of Gansu Co., Ltd.; the related party transactions on the investment of bonds issued by Gansu Assets Management Co., Ltd.; Interim Results Report for 2020; Interim Report for 2020 (Draft); the change of the acquisition by Mengshang Bank of shareholdings in Bank of Gansu held by Baoshang Bank; the adjustment of part of the integrated business plan for 2020; the overall risk report for the first half of 2020; the work report of internal audit for the first half of 2020; the report on particulars of related-party transactions for the first half of 2020; the credit policy guidelines for the industry (2020 version); the report on the implementation of the digital transformation; the risk limits for certain businesses in 2020; the rectification plan for the wealth management stock asset.

## **(6) Attendance at the general meetings**

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

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

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

## **(8) Committees under the Board of Supervisors**

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

# Corporate Governance Report

## *Supervisory Committee*

The supervisory committee consists of five Supervisors, being Mr. Luo Yi, Ms. Tang Lan, Mr. Luo Zhenxia, Mr. Zeng Lehu and Mr. Yang Zhenjun (tendered the resignation on October 16, 2019 but will continue to perform his duties as a member of supervisory committee until the new Supervisor is appointed). Mr. Luo Yi is the chairman of the Supervisory Committee. The principal responsibilities of the supervisory committee include: supervising the Board of Directors in formulating prudent business philosophies and development strategies; formulating and coordinating the implementation of internal inspection and special audit plans with respect to our business decision-making, financial activities, risk management and internal controls; formulating and coordinating the implementation of investigation plans for major emergencies and risk events based on the authorization of our Board of Supervisors; and communicating with external auditors regarding preparation of the Board's periodic reports and related material adjustments and reporting to the Board of Supervisors.

The supervisory committee convened a total of 5 meetings during the Reporting Period, at which the following resolutions were considered and approved:

the work report of the Board of Directors for 2019; the work report of the Board of Supervisors for 2019; the work report of senior management for 2019 and the work plan for 2020; the annual results report for 2019; the financial audit report for 2019; the final financial report for 2019; the profit distribution proposal for 2019; the annual financial budget for 2020; the integrated business plan for 2020; the annual report for 2019 (draft); the engagement of external auditing firms for 2020; the general mandates to issue Shares; the remuneration distribution and settlement for Directors and Supervisors in 2019; the remuneration distribution and settlement for senior management in 2019; the amendments to the plan on authorization of the shareholders' general meeting to the Board; the amendments to the plan for authorization to management by the Board; the amendments to the Articles of Association of Bank of Gansu Co., Ltd.; the amendments to the rules of procedure for shareholders' general meetings; the non-public issuance of Domestic Shares; the non-public issuance of overseas listed foreign shares (H Shares); the explanation of the option to conduct a simultaneous non-public issuance of H Shares and Domestic Shares to replenish capital; the change of the registered capital upon completion of the non-public issuance of H Shares and Domestic Shares; the amendments to certain Articles of Association upon the non-public issuance of H Shares and Domestic Shares; the non-public issuance of Domestic Shares constituting related-party/connected transaction; the public issuance of secondary capital bonds; the appointment of Feng Yuhui as the chief business officer; the 2019 environmental, social and governance (ESG) report; the work report of consumer rights protection for 2019; the work report of internal audit for 2019; the audit plan for 2020; the amendments to the Administrative Measures for Liquidity Risk; the amendments to the Administrative Measures for Pressure Testing of Liquidity Risks; the amendments to the Contingency Plan for Liquidity Risks; the formulation of the Administrative Measures for Interest Rate Risk of Banking Book; the report on particulars of related-party/connected transactions for 2019; the estimated cap of related-party/connected transactions for 2020; the work report on anti-money laundering for 2019; the work report on the self-assessment of money laundering and terrorist financing risks for 2019; the report on the assessment of the basic position of the substantial shareholders; the overall risk report for 2019; the formation of the administrative measures for the risk appetite; proposal for the risk appetite statement for 2020; the risk strategy proposal for 2020; the credit risk and market risk limit management plan for 2020; the internal control self-assessment report for 2019; the adjustment of the Shareholder Supervisors and external Supervisors of Bank of Gansu Co., Ltd.; the related party transactions on the investment of bonds issued by Gansu Assets Management Co., Ltd.; Interim Results Report for 2020; Interim Report for 2020 (Draft); the change of the acquisition by Mengshang Bank of shareholdings in Bank of Gansu held by Baoshang Bank; the adjustment of part of the integrated business plan for 2020; the overall risk report for the first half of 2020; the work report of internal audit for the first half of 2020; the report on particulars of related-party transactions for the first half of 2020; the credit policy guidelines for the industry (2020 version); the report on the implementation of the digital transformation; the risk limits for certain businesses in 2020; the rectification plan for the wealth management stock asset.

## *Nomination Committee*

The nomination committee consists of five Supervisors, being Mr. Dong Ying, Ms. Tang Lan, Mr. Xu Yongfeng, Mr. Li Yongjun and Mr. Liu Yongchong (tendered the resignation on May 27, 2020 but will continue to perform his duties as a member of the nomination committee until the new Supervisor is appointed). The chairman of the nomination committee is Mr. Dong Ying. The principal responsibilities of the nomination committee include: formulating procedures and standards concerning election and appointment of Supervisors, conducting preliminary review on the qualifications of candidates for Supervisors, and submitting proposals to the Board of Supervisors; supervising the process of election and appointment of the Directors; performing comprehensive evaluation of Directors, Supervisors and senior management and reporting the results of evaluation to the Board of Supervisors; and supervising the objectivity and reasonableness of the remuneration management systems and policies and remuneration plans for senior management.

The nomination committee held 2 meetings during the Reporting Period, at which the following resolutions were considered and approved: the remuneration distribution and settlement plan for Directors and Supervisors in 2019; the remuneration distribution and settlement plan for senior management in 2019; the appointment of Mr. Feng Yuhui as chief business officer; the adjustment of Shareholder Supervisors and external Supervisors of Bank of Gansu Co., Ltd..

### (9) Work performed by External Supervisors

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

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

### (VI) Senior Management

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

# Corporate Governance Report

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

- Mr. Wang Wenyong (President)
- Mr. Qiu Jinhu (Vice President)
- Ms. Hao Jumei (Vice President, Secretary to the Board)
- Mr. Chen Jinhui (Vice President)
- Mr. Du Jing (Vice President)
- Mr. Feng Yuhui (Chief Business Officer)

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

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

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

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

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

Remuneration paid to the senior management (excluding the members of senior management who concurrently served as Directors) for the year ended December 31, 2020 is set out as follows:

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

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

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

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

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



# Corporate Governance Report

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

The Bank has adopted, in respect of securities transactions by Directors, Supervisors and senior management members, a code of conduct on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules.

Having made specific enquiries to all Directors, Supervisors and members of the senior management of the Bank, the Bank confirmed that they complied with the Model Code during the Reporting Period.

## (IX) External Auditors and Remuneration of Auditors

The Group engaged Shinewing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited as its domestic and international auditors for 2020, respectively. The fees as agreed to be paid by the Group for the audit of the financial statements for the year ended December 31, 2020 are RMB3.388 million.

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

## (X) Company Secretary

During the Reporting Period, the company secretary of the Bank is Ms. Fok Po Yi (霍寶兒), who has resigned since January 26, 2021. Mr. Wong Wai Chiu was appointed as the company secretary of the Bank on January 26, 2021. Ms. Fok took part in relevant professional trainings for no less than 15 hours during the Reporting Period. The main contact person between the company secretary and the Bank is Ms. Hao Jumei, the secretary to the Board, Ms. Hao Jumei is also required to report significant events to the chairman of the Board.

Regarding the biographic details of Mr. Wong Wai Chiu and further information regarding the change of the company secretary, please refer to the section headed "Report of the Board of Directors – 44. Company Secretaries" of this annual report.

## (XI) Communication with Shareholders

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

## General enquiries

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

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

Bank of Gansu Tower, No. 525-1 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC

Telephone: +86 (931) 877 0897

Facsimile: +86 (931) 877 1877

Principal place of business in Hong Kong of the Bank: 40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong

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

## Enquiries on matters relating to the H Shares

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

Computershare Hong Kong Investor Services Limited

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

Telephone: (852) 2862 8555

Facsimile: (852) 2865 0990

## Enquiries on matters relating to the Domestic Shares

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

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

Bank of Gansu Tower, No. 525-1 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC

Telephone: +86 (931) 877 0897

Facsimile: +86 (931) 877 1877

# Corporate Governance Report

## (XII) Information Disclosure

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

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

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

## (XIII) Procedures and Regulatory Measures related to Inside Information

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

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

On June 3, 2020, the proposal regarding the amendments to the Articles of Association in respect of (i) the safeguard the legitimate rights and interests of the Bank, its shareholders and creditors, regulate the organization and activities of the Bank, and further improve corporate governance was considered and approved at the 2019 annual general meeting and (ii) the Non-public Issuance of Domestic Shares and H Shares was considered and approved at the 2020 first extraordinary general meeting and class meetings. Amended Articles of Association became effective on December 31, 2020. The issuance of Domestic Shares and the issuance of H Shares were completed on December 29, 2020. Investors may review the existing and effective Articles of Association on the website of the Bank ([www.gsbankchina.com](http://www.gsbankchina.com)) and the designated website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

## (XV) Rights of Shareholders

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

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

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

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

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

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

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

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

# Corporate Governance Report

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

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

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

## (2) Proposing resolutions at Shareholders' general meetings

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

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

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

## (3) Making inquiries to the Board of Directors

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

## (4) Inspection rights of the Shareholders

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

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

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

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

# Risk Management, Internal Control and Internal Audit

## I. OVERVIEW

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

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

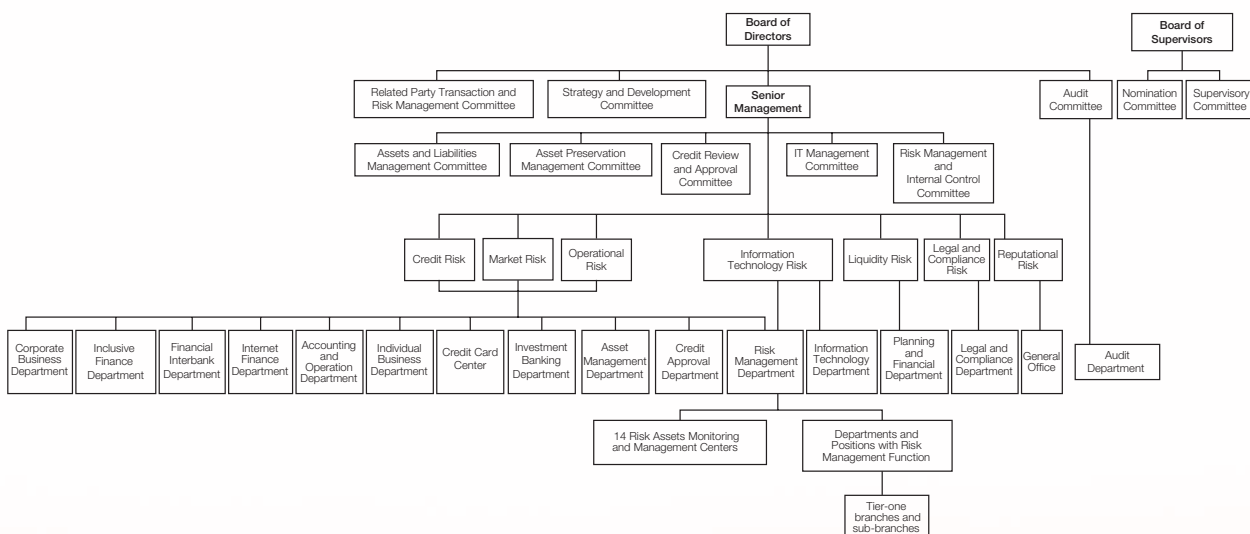
The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Bank has implemented prudent risk management and internal control to ensure good asset quality. As of December 31, 2020, the Bank's non-performing loan ratio was 2.28%; and the Bank's provision coverage ratio was 131.34%.

## II. RISK MANAGEMENT AND INTERNAL CONTROL OF THE BANK

### (I) Organizational System

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



### (1) Board of Directors and its Special Committees

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

#### *Related Party Transaction and Risk Management Committee*

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

#### *Audit Committee*

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

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

### (2) Board of Supervisors and its Special Committees

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

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



## Risk Management, Internal Control and Internal Audit

### *Supervisory Committee*

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

### *Nomination Committee*

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

### (3) Senior Management and its Special Committees

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

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

### *Risk Management and Internal Control Committee*

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

### *Asset Preservation and Management Committee*

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

### *IT Management Committee*

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

### *Credit Review and Approval Committee*

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

### *Assets and Liabilities Management Committee*

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

# Risk Management, Internal Control and Internal Audit

## (4) Risk Management Department

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

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

## (II) Management of Different Types of Risks

### (1) Credit Risk Management

#### *Overview*

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

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

In accordance with 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. The Bank also encourages the extension of credit to emerging technology sectors, such as internet, big data and artificial intelligence in accordance with national policy directives. In addition, the Bank also issue notices of adjustments to credit policy guidelines in a timely manner in response to changes in government policies, the economic environment and its risk preferences.

The Bank categorizes the industries in which a loan applicant operates into different categories and adopts a different credit policy for each industry category. The Bank has also adopted detailed credit policies for small and micro enterprise loans and retail loans based on the type of product, customer group and investment field. The Bank generally updates these policies on an annual basis.

### *Credit Risk Management of Corporate Loans*

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

### *Credit Risk Management for Retail Loans*

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

### *Credit Risk Management for Financial Market Operations*

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

### *Credit Risk Management for Money Market Transactions*

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

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

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

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

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

### *Credit Risk Management for the Wealth Management Business*

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

## Risk Management, Internal Control and Internal Audit

### *Credit Risk Management for the Bank's Bill Discounting Business*

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

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

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

### *Credit Risk Management for Related Party Transactions*

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

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

### *Credit Risk Management IT System*

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

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

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

## (2) Liquidity Risk Management

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

## Risk Management, Internal Control and Internal Audit

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

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

The Bank continually improves liquidity risk management, strictly implements regulatory rules, closely monitors liquidity indicators, enhances maturity management of its cash flows, formulates emergency plans and enhances liquidity risk management and stress tests. The Bank manages liquidity risks with instruments such as position provisioning and monitoring, cash flow analyses, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

### (3) Market Risk Management

Market risk is the risk of loss in on-balance sheet and off-balance sheet arising from fluctuations in market prices. The Bank is exposed to market risks primarily through its banking book and trading book. The market risks associated with the banking book include interest rate risk and exchange rate risk. The primary market risks in the Bank's trading book arise from fluctuations in the value of financial instruments due to changes in interest and exchange rates.

The Bank conducts analysis and studies on interest rate trends in financial markets, based on the results and forecast of which it formates and adjusts interest rates. It manages the interest rate risk exposure of its RMB-denominated assets and liabilities on its balance sheet primarily by adjusting interest rates and optimizing the maturity profile of its assets and liabilities. The Bank seeks to reduce maturity mismatches by adjusting repricing frequency and establishing a pricing structure for corporate deposits. The Bank uses various measures to evaluate interest rate risks arising from its banking book, including but not limited to techniques and measures such as duration analysis, sensitivity analysis, scenario analysis and stress tests.

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

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

### (4) Operational Risk Management

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

## Risk Management, Internal Control and Internal Audit

The Bank's Board of Directors is ultimately responsible for ensuring the effectiveness of the Bank's operational risk management. The Bank's senior management is responsible for coordinating operational risk management through its risk management and internal control committee. The Bank's risk and credit management department formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of the Board and senior management. The Bank's audit department supervises and evaluates the management of operational risks and is responsible for independently examining and evaluating the appropriateness, effectiveness and efficiency of operational risk management policies, systems and procedures. The Bank has also established a GRC system for managing internal control and operational risks.

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

### (5) Reputational Risk Management

Reputational risk represents the risk of negative publicity caused by the Bank's operations, management or other activities or external events. The general office of the Bank's head office is primarily responsible for reputational risk management, and the Board bears the ultimate responsibility for reputational risk management. The Bank's reputational risk management measures primarily include (i) formulating detailed reputational risk management policies and guidelines for identifying, reporting and managing significant reputational incidents; (ii) supervising employees' performance of duties in minimizing negative risk events; (iii) analyzing public opinion, investigating reputational risks and analyzing the dissemination channels of reputational risks and related incidents; and (iv) enhancing internal training on reputational risk management.

### (6) IT Risk Management

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

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

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

### (7) Legal and Compliance Risk Management

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

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

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

- formulating our rules, systems and annual plans, and leading and urging the formulation and amendment thereof;
- enhancing the compliance review mechanism to identify and evaluate compliance risks associated with our business activities;
- developing, coordinating, reviewing and incorporating the Bank's operation authorization plans and revised plans and putting them into implementation;
- uniformly managing standard contracts and other legal documents;
- managing and tracking our legal proceedings;
- formulating an annual compliance management plan, stipulating the focus for annual compliance work;
- managing related parties and 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.



## Risk Management, Internal Control and Internal Audit

### (8) Anti-money Laundering Management

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

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

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

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 president of the Bank and the office is set up at the legal and compliance department. The members of the leadership group consists of the anti-money laundering leadership management department, the business management department, the responsible persons from the middle and back cooperation departments and other parties.

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.

### (III) Internal Audits

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

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

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

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

## III. REGULATION OF THE BANK'S INSIDE INFORMATION

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

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

# Independent Auditor's Report



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

TO THE SHAREHOLDERS OF BANK OF GANSU CO., LTD.

甘肅銀行股份有限公司

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

## OPINION

We have audited the consolidated financial statements of Bank of Gansu Co., Ltd (the "Bank") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 177 to 308, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

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

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

## Expected credit losses of loans and advances to customers

Refer to note 22 to the consolidated financial statements and the accounting policies on pages 195 to 199.

The key audit matter	How the matter was addressed in our audit
<p>Impairment allowances represent management's best estimate of the expected credit losses ("ECL") for the loan portfolios at the balance sheet date.</p> <p>They are assessed based on whether the credit risk has increased significantly since initial recognition and the Group's historical credit loss experience adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.</p> <p>The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.</p> <p>Management estimations and judgements are required to determine whether there are significant increase in credit risk, the probability of default, loss given default, forward-looking information and the expected future cash flows related to each loan within the loan portfolios.</p> <p>We identified the ECL on loans and advances to customers as a key audit matter due to the significant balances amounted to approximately RMB176,386,767,000 (net of accumulated impairment losses of approximately RMB5,438,890,000) as at the end of the reporting period and the subjective nature of the judgement, estimation and calculation.</p>	<p>Our procedures were designed to review the management assessment on the ECL model and challenge the reasonableness of the models and assumptions used to estimate the ECL of loans and advances to customers.</p> <p>We have discussed the judgement in relation to the recognition of 12 months ECL and lifetime ECL of loans and advances under the 3 different stages and assessed the appropriateness of the modelling policy, assumptions and methodology used for material portfolios independently by reference to the Group's accounting policies, the market practices and model calculations were tested through re-performance.</p> <p>We have challenged the assumptions, critical judgement and the ECL models used by the management by assessing the reliability of the management's past estimates and future forecast.</p> <p>For the collectively assessed ECL, we assessed the reasonableness of the Group's ECL models, including the model input, model design, model performance for significant portfolios. We assessed the reasonableness of the Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment. We challenged whether historical experience is representative of current economic scenarios and of the recent losses incurred in the portfolios and assessed the reasonableness of forward-looking adjustments, including the economic variables and assumptions used in each of the economic scenarios and their probability weightings. Where changes had been made in model parameters and assumptions, we evaluated the appropriateness of such changes. We also assessed and tested the sensitivity of the credit loss provisions to changes in modelling assumptions.</p> <p>For a sample of exposures that was subject to an individual impairment assessment, we specifically reviewed the Group's assumptions on the expected future cash flows, including forward-looking information and the value of realisable collateral based on available market information.</p> <p>For both collectively and individually assessed ECL, we have also assessed the consolidated financial statement disclosures relating to the Group's exposure to credit risk.</p>

# Independent Auditor's Report

## Consolidation of structured entities

Refer to note 44 to the consolidated financial statements and the accounting policies on page 188.

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

## Valuation of financial instruments

Refer to note 50 to the consolidated financial statements and the accounting policies on pages 212 to 213.

The key audit matter	How the matter was addressed in our audit
<p>The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, in particular those required significant unobservable inputs, usually involve subjective judgment and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p> <p>As at December 31, 2020, financial assets measured at fair value amounted to approximately RMB37,050,604,000 representing 11% of total assets. Financial instruments which required either directly (i.e. as prices) or indirectly (i.e. derived from prices) inputs were categorised within level 2 of the fair value hierarchy while financial instruments which are not based on observable market inputs were categorised within level 3 of the fair value hierarchy. We identified valuation of financial instruments as a key audit matter due to the significance of financial instruments measured at fair value, and judgements and estimations involved in valuation.</p>	<p>Our procedures were designed to assess and test the design and operating effectiveness of the Group's internal controls over valuation of financial instruments, including to test the effectiveness of the relevant data quality and the IT system involved, and we assessed the adequacy of the disclosure being made in the consolidated financial statements required under the Group's accounting policies for valuation of financial instruments.</p> <p>We assessed the valuation techniques, inputs and assumptions used by the Group and observed the management's analysis and comparison of the Group's valuation techniques with those commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.</p>



## Independent Auditor's Report

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

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

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

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

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

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

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

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

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

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

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

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

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





## Independent Auditor's Report

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

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

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

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

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

Hong Kong  
March 29, 2021

# Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2020

	Notes	2020 RMB'000	2019 RMB'000
Interest income		14,752,887	14,379,993
Interest expenses		(9,002,476)	(9,092,094)
Net interest income	6	5,750,411	5,287,899
Fee and commission income		379,269	357,626
Fee and commission expenses		(50,432)	(104,370)
Net fee and commission income	7	328,837	253,256
Net trading gains	8	716,300	1,489,821
Net (losses) gains arising from investment securities	9	(1,421)	131,183
Net exchange (losses) gains		(279,690)	68,888
Other operating (expenses) income, net	10	(21,239)	2,275
		413,950	1,692,167
Operating income		6,493,198	7,233,322
Operating expenses	11	(2,319,469)	(2,356,503)
Impairment losses on assets, net of reversals	14	(3,754,524)	(4,311,984)
Operating profit		419,205	564,835
Share of result of an associate		1,322	(68)
Profit before tax		420,527	564,767
Income tax credit (expense)	15	141,826	(53,393)
Profit for the year		562,353	511,374

# Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2020

	Notes	2020 RMB'000	2019 RMB'000
Profit for the year		562,353	511,374
Other comprehensive income/(expenses) for the year:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
– Remeasurement of defined benefit obligations		850	1,010
– Fair value loss on investment in equity investments at fair value through other comprehensive income		(21,681)	–
– Income tax relating to items that will not be reclassified to profit or loss		5,207	(253)
		(15,624)	757
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Debt instruments at fair value through other comprehensive income			
– Movement of provision for impairment losses	24	(522)	1,513
– Change in fair value recognised in investment revaluation reserve		(87,546)	(56,922)
– Income tax relating to item that may be reclassified subsequently		22,017	13,451
		(66,051)	(41,958)
Other comprehensive expense for the year, net of income tax		(81,675)	(41,201)
Total comprehensive income for the year		480,678	470,173
Profit for the year attributable to:			
– Owners of the Bank		558,159	509,111
– Non-controlling interests		4,194	2,263
		562,353	511,374
Total comprehensive income for the year attributable to:			
– Owners of the Bank		476,484	467,910
– Non-controlling interests		4,194	2,263
		480,678	470,173
Earnings per share			
– Basic and diluted (RMB cents)	16	5.52	5.06

# Consolidated Statement of Financial Position

At December 31, 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>Assets</b>			
Cash and deposits with the central bank	17	26,666,680	25,274,278
Deposits with banks	18	3,716,145	3,967,542
Financial assets held under resale agreements	19	19,150,091	16,263,996
Financial assets at amortised cost	20	68,932,101	61,697,396
Interests receivables	21	4,151,959	2,202,105
Loans and advances to customers	22	176,386,767	164,766,836
Financial assets at fair value through profit or loss	23	25,837,489	36,729,899
Financial assets at fair value through other comprehensive income	24	11,213,115	15,081,447
Interest in an associate	25	10,224	8,902
Property and equipment	27	2,959,332	2,825,257
Right-of-use assets	28	338,438	345,173
Deferred tax assets	29	1,833,475	1,643,070
Other assets	30	1,167,972	4,238,584
<b>Total assets</b>		<b>342,363,788</b>	<b>335,044,485</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Borrowings from the central bank	32	6,620,195	2,316,353
Deposits from banks and other financial institutions	33	11,625,724	13,621,889
Placements from banks and other financial institutions	34	–	890,000
Financial assets sold under repurchase agreements	35	8,730,070	5,398,580
Deposits from customers	36	249,677,701	236,868,657
Accrued staff costs	37	551,265	505,487
Taxes payable		3,662	2,969
Interests payables	38	7,629,663	8,761,501
Debts securities issued	39	23,551,545	39,459,173
Deferred tax liabilities	29	23,698	97,243
Lease liabilities	28	282,817	283,931
Other liabilities	40	2,202,702	2,149,700
<b>Total liabilities</b>		<b>310,899,042</b>	<b>310,355,483</b>

# Consolidated Statement of Financial Position

At December 31, 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>Equity</b>			
Share capital	41	15,069,791	10,069,791
Capital reserve	42	5,955,483	4,660,417
Defined benefit plan reserve		(2,762)	(3,399)
Investment revaluation reserve		137,157	219,469
Surplus reserve	42	1,615,945	1,560,835
General reserve	42	4,538,992	4,471,044
Retained earnings		4,113,917	3,678,816
<b>Total equity attributable to the owners of the Bank</b>		<b>31,428,523</b>	<b>24,656,973</b>
Non-controlling interests		36,223	32,029
<b>Total equity</b>		<b>31,464,746</b>	<b>24,689,002</b>
<b>Total liabilities and equity</b>		<b>342,363,788</b>	<b>335,044,485</b>

The consolidated financial statements on pages 177 to 308 were approved and authorised for issue by the board of directors of the Bank on March 29, 2021 and are signed on its behalf by:

\_\_\_\_\_  
Mr. Liu Qing  
Director

\_\_\_\_\_  
Mr. Wang Wen Yong  
Director

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2020

	Attributable to the 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, 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 year	-	-	-	-	-	-	558,159	558,159	4,194	562,353
Other comprehensive income/(expense) for the year	-	-	637	(82,312)	-	-	-	(81,675)	-	(81,675)
Total comprehensive income/(expense) for the year	-	-	637	(82,312)	-	-	558,159	476,484	4,194	480,678
Shareholders' injection (Note 42)	-	904	-	-	-	-	-	904	-	904
Change in share capital (Note 41)										
- Capital contribution by equity shareholders	5,000,000	1,297,209	-	-	-	-	-	6,297,209	-	6,297,209
- Share issue expenses	-	(3,047)	-	-	-	-	-	(3,047)	-	(3,047)
Appropriation of profits										
- Appropriation to surplus reserve	-	-	-	-	55,110	-	(55,110)	-	-	-
- Appropriation to general reserve	-	-	-	-	-	67,948	(67,948)	-	-	-
At December 31, 2020	15,069,791	5,955,483	(2,762)	137,157	1,615,945	4,538,992	4,113,917	31,428,523	36,223	31,464,746

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2020

	Attributable to the owners of the Bank									
	Share Capital	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019	10,069,791	4,658,314	(4,156)	261,427	1,510,052	4,423,117	4,297,780	25,216,325	31,266	25,247,591
Profit for the year	-	-	-	-	-	-	509,111	509,111	2,263	511,374
Other comprehensive income/(expense) for the year	-	-	757	(41,958)	-	-	-	(41,201)	-	(41,201)
Total comprehensive income/(expense) for the year	-	-	757	(41,958)	-	-	509,111	467,910	2,263	470,173
Shareholders' injection (Note 42)	-	2,103	-	-	-	-	-	2,103	-	2,103
Appropriation of profits										
- Appropriation to surplus reserve	-	-	-	-	50,783	-	(50,783)	-	-	-
- Appropriation to general reserve	-	-	-	-	-	47,927	(47,927)	-	-	-
Dividends paid (Note 43)	-	-	-	-	-	-	(1,029,365)	(1,029,365)	-	(1,029,365)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,500)	(1,500)
At December 31, 2019	10,069,791	4,660,417	(3,399)	219,469	1,560,835	4,471,044	3,678,816	24,656,973	32,029	24,689,002

# Consolidated Statement of Cash Flows

For the year ended December 31, 2020

	2020 RMB'000	2019 RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit before tax	420,527	564,767
<b>Adjustments for:</b>		
Depreciation of property and equipment	372,471	386,957
Depreciation of right-of-use assets	138,348	113,443
Amortisation of intangible assets	6,394	4,379
Impairment losses on assets, net of reversals	3,754,524	4,311,984
Interest expense on lease liabilities	6,310	6,617
Interest expense on debts securities issued	1,219,208	1,579,603
Loss on disposal of repossessed assets	10,244	-
Loss on disposal of property and equipment	28	2,703
Unrealised losses from debt securities at fair value through profit or loss	206,633	95,160
Net losses/(gains) arising from investment securities	1,421	(131,183)
Government grants	(6,471)	(5,708)
Interest income on investments	(3,923,379)	(3,320,437)
Share of result of an associate	(1,322)	68
	2,204,936	3,608,353
<b>Changes in operating assets</b>		
Net (increase)/decrease in deposits with the central bank	(651,349)	4,382,237
Net (increase)/decrease in deposits with banks	(68,131)	4,129,000
Net decrease in financial assets at fair value through profit or loss	10,685,777	6,535,998
Net increase in loans and advances to customers	(14,724,834)	(14,560,604)
Net increase in other operating assets	(1,403,172)	(6,416,006)
	(6,161,709)	(5,929,375)
<b>Changes in operating liabilities</b>		
Net increase/(decrease) in borrowings from central bank	4,303,842	(9,334,498)
Net decrease in deposits and placements from banks and other financial institutions	(2,886,165)	(4,301,883)
Net increase/(decrease) in financial assets sold under repurchase agreements	3,331,490	(6,318,405)
Net increase in deposits from customers	12,809,044	26,145,340
Net (decrease)/increase in other operating liabilities	(931,747)	3,169,950
	16,626,464	9,360,504
Cash generated from operations	12,669,691	7,039,482
Income tax paid	(94,207)	(489,940)



## Consolidated Statement of Cash Flows

For the year ended December 31, 2020

	2020 RMB'000	2019 RMB'000
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>12,575,484</b>	<b>6,549,542</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal and redemption of investments	28,580,355	67,179,777
Interest income received from financial investments	2,783,508	2,972,680
Proceeds from disposal of property and equipment	449	79,895
Payments on acquisition of investments	(29,295,644)	(81,558,348)
Payments on acquisition of property and equipment and intangible assets	(263,271)	(296,213)
Deposits paid for acquisition of premises	-	(45,689)
<b>NET CASH FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>1,805,397</b>	<b>(11,667,898)</b>
<b>FINANCING ACTIVITIES</b>		
Shareholders' injection	904	2,103
Government grants received	6,471	5,708
Proceeds from capital contribution by equity shareholders	6,297,209	-
Shares issue expenses	(3,047)	-
Net proceeds from issue of new debt securities	31,250,945	33,992,480
Repayment of debt securities issued	(48,030,000)	(36,560,000)
Repayment of lease liabilities	(132,727)	(147,051)
Interest paid on debts securities issued	(454,727)	(1,130,619)
Interest paid on lease liabilities	(6,310)	(6,617)
Dividends paid	(1,979)	(1,012,230)
Dividends paid to non-controlling interests	-	(1,500)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(11,073,261)</b>	<b>(4,857,726)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,307,620</b>	<b>(9,976,082)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>25,171,047</b>	<b>35,147,129</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 46)</b>	<b>28,478,667</b>	<b>25,171,047</b>
Interest received	13,493,123	14,718,402
Interest paid (excluding interest expense on debts securities issued and lease liabilities)	(8,801,805)	(5,162,370)

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 1. GENERAL

Bank of Gansu Co., Ltd (the “Bank”) was established in Lanzhou, Gansu Province, the People’s Republic of China (the “PRC”) on September 27, 2011 with the approval of China Banking and Insurance Regulatory Commission (“CBIRC”). 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 CBIRC, and obtained its business license No. 91620000585910383X from the Gansu Administration of Industry and Commerce. The legal representative is Liu Qing and the address of the registered office and principal place of business is No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province.

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).

As at December 31, 2020, the Bank has a head office, 12 branches, 188 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 (hereinafter collectively referred to as the “Group”) are the provision of corporate and retail deposits, loans and advances, payment and settlement services, as well as other banking services as approved by the CBIRC. The Group operates in Mainland China.

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

In the current year, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs, which include IFRSs, International Accounting Standards (“IAS(s)”), amendments and related Interpretations (“IFRICs”), issued by the International Accounting Standards Board (the “IASB”) which are effective for the Group’s financial year beginning January 1, 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

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS and the amendments to IFRSs and IASs in the current year 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 consolidated financial statements.

### Amendments to IAS 1 and IAS 8, Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The application of these amendments in the current year had no impact on the consolidated financial statements.

### Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

### New and amendments to IFRSs issued but not yet effective

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

IFRS 17	Insurance Contracts and related Amendments <sup>5</sup>
Amendments to IFRS 3	Reference to Conceptual Framework <sup>3</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>5</sup>
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use <sup>3</sup>
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>3</sup>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>1</sup>
Amendments to IFRS 16	COVID-19 – Related Rent Concessions <sup>4</sup>
Amendment to IFRSs	Annual Improvements to IFRSs 2018 – 2020 cycle <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2021.

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2022.

<sup>4</sup> Effective for annual periods beginning on or after June 1, 2020.

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2023.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The principal accounting policies are set out below.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Basis of consolidation

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

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

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

When the Group is an investor of structured entities in which the Group also acts as a manager, the Group will determine whether it is a principal or an agent for the purpose of assessing whether the Group controls the relevant structured entities.

An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether the Group is an agent to the structured entities, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreements; and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

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

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

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

Non-controlling interests in a subsidiary is presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiary upon liquidation.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investment in a subsidiary

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

### Translation of foreign currencies

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Translation of foreign currencies (Continued)

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated, the exchange differences are recognised in profit or loss, except for exchange differences arising on the translation of non-monetary financial investments in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

### Cash and cash equivalents

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

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

### Investment in an associate

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investment in an associate (Continued)

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

### Financial instruments

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### Financial assets

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

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

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



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Financial assets at amortised cost (debt instruments)*

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

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

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

##### *(i) Amortised cost and effective interest method*

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Financial assets (Continued)

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

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

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

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

##### *Financial assets at FVTOCI (debt instruments)*

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Equity instruments designated as at FVTOCI*

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

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

Dividends from investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Net (losses) gains arising from investment securities" line item in profit or loss.

##### *Financial assets at FVTPL*

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

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

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

A financial asset is held for trading if:

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Impairment of financial assets and other items subject to impairment assessment under IFRS 9

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

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

Stage 1 is where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, entities are required to recognise 12-month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

Stage 2 is where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2 entities are required to recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

Stage 3 is where the financial asset is credit-impaired. For financial assets in stage 3, entities will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

#### *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

##### *Significant increase in credit risk (Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an external credit rating of 'investment grade' as per globally understood definitions or if an external rating is not available, the asset has an internal rating of 'Normal'. Normal means that the counterparty can honour the terms of their loans with no reason to doubt their ability to repay principal and interest in full on a timely basis.

For credit commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a credit commitment, the Group considers changes in the risk of a default occurring on the loan to which a credit commitment relates; for the financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

##### *Significant increase in credit risk (Continued)*

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

##### *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

##### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

##### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

##### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts and credit commitments, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For undrawn credit commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the credit commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

##### *Measurement and recognition of ECL (Continued)*

Except for investments in debt instruments that are measured at FVTOCI, credit commitments and financial guarantees contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount where the corresponding adjustment is recognised through a loss allowance account.

For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve without reducing the carrying amounts of these debt instruments.

For financial guarantee contracts and credit commitments, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

##### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Financial liabilities subsequently measured at amortised cost*

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, 2) held-for-trading, or 3) designated as at FVTPL are subsequently measured at amortised cost using the effective interest method.

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

#### *Financial guarantee contracts*

Financial guarantee contract are contracts that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### Financial liabilities and equity instruments (Continued)

##### *Credit commitment*

Credit commitment is provided by the Group to the customer to extend loans to the customer within the commitment period on the agreed term of the contract. The Group normally does not lend at below-market rate or provide customer with credit commitments to be settled in cash or the Group shows the impairment provision for the financial guarantee contracts and credit commitment in provision on a net basis through the delivery or issuance of other financial instruments. Credit commitment recognises impairment losses in accordance with IFRS 9.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

### Revenue recognition

Revenue is recognised to depict the transfer of promised services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligations is transferred to customers.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (Continued)

A performance obligation represents a service (or a bundle of services) that is distinct or a series of distinct services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

The Group recognised revenue under IFRS 15 from the following major sources:

- Wealth management service fees
- Bank acceptance bills service fees
- Agency services fees
- Settlement and clearing fees
- Letter of guarantee service fees

Fee and commission income is recognised at the specific point of time or for a certain period of time on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Fee and commission income charged for performance obligations performed at specific point of time are recognised when customer obtains control of relevant services, mainly including bank acceptance bills, settlement and clearing and letter of guarantee.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (Continued)

Fee and commission income charged for performance obligations performed during a certain period of time are recognised according to the progress of the performance during that period, mainly including, wealth management service fees and agency services fees.

In current year, the Group's revenue mainly includes interest income and fee and commission income, among which fee and commission income will be within the scope of IFRS 15, while interest income is within the scope of IFRS 9.

### Leasing

#### Definition of a lease

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

#### The Group as lessee

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

#### Lease liabilities

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

Lease payments included in the measurement of the lease liabilities comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leasing (Continued)

#### Lease liabilities (Continued)

The lease liabilities are presented as a separate line in the consolidated statement of financial position.

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

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

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

#### *Right-of-use assets*

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and estimated useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

#### *The Group as lessor*

The Group enters into lease agreements as a lessor with respect to certain premises. Leases for which the Group is a lessor are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Financial assets held under resale and sold under repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the consolidated statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the consolidated statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

### Property and equipment

Property and equipment use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. They are held by the Group for operation and administration purposes with useful lives over one year.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property and equipment (Continued)

#### Ownership interests in leasehold land and buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property and equipment.

Depreciation is recognised so as to write off their costs, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognised impairment loss in accordance with the Group’s accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated residual value rates and useful lives of each class of property and equipment, other than construction in progress, are as follows:

Classes	Estimated residual value rates	Useful lives
Premises	5%	20 years
Electronic equipment	3%	5 years
Motor vehicles	3%	5 years
Leasehold improvement	0%	Shorter of 5 years or economic useful lives
Computer software	0%	Shorter of 3 years or economic useful lives
Office equipment	3%	5 years

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Intangible assets included in “other assets”

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### Repossessed assets included in “other assets”

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor’s rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

### Impairment losses on property and equipment, right-of-use assets, intangible assets and repossessed assets

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets, intangible assets with finite useful lives and repossessed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Employee benefits

Payments to defined contribution plan and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are not reclassified. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

Defined benefit costs are categorised as:

- service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurements.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

### Salaries and allowances

Salaries and allowances are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### Contributions from employees or third parties to defined benefit plans

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Employee benefits (Continued)

#### Contributions from employees or third parties to defined benefit plans (Continued)

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the measurement of the net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered.

#### Other social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees' salaries and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

#### Other long-term employee benefits

The Group's net obligation in respect of other long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in respect of their services in the current and prior periods.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in a subsidiary and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (Continued)

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

### Expenses recognition

#### Other expenses

Other expenses are recognised on an accrual basis.

### Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the state and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group include, but are not limited to:

- (a) the Bank's subsidiary;
- (b) investors that exercise significant influence over the Group;
- (c) key management personnel of the Group and close family members of such individuals;
- (d) other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, and close family members of such individuals.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as a subsequent event.

### Fair value measurement

When measuring fair value except for the Group's leasing transactions, value in use of property and equipment, right-of-use assets, intangible assets and interest in an associate for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

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

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Bank are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Bank have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Critical judgements in applying accounting policies (Continued)

#### Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required. Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed. When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as whether the principal amount may change over the life of the financial asset (for example, if there are repayments of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

#### Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

#### Significant influence over an associate

As per Note 25, the directors of the Bank considered Gansu Jingchuan BOC Fullerton Community Bank Co., Ltd\* (“甘肅涇川中銀富登村鎮銀行股份有限公司”, “Gansu Jingchuan”), in which the Group has 16.67% equity interest in, as an associate of the Group.

The Group considered that it has the practical ability to exercise significant influence over Gansu Jingchuan even though it owns less than 20% of the ownership interest and voting control after taking into account 1) the Group's ownership interest is significant relative to other shareholders due to the wide dispersion of shareholding interests; 2) the representation or rights to appoint/nominate directors for the board of directors of the associate; and 3) the rights to participate in the policy-making process, including dividends and other distribution.

\* The English translation is for identification only.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Critical judgements in applying accounting policies (Continued)

#### Consolidation of structured entities

Management applies its judgement to determine whether the control indicators indicate that the Group controls a non-principal guaranteed wealth management products and an asset management plans.

The Group acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Group controls such structured entities usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Group, the Group's aggregate economic interest in each case is not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Group has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

For further disclosure in respect of unconsolidated non-principal guaranteed wealth management products and asset management plans in which the Group has an interest or for which it is a sponsor, see Note 44.

#### Legal title of premises

As detailed in Note 27, certain of the Group's premises as at December 31, 2020 and 2019 of which the Group had not obtained the relevant legal titles, the premises were recognised in the consolidated statement of financial position as at December 31, 2020 and 2019 based on the legal opinion that the Group is in substance controlling these premises.

At December 31, 2020, the premises with carrying values of approximately RMB1,879,397,000 was in the process of obtaining the relevant legal titles (2019: approximately RMB1,890,994,000).



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### ECL on major financial assets

The Bank has adopted IFRS 9 to measure and account for financial instruments. For deposits with banks, financial assets held under resale agreements, loans and advances to customers, financial assets at amortised cost, provision for bank acceptances and letters of guarantees and credit commitments, the measurement of ECL uses complex models and a large number of assumptions. These models and assumptions relate to future macroeconomic conditions and borrowers' credit behavior (e.g. the probability of default and the corresponding losses).

According to the requirements of accounting standards, the measurement of ECL involves many critical judgements. For example:

- Judge the standard of significant increase in credit risk;
- Select proper models and assumptions of measurement of ECL;
- For different types of financial instruments, determine the number and weight of forward-looking scenarios to be used in measuring ECL;
- Divide the measurement of ECL into groups by characteristics of financial instruments, and the items with similar credit risk characteristics are grouped into one combination.

As at December 31, 2020, the carrying amount of deposits with banks, financial assets held under resale agreements, loans and advances to customers and financial assets at amortised costs were approximately RMB3,716,145,000, RMB19,150,091,000, RMB176,386,767,000 and RMB68,932,101,000 respectively (2019: approximately RMB3,967,542,000, RMB16,263,996,000, RMB164,766,836,000 and RMB61,697,396,000 respectively), net of accumulated impairment losses of nil, nil, RMB5,438,890,000 and RMB1,357,230,000 (2019: nil, nil, RMB5,682,405,000 and RMB1,326,885,000 respectively).

As at December 31, 2020, the carrying amount of provision for bank acceptances and letters of guarantees under financial liabilities were approximately RMB34,818,000 (2019: approximately RMB26,354,000).

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Key sources of estimation uncertainty (Continued)

#### ECL on major financial assets (Continued)

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns probabilities of default to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets based on risk characteristics of the customers and by product types when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probabilities of default, exposures at default and losses given default
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Key sources of estimation uncertainty (Continued)

#### Valuation of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments and discounted cash flow analysis. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

As at December 31, 2020, the financial assets that are measured at fair value on a recurring basis is approximately RMB37,050,604,000 (2019: approximately RMB51,811,346,000).

#### Impairment of non-financial assets

Non-financial assets (i.e., property and equipment, repossessed assets, deposits paid for acquisitions of premises, right-of-use assets, intangible assets and interest in an associate) are reviewed when impairment indicators once occurred to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the value in use, significant judgements are exercised over the present value of future cash flows, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

As at December 31, 2020, the carrying amount of non-financial assets was approximately RMB3,483,265,000 (2019: approximately RMB3,453,182,000), net of accumulated impairment loss of nil (2019: nil).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Key sources of estimation uncertainty (Continued)

#### Depreciation and amortisation

Property and equipment are depreciated using the straight-line method over their estimated useful lives after taking into account residual values. Right-of-use assets are depreciated using the straight-line method over the shorter period of lease term and estimated useful life of the underlying assets. Intangible assets are amortised using the straight-line method over their estimated useful lives. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each of the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

As at December 31, 2020, the carrying amount of property and equipment was approximately RMB2,959,332,000 (2019: approximately RMB2,825,257,000), net of accumulated depreciation of approximately RMB1,618,214,000 (2019: approximately RMB1,250,324,000).

As at December 31, 2020, the carrying amount of right-of-use assets was approximately RMB338,438,000 (2019: approximately RMB345,173,000), net of accumulated depreciation of approximately RMB251,791,000 (2019: approximately RMB113,443,000).

As at December 31, 2020, the carrying amount of intangible assets was approximately RMB18,520,000 (2019: approximately RMB22,890,000), net of accumulated amortisation of approximately RMB15,434,000 (2019: approximately RMB9,040,000).

#### Impairment of interest in an associate

In determining whether the interest in an associate are impaired, the directors of the Bank assesses the recoverable amount of the interest in an associate which is the higher of its fair value less costs of disposal and its value in use. An impairment loss is made if the carrying amount of interest in an associate exceeds its recoverable amount. In determining the recoverable amount of the interest in an associate, the directors of the Bank require an estimation of the future cash flows expected to arise from the expected dividend yield from the associates in order to determine the value in use of the interests in associates.

As at December 31, 2020, the carrying amount of interest in an associate was approximately RMB10,224,000 (2019: approximately RMB8,902,000). No impairment loss was recognised as at December 31, 2020 and 2019.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 5. TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) **Urban maintenance and construction tax**

Urban maintenance and construction tax is calculated as 5%-7% of business tax and value added tax.

(b) **Education surcharge**

Education surcharge is calculated as 3% of business tax and value added tax.

(c) **Local education surcharge**

Local education surcharge is calculated as 2% of business tax and value added tax.

(d) **Income tax**

The income tax is calculated on taxable income. The statutory income tax rate is 15%-25%.

(e) **Value added tax**

Pursuant to the "Circular regarding the Pilot Program on Comprehensive Implementation of Value Added Tax Reform" issued by the Ministry of Finance of the PRC (the "MOF") and the State Administration of Taxation, the Group is required to pay value added tax instead of business tax from May 1, 2017. Value added tax and related underlying value of the invoice for value added taxable income and expenses shall be stated and accounted for separately.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 6. NET INTEREST INCOME

	2020 RMB'000	2019 RMB'000
Interest income arising from		
– Deposits with the central bank	350,623	392,837
– Deposits with banks	40,081	244,144
– Placements with banks and other financial institutions	696	25
– Loans and advances to customers:		
Corporate loans and advances	7,017,495	7,103,516
Personal loans and advances	2,242,990	1,888,784
Discounted bills	827,863	978,435
– Financial assets held under resale agreements	349,760	451,815
– Financial assets at fair value through other comprehensive income	510,605	663,302
– Financial assets at amortised cost	3,412,774	2,657,135
	14,752,887	14,379,993
Less: Interest expenses arising from		
– Borrowings from the central bank	(61,150)	(177,173)
– Deposits from banks and other financial institutions	(461,746)	(483,009)
– Placements from banks and other financial institutions	(15,946)	(71,817)
– Deposits from customers:		
Corporate customers	(2,129,576)	(2,126,295)
Individual customers	(5,041,681)	(4,456,770)
– Financial assets sold under repurchase agreements	(66,859)	(190,810)
– Debts securities issued	(1,219,208)	(1,579,603)
– Lease liabilities	(6,310)	(6,617)
	(9,002,476)	(9,092,094)
	5,750,411	5,287,899

*Note:* All the interest income and interest expense for the years ended December 31, 2020 and 2019 are calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVTPL.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 7. NET FEE AND COMMISSION INCOME

	2020 RMB'000	2019 RMB'000
Fee and commission income		
– Wealth management service fees	50,428	36,251
– Bank acceptance bills service fees	41,529	27,567
– Agency services fees	68,182	120,624
– Settlement and clearing fees	190,691	146,431
– Letter of guarantee service fees	2,274	2,480
– Others	26,165	24,273
	<hr/>	<hr/>
	379,269	357,626
	<hr/>	<hr/>
Fee and commission expenses		
– Settlement and clearing fees	(6,912)	(13,219)
– Bank card service fees	(41,320)	(63,345)
– Others	(2,200)	(27,806)
	<hr/>	<hr/>
	(50,432)	(104,370)
	<hr/>	<hr/>
	328,837	253,256
	<hr/>	<hr/>

All of the fee and commission income and expenses are related to financial assets or financial liabilities which are not designated at FVTPL.

## 8. NET TRADING GAINS

	2020 RMB'000	2019 RMB'000
Financial assets at FVTPL		
– Realised gains from debt securities	232,843	935,702
– Unrealised losses from debt securities	(206,633)	(95,160)
Interest income arising from financial asset at FVTPL	690,090	649,279
	<hr/>	<hr/>
	716,300	1,489,821
	<hr/>	<hr/>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

### 9. NET (LOSSES) GAINS ARISING FROM INVESTMENT SECURITIES

	2020 RMB'000	2019 RMB'000
Net (losses) gains on disposal of financial assets at fair value through other comprehensive income	(1,421)	131,183

### 10. OTHER OPERATING (EXPENSES) INCOME, NET

	2020 RMB'000	2019 RMB'000
Government grants (Note)	6,471	5,708
Loss on disposal of property and equipment	(28)	(2,703)
Loss on disposal of repossessed assets	(10,244)	–
Rental income	3,443	7,804
Other operating expenses	(20,881)	(8,534)
	(21,239)	2,275

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



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 11. OPERATING EXPENSES

	2020 RMB'000	2019 RMB'000
Staff costs (including directors' and supervisors' emoluments)		
– Salaries and bonuses	899,886	905,229
– Staff welfares	51,993	49,857
– Social insurance	168,208	218,995
– Housing allowances	72,740	67,057
– Labor union and staff education expenses	16,400	22,541
– Long term staff welfare expenses	–	400
– Others	5,751	8,035
	1,214,978	1,272,114
Premises and equipment expenses		
– Depreciation of property and equipment	372,471	386,957
– Depreciation of right-of-use assets	138,348	113,443
– Amortisation of intangible assets	6,394	4,379
– Rental and property management expenses	45,547	60,207
	562,760	564,986
Business tax and surcharges	92,630	76,069
Other general and administrative expenses (Note)	449,101	443,334
	2,319,469	2,356,503

Note: Auditor's remuneration for the year ended December 31, 2020 was approximately RMB3,388,000 (2019: approximately RMB3,300,000).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of directors and supervisors of the Bank paid and/or payable by the Group during the years ended December 31, 2020 and 2019 are set out below:

	For the year ended December 31, 2020				
	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<b>Executive directors</b>					
LIU Qing <sup>(2)</sup>	–	235	155	373	763
WANG Wenyong <sup>(2)</sup>	–	225	151	354	730
<b>Non-executive directors</b>					
WU Changhong <sup>(3)</sup>	–	–	–	–	–
GUO Jirong <sup>(3)</sup>	–	–	–	–	–
ZHANG Youda <sup>(3)</sup>	–	–	–	–	–
ZHANG Hongxia <sup>(3)</sup>	143	–	–	–	143
LIU Wanxiang <sup>(3)</sup>	–	–	–	–	–
<b>Independent non-executive directors</b>					
TANG Xiuli <sup>(3)</sup>	143	–	–	–	143
LUO Mei <sup>(3)</sup>	143	–	–	–	143
WONG Sincere <sup>(3)</sup>	143	–	–	–	143
DONG Ximiao <sup>(3)</sup>	143	–	–	–	143
<b>Supervisors</b>					
TANG Lan	–	225	151	354	730
XU Yongfeng	–	298	154	475	927
LUO Zhenxia	–	283	150	446	879
LIU Yongchong	–	–	–	–	–
LI Yongjun	–	–	–	–	–
ZENG Lehu <sup>(1)</sup>	–	–	–	–	–
YANG Zhenjun	–	–	–	–	–
DONG Ying	–	–	–	–	–
LUO Yi	143	–	–	–	143
	858	1,266	761	2,002	4,887

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	For the year ended December 31, 2019				
	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<b>Executive directors</b>					
LIU Qing <sup>(2)</sup>	–	251	158	424	833
WANG Wenyong <sup>(2)</sup>	–	242	154	407	803
<b>Non-executive directors</b>					
WU Changhong <sup>(3)</sup>	–	–	–	–	–
GUO Jirong <sup>(3)</sup>	–	–	–	–	–
ZHANG Youda <sup>(3)</sup>	–	–	–	–	–
ZHANG Hongxia <sup>(3)</sup>	143	–	–	–	143
LIU Wanxiang <sup>(3)</sup>	–	–	–	–	–
<b>Independent non-executive directors</b>					
TANG Xiuli <sup>(3)</sup>	143	–	–	–	143
LUO Mei <sup>(3)</sup>	143	–	–	–	143
WONG Sincere <sup>(3)</sup>	143	–	–	–	143
DONG Ximiao <sup>(3)</sup>	119	–	–	–	119
<b>Supervisors</b>					
TANG Lan	–	241	154	405	800
XU Yongfeng	–	220	154	346	720
LUO Zhenxia	–	169	132	273	574
LIU Yongchong	–	–	–	–	–
LI Yongjun	–	–	–	–	–
ZENG Lehu <sup>(1)</sup>	–	–	–	–	–
YANG Zhenjun	–	–	–	–	–
DONG Ying	–	–	–	–	–
LUO Yi	143	–	–	–	143
	834	1,123	752	1,855	4,564

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

- (1) Appointed on June 3, 2019.
- (2) The emolument represent the payments to the directors in respect of their service in connection with management affair of the Group.
- (3) The emolument represent the payments to the directors in respect of their service as a director.

Mr. LIU Qing is also the chief executive of the Bank and his emoluments disclosed above include those for services rendered by him as the chief executive.

No directors of the Bank waived or agreed to waive any emolument paid by the Group during the years ended December 31, 2020 and 2019. No emoluments were paid by the Group to the directors of the Bank as an incentive payment for joining the Group or as compensation for loss of office during the years ended December 31, 2020 and 2019.

Discretionary bonus was determined with reference to the Group's operating results, individual performance and comparable market statistics for such financial year.

## 13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors or supervisors of the Group whose emolument are disclosed in Note 12 above are the five individuals with the highest emoluments for the years ended December 31, 2020 and 2019.

The emoluments of the five individuals with the highest emoluments in the Group for the years ended December 31, 2020 and 2019 were as follows:

	2020 RMB'000	2019 RMB'000
Salaries and allowances	1,714	1,797
Retirement benefits scheme contributions	759	780
Discretionary bonuses	2,505	3,896
	<hr/>	<hr/>
	4,978	6,473

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

### 13. INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

Their emoluments were within the following bands:

	2020 No. of employees	2019 No. of employees
HK\$ nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	5	3
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	–	–

No emoluments were paid by the Group to the five individuals with the highest emoluments of the Bank as an incentive payment for joining the Group or as compensation for loss of office during the year ended December 31, 2020 (2019: nil).

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

	2020 RMB'000	2019 RMB'000
Impairment losses, net of reversals on:		
Financial assets at FVTOCI	(522)	1,513
Financial assets at amortised cost	651,042	675,784
Other receivables	(9,363)	76,229
Loans and advances to customers	3,104,903	3,598,267
Deposits with banks	–	(4,709)
Acceptance bills, letters of guarantees and unused credit card commitments	8,464	(35,100)
	3,754,524	4,311,984

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 15. INCOME TAX (CREDIT) EXPENSE

(a) Income tax:

	2020 RMB'000	2019 RMB'000
Current tax:		
– PRC Enterprise Income Tax	94,900	1,739
Deferred tax (note 29)		
– Current year	(236,726)	51,654
	(141,826)	53,393

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%. Pingliang Jingning Chengji Rural Bank Co., Ltd.\* ("平涼市靜寧成紀村鎮銀行股份有限公司", "Jingning Chengji Rural Bank"), a subsidiary of the Bank, obtained approvals from tax authorities to adopt the preferential income tax rate of 15% for the years ended December 31, 2020 and 2019.

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

	2020 RMB'000	2019 RMB'000
Profit before tax	420,527	564,767
Tax at domestic income tax rate of 25% (2019: 25%)	105,132	141,192
Tax effect of share of result of an associate	(331)	17
Tax effect of expenses not deductible for tax purpose (note i)	33,810	40,859
Tax effect of income that are not taxable for tax purpose (note ii)	(279,062)	(127,931)
Income tax on concessionary rate	(1,375)	(744)
Income tax (credit) expense	(141,826)	53,393

\* The English translation is for identification only.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 15. INCOME TAX CREDIT (EXPENSE) (CONTINUED)

Notes:

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

Details of the deferred taxation are set out in Note 29.

## 16. EARNINGS PER SHARE

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

	2020 RMB'000	2019 RMB'000
Profit for the year attributable to owners of the Bank (RMB'000)	558,159	509,111
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	10,110,775	10,069,791

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the years ended December 31, 2020 and 2019.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 17. CASH AND DEPOSITS WITH THE CENTRAL BANK

	2020 RMB'000	2019 RMB'000
Cash on hand	600,864	405,812
Deposits with the central bank		
– Statutory deposit reserve (Note a)	20,947,416	20,306,857
– Surplus deposit reserve (Note b)	5,079,698	4,533,697
– Fiscal deposits	38,702	27,912
	26,065,816	24,868,466
	26,666,680	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 in the PRC. As at December 31, 2020 and 2019, the statutory deposit reserve ratios applicable to the Bank were as follows:

	2020	2019
Reserve ratio for RMB deposits	8%	8.5%
Reserve ratio for foreign currency deposits	5%	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.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 18. DEPOSITS WITH BANKS

Analysed by type and location of counterparty

	2020 RMB'000	2019 RMB'000
Deposits in Mainland China		
– Banks	1,804,589	3,703,727
Deposits outside Mainland China		
– Banks	1,911,556	263,815
	<b>3,716,145</b>	<b>3,967,542</b>

Notes:

a) Provision for impairment losses:

	At December 31, 2020				Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000		
Gross deposits with banks	3,716,145	–	–		3,716,145
Less: Provision for impairment losses	–	–	–		–
	<b>3,716,145</b>	<b>–</b>	<b>–</b>		<b>3,716,145</b>

	At December 31, 2019				Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000		
Gross deposits with banks	3,967,542	–	–		3,967,542
Less: Provision for impairment losses	–	–	–		–
	<b>3,967,542</b>	<b>–</b>	<b>–</b>		<b>3,967,542</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 18. DEPOSITS WITH BANKS (CONTINUED)

Analysed by type and location of counterparty(Continued)

Notes: (Continued)

### b) Movement of provision for impairment losses:

Provision for impairment losses – Deposit with banks	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2019	4,709	–	–	4,709
Changes in the provision for impairment losses – Credit to profit or loss	(4,709)	–	–	(4,709)
Provision for impairment losses at December 31, 2019, January 1, 2020 and December 31, 2020	–	–	–	–

## 19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

### (a) Analysed by type and location of counterparty

	2020 RMB'000	2019 RMB'000
In Mainland China		
– Banks	2,230,332	11,520,213
– Other financial institutions	16,919,759	4,743,783
	19,150,091	16,263,996

### (b) Analysed by type of security held

	2020 RMB'000	2019 RMB'000
Debt securities		
– Government	4,111,739	5,220,318
– Banks and other financial institutions	15,038,352	11,043,678
	19,150,091	16,263,996

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

### 19. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(c) Provision for impairment losses:

	At December 31, 2020			Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	
Gross financial assets held under resale agreements	19,150,091	–	–	19,150,091
Less: Provision for impairment losses	–	–	–	–
	<b>19,150,091</b>	<b>–</b>	<b>–</b>	<b>19,150,091</b>

	At December 31, 2019			Total RMB'000
	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	
Gross financial assets held under resale agreements	16,263,996	–	–	16,263,996
Less: Provision for impairment losses	–	–	–	–
	<b>16,263,996</b>	<b>–</b>	<b>–</b>	<b>16,263,996</b>

(d) No movement in provision for impairment losses for the years ended December 31, 2020 and 2019.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

### 20. FINANCIAL ASSETS AT AMORTISED COST

	2020 RMB'000	2019 RMB'000
<b>Financial asset measured at amortised cost</b>		
Debt securities issued by the following institutions in Mainland		
China		
– Government	22,687,965	14,906,774
– Banks and other financial institutions	13,905,876	11,937,294
– Corporations	4,647,611	4,385,172
Trust plans	17,490,179	17,786,844
Asset management plans	11,308,700	13,948,670
Asset-backed securities issued by bank and other institutions	249,000	59,527
	<b>70,289,331</b>	<b>63,024,281</b>
Less: Provision for impairment losses (Note a, b)	(1,357,230)	(1,326,885)
	<b>68,932,101</b>	<b>61,697,396</b>
Analysed as:		
Listed outside Hong Kong	38,189,110	27,541,473
Unlisted outside Hong Kong	30,742,991	34,155,923
	<b>68,932,101</b>	<b>61,697,396</b>
Fair value	<b>68,792,814</b>	<b>62,143,647</b>

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 20. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Notes:

### a) Provision for impairment losses of financial assets at amortised cost:

	At December 31, 2020				Total RMB'000
	Stage 1	Stage 2	Stage 3		
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL- credit impaired RMB'000		
Gross financial assets at amortised cost	53,477,364	12,536,688	4,275,279		70,289,331
Less: Provision for impairment losses	(311,381)	(431,761)	(614,088)		(1,357,230)
	53,165,983	12,104,927	3,661,191		68,932,101

	At December 31, 2019				Total RMB'000
	Stage 1	Stage 2	Stage 3		
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL- credit impaired RMB'000		
Gross financial assets at amortised cost	54,869,681	2,686,300	5,468,300		63,024,281
Less: Provision for impairment losses	(390,005)	(115,209)	(821,671)		(1,326,885)
	54,479,676	2,571,091	4,646,629		61,697,396

### b) Movements of provision for impairment losses of financial assets at amortised cost

Provision for impairment losses- financial assets at amortised cost	Stage 1	Stage 2	Stage 3	Total RMB'000
	12m ECL RMB'000	Lifetime ECL RMB'000	Lifetime ECL- credit impaired RMB'000	
Provision for impairment losses at January 1, 2019	314,661	1,147,068	1,267,671	2,729,400
Changes in the provision for impairment losses				
– Transfer to stage 2	(13,735)	13,735	–	–
– Transfer to stage 3	(84,819)	(110,215)	195,034	–
– Write off and others	–	(866,151)	(1,212,148)	(2,078,299)
– Charge (reversal) to profit or loss	173,898	(69,228)	571,114	675,784
Provision for impairment losses at December 31, 2019 and January 1, 2020	390,005	115,209	821,671	1,326,885
Changes in the provision for impairment losses				
– Transfer to stage 1	18,431	(15,727)	(2,704)	–
– Transfer to stage 2	(80,769)	80,769	–	–
– Transfer to stage 3	–	(19,950)	19,950	–
– Write off and others	–	–	(620,697)	(620,697)
– (Reversal) charge to profit or loss	(16,286)	271,460	395,868	651,042
Provision for impairment losses at December 31, 2020	311,381	431,761	614,088	1,357,230

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 21. INTERESTS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Interests receivables arising from:		
– Investments	2,543,180	1,403,309
– Loans and advances to customers	1,584,369	780,285
– Financial assets held under resale agreements	11,488	6,764
– Deposits with banks	1,829	2,488
– Deposits with the central bank	11,093	9,259
	<b>4,151,959</b>	<b>2,202,105</b>

## 22. LOANS AND ADVANCES TO CUSTOMERS

### (a) Analysed by nature

	2020 RMB'000	2019 RMB'000
<b>Gross loans and advances to customers</b>		
Corporate loans and advances	110,853,360	111,292,030
Personal loans and advances		
– Personal business loans	6,572,616	6,997,942
– Personal consumption loans	13,876,986	10,196,924
– Residential and commercial mortgage loans	20,910,149	17,070,660
	<b>41,359,751</b>	<b>34,265,526</b>
Discounted bills	29,612,546	24,891,685
	<b>181,825,657</b>	<b>170,449,241</b>
Less: Provision for impairment losses	(5,438,890)	(5,682,405)
	<b>176,386,767</b>	<b>164,766,836</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

### (b) Analysed by industry sector

	At December 31, 2020		Loans and advances secured by collaterals RMB'000
	Amount RMB'000	Percentage	
<b>Gross loans and advances to customers</b>			
Corporate loans and advances			
– Manufacturing	21,602,978	11.88%	11,196,411
– Wholesale and retail	15,077,897	8.28%	8,019,318
– Real estate	13,176,743	7.25%	13,138,243
– Construction	12,364,883	6.80%	6,784,252
– Mining	5,186,138	2.85%	2,120,929
– Agriculture, forestry, animal husbandry and fishery	7,955,647	4.38%	2,989,495
– Leasing and business services	10,080,560	5.54%	5,110,420
– Water, environment and public facility management	2,494,199	1.37%	2,134,099
– Cultural, sports and entertainment	3,428,678	1.89%	2,191,453
– Accommodation and catering	2,654,069	1.46%	2,272,769
– Electricity, gas and water production and supply	3,064,596	1.69%	764,990
– Transportation, storage and postal services	5,344,825	2.94%	1,274,334
– Health and social services	2,230,106	1.23%	852,214
– Education	1,585,929	0.87%	401,769
– Finance	1,860,000	1.02%	–
– Scientific research, technical services and geological prospecting	1,315,640	0.72%	868,900
– Resident and other services	1,215,263	0.67%	422,369
– Information transmission, computer services and software	118,529	0.07%	72,473
– Public administration, social security and social organisations	96,680	0.05%	74,700
	110,853,360	60.96%	60,689,138
Personal loans and advances	41,359,751	22.75%	22,431,123
Discounted bills	29,612,546	16.29%	–
	181,825,657	100%	83,120,261
Less: Provision for impairment losses	(5,438,890)		
	176,386,767		

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

### (b) Analysed by industry sector (Continued)

	At December 31, 2019		Loans and advances secured by collaterals RMB'000
	Amount RMB'000	Percentage	
<b>Gross loans and advances to customers</b>			
Corporate loans and advances			
– Manufacturing	21,035,981	12.34%	10,838,846
– Wholesale and retail	17,757,934	10.42%	8,746,152
– Real estate	14,860,110	8.72%	14,645,929
– Construction	10,461,046	6.14%	5,996,761
– Mining	7,279,374	4.27%	2,881,280
– Agriculture, forestry, animal husbandry and fishery	7,605,069	4.46%	3,224,948
– Leasing and business services	8,815,458	5.17%	5,164,545
– Water, environment and public facility management	3,078,705	1.81%	2,251,613
– Cultural, sports and entertainment	2,914,537	1.71%	2,313,245
– Accommodation and catering	2,666,921	1.56%	2,148,825
– Electricity, gas and water production and supply	3,512,299	2.06%	717,054
– Transportation, storage and postal services	3,247,806	1.91%	1,237,900
– Health and social services	1,876,521	1.10%	725,888
– Education	1,591,820	0.93%	258,393
– Finance	2,996,500	1.76%	–
– Scientific research, technical services and geological prospecting	913,100	0.54%	882,110
– Resident and other services	555,069	0.33%	264,866
– Information transmission, computer services and software	103,780	0.06%	61,580
– Public administration, social security and social organisations	20,000	0.01%	–
	<b>111,292,030</b>	<b>65.30%</b>	<b>62,359,935</b>
Personal loans and advances	34,265,526	20.10%	17,610,468
Discounted bills	24,891,685	14.60%	–
	<b>170,449,241</b>	<b>100%</b>	<b>79,970,403</b>
Less: Provision for impairment losses	(5,682,405)		
	<b>164,766,836</b>		



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

#### (b) Analysed by industry sector (Continued)

As at December 31, 2020 and 2019, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	At December 31, 2020						
	Gross impaired loans and advances RMB'000	Stage 1 RMB'000	ECL			Charge for the year RMB'000	Written-off during the year RMB'000
			Stage 2 RMB'000	Stage 3 RMB'000			
- Manufacturing	604,462	416,634	171,262	149,861	584,990	3,787	

	At December 31, 2019						
	Gross impaired loans and advances RMB'000	Stage 1 RMB'000	ECL			Charge for the year RMB'000	Written-off during the year RMB'000
			Stage 2 RMB'000	Stage 3 RMB'000			
- Wholesale and retail	821,059	211,467	683,535	293,527	461,105	396,116	
- Manufacturing	759,210	308,865	285,027	237,598	1,136,614	281,543	

#### (c) Analysed by type of collateral

	2020 RMB'000	2019 RMB'000
<b>Gross loans and advances to customers</b>		
Unsecured loans	23,176,745	18,456,262
Guaranteed loans	60,822,436	60,326,353
Collateralised loans	83,120,261	79,970,403
Pledged loans	14,706,215	11,696,223
	<b>181,825,657</b>	<b>170,449,241</b>
Less: Provision for impairment losses	(5,438,890)	(5,682,405)
	<b>176,386,767</b>	<b>164,766,836</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

(d) Overdue loans analysed by overdue year

	At December 31, 2020				
	Overdue within three months (inclusive) RMB'000	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Unsecured loans	1,255,003	85,063	481,441	12,792	1,834,299
Guaranteed loans	1,270,223	846,007	461,313	85,277	2,662,820
Collateralised loans	4,030,840	614,955	867,605	84,357	5,597,757
Pledged loans	455,825	61,629	86,676	43,913	648,043
	7,011,891	1,607,654	1,897,035	226,339	10,742,919

As a percentage of gross loans and advances to customers

3.86%	0.88%	1.04%	0.12%	5.90%
-------	-------	-------	-------	-------

	At December 31, 2019				
	Overdue within three months (inclusive) RMB'000	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Unsecured loans	225,022	439,277	113,243	4,029	781,571
Guaranteed loans	3,390,339	1,453,936	373,417	74,080	5,291,772
Collateralised loans	7,565,110	1,074,833	189,530	58,061	8,887,534
Pledged loans	509,244	100,348	44,751	30,754	685,097
	11,689,715	3,068,394	720,941	166,924	15,645,974

As a percentage of gross loans and advances to customers

6.86%	1.80%	0.42%	0.10%	9.18%
-------	-------	-------	-------	-------

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

(e) Loans and advances and provision for impairment losses

	At December 31, 2020				Total RMB'000
	Stage 1	Stage 2	Stage 3	Lifetime ECL- credit impaired RMB'000	
	12m ECL RMB'000	Lifetime ECL RMB'000			
Gross loans and advances to customers	169,997,089	7,614,898	4,213,670		181,825,657
Less: Provision for impairment losses	(2,213,624)	(1,502,306)	(1,722,960)		(5,438,890)
	167,783,465	6,112,592	2,490,710		176,386,767

	At December 31, 2019				Total RMB'000
	Stage 1	Stage 2	Stage 3	Lifetime ECL- credit impaired RMB'000	
	12m ECL RMB'000	Lifetime ECL RMB'000			
Gross loans and advances to customers	155,960,637	10,306,481	4,182,123		170,449,241
Less: Provision for impairment losses	(1,760,988)	(2,163,408)	(1,758,009)		(5,682,405)
	154,199,649	8,143,073	2,424,114		164,766,836

The Group conducts internal stratified management of asset risk characteristics according to the quality status of assets. Financial assets included in the ECL are further classified into "Normal", "Special mention", "Substandard", "Doubtful" and "Loss" within each stage according to internal rating scales and overdue days, the results of this layered management are used by the Bank for internal credit risk management purposes.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

#### (e) Loans and advances and provision for impairment losses (Continued)

As at December 31, 2020 and 2019, an analysis of the gross amount of loans and advances to customers with the grading of the loan is as follows:

	At December 31, 2020				Total RMB'000
	Stage 1	Stage 2	Stage 3	Lifetime ECL- credit impaired RMB'000	
	12m ECL RMB'000	Lifetime ECL RMB'000			
Normal	169,997,089	793,175	–		170,790,264
Special mention	–	6,821,723	69,119		6,890,842
Substandard	–	–	1,055,863		1,055,863
Doubtful	–	–	2,553,169		2,553,169
Loss	–	–	535,519		535,519
Gross carrying amount	169,997,089	7,614,898	4,213,670		181,825,657
Less: Provision for impairment losses	(2,213,624)	(1,502,306)	(1,722,960)		(5,438,890)
Net carrying amount	167,783,465	6,112,592	2,490,710		176,386,767
	At December 31, 2019				Total RMB'000
	Stage 1	Stage 2	Stage 3	Lifetime ECL- credit impaired RMB'000	
	12m ECL RMB'000	Lifetime ECL RMB'000			
Normal	155,126,861	1,913,748	–		157,040,609
Special mention	833,776	8,392,733	–		9,226,509
Substandard	–	–	1,270,132		1,270,132
Doubtful	–	–	2,609,561		2,609,561
Loss	–	–	302,430		302,430
Gross carrying amount	155,960,637	10,306,481	4,182,123		170,449,241
Less: Provision for impairment losses	(1,760,988)	(2,163,408)	(1,758,009)		(5,682,405)
Net carrying amount	154,199,649	8,143,073	2,424,114		164,766,836

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

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

Provision for impairment losses – Loans and advances to customers	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2019	1,741,393	2,080,219	2,429,842	6,251,454
Changes in the provision for impairment losses				
– Transfer to stage 1	98,314	(93,737)	(4,577)	–
– Transfer to stage 2	(105,349)	145,629	(40,280)	–
– Transfer to stage 3	(26,542)	(144,698)	171,240	–
– Write-offs and others	–	–	(4,204,126)	(4,204,126)
– Charge to profit or loss	53,172	175,995	3,369,100	3,598,267
– Recoveries of loans and advances previously written off	–	–	36,810	36,810
Provision for impairment losses at December 31, 2019 and January 1, 2020	1,760,988	2,163,408	1,758,009	5,682,405
Changes in the provision for impairment losses				
– Transfer to stage 1	37,967	(37,881)	(86)	–
– Transfer to stage 2	(404,693)	405,176	(483)	–
– Transfer to stage 3	(259,333)	(298,296)	557,629	–
– Write-offs and others	–	–	(3,463,095)	(3,463,095)
– Charge (reversal) to profit or loss	1,078,695	(730,101)	2,756,309	3,104,903
– Recoveries of loans and advances previously written off	–	–	114,677	114,677
Provision for impairment losses at December 31, 2020	2,213,624	1,502,306	1,722,960	5,438,890

#### (g) Analysed by geographical sector

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

	2020 RMB'000	2019 RMB'000
Financial assets held for trading (Note (i))	2,351,893	1,210,450
Trust plans	1,635,851	4,305,588
Asset management plans	14,363,297	24,013,317
Investment funds	7,486,448	6,887,405
Other debt securities (Note (ii))	–	313,139
	25,837,489	36,729,899
Analysed as:		
Listed outside Hong Kong	2,351,893	1,210,450
Unlisted outside Hong Kong	23,485,596	35,519,449
	25,837,489	36,729,899

Notes:

(i) Financial assets held for trading:

	2020 RMB'000	2019 RMB'000
Debt securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	1,970,881	1,160,051
– Corporations	381,012	50,399
	2,351,893	1,210,450

As at December 31, 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.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

	2020 RMB'000	2019 RMB'000
<b>Debt instruments classified at FVTOCI</b>		
Debt securities issued by the following institutions in Mainland China		
– Government	3,645,248	4,186,930
– Banks and other financial institutions	6,920,507	10,231,910
– Corporations	325,782	347,513
	<b>10,891,537</b>	<b>14,766,353</b>
Unlisted equity investments designated at FVTOCI	321,578	315,094
	<b>11,213,115</b>	<b>15,081,447</b>
Analysed as:		
Listed in Hong Kong	382,564	347,513
Listed outside Hong Kong	10,508,973	14,418,840
Unlisted outside Hong Kong	321,578	315,094
	<b>11,213,115</b>	<b>15,081,447</b>

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

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC. These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the Bank have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

Notes:

Movement of provision for impairment losses:

Provision for impairment losses - Debt instruments at fair value through other comprehensive income	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2019	1,612	–	–	1,612
– Movement during the year	1,513	–	–	1,513
Provision for impairment losses at December 31, 2019 and January 1, 2020	3,125	–	–	3,125
– Movement during the year	(522)	–	–	(522)
Provision for impairment losses at December 31, 2020	2,603	–	–	2,603

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 25. INTEREST IN AN ASSOCIATE

	2020 RMB'000	2019 RMB'000
Cost of investment in an associate, unlisted	3,000	3,000
Share of post-acquisition profits	7,224	5,902
	<b>10,224</b>	<b>8,902</b>

As at December 31, 2020 and 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	Limited liability	The PRC	Ordinary shares	16.67%	16.67%	16.67%	16.67%	Corporate and retail bank

*Note:* This associate is directly held by the Bank. The Group considered that it has the practical ability to exercise significant influence over Gansu Jingchuan even though it owns less than 20% of the ownership interest and voting control after taking into account 1) the Group's ownership interest is significant relative to other shareholders due to the wide dispersion of shareholding interests; 2) the representation or rights to appoint/nominate directors for the board of directors of the associate; and 3) the rights to participate in the policy-making process, including dividends and other distribution.

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

	2020 RMB'000	2019 RMB'000
The Group's share of profit (loss) and total comprehensive income (expense) for the year	1,322	(68)
	<b>10,224</b>	<b>8,902</b>



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 26. PARTICULARS OF A SUBSIDIARY

Name of subsidiary	Place of establishment/ operation	Class of shares held	Kind of legal entity	Registered and fully paid capital (RMB'000)		Proportion of ownership interest held by the Bank		Proportion of voting power held by the Bank		Principal activity
				At December 31, 2019	2020	At December 31, 2019	2020	At December 31, 2019	2020	
Jingning Chengji Rural Bank	The PRC	Ordinary	Joint stock company with limited liability	40,250	40,250	62.73%	62.73%	62.73%	62.73%	Corporate and retail banking

The subsidiary is directly held by the Bank and has no material non-controlling interests to the Group for the years ended December 31, 2020 and 2019.

None of the subsidiaries had issued any debt securities during both years and at the years ended December 31, 2020 and 2019.

## 27. PROPERTY AND EQUIPMENT

	Construction in progress RMB'000	Premises (Buildings) RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
<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 in/(out) of construction in progress	(134,845)	134,845	-	-	-	-	-	-
Disposals	-	(79,002)	(3,481)	(846)	-	(516)	(6,890)	(90,735)
<b>At December 31, 2019 and January 1, 2020</b>								
At January 1, 2020	238,838	2,338,159	568,523	49,781	419,969	353,723	106,588	4,075,581
Additions	282,274	25,220	42,685	248	84,048	66,666	5,882	507,023
Transfers in/(out) of construction in progress	(80,254)	80,254	-	-	-	-	-	-
Disposals	-	-	(3,761)	(107)	-	-	(1,190)	(5,058)
<b>At December 31, 2020</b>								
At December 31, 2020	440,858	2,443,633	607,447	49,922	504,017	420,389	111,280	4,577,546

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

### 27. PROPERTY AND EQUIPMENT (CONTINUED)

	Construction in progress RMB'000	Premises (Buildings) RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
Accumulated depreciation and impairment								
At January 1, 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								
At January 1, 2020	-	343,313	422,846	43,914	247,609	122,809	69,833	1,250,324
Provided for the year	-	123,165	95,718	1,523	72,689	67,062	12,314	372,471
Eliminated on disposals	-	-	(3,345)	(104)	-	-	(1,132)	(4,581)
At December 31, 2020	-	466,478	515,219	45,333	320,298	189,871	81,015	1,618,214
Carrying value								
At December 31, 2020	440,858	1,977,155	92,228	4,589	183,719	230,518	30,265	2,959,332
At December 31, 2019	238,838	1,994,846	145,677	5,867	172,360	230,914	36,755	2,825,257

At December 31, 2020, the premises with carrying values of approximately RMB1,879,397,000 (2019: approximately RMB1,890,994,000) was in the process of obtaining the relevant legal titles. Among them, the carrying values of premises that the Group has obtained housing property title certificates issued by the authorities but no land use rights certificates were approximately RMB113,324,000 (2019: approximately RMB121,178,000).

The aforementioned premises are located in the PRC with medium term leases (10 – 50 years).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

### i) Right-of-use assets

	2020	2019
	RMB'000	RMB'000
Premises	313,196	318,851
Land use rights in the PRC	25,242	26,322
	<hr/>	<hr/>
	338,438	345,173

Additions to the right-of-use assets for the year ended December 31, 2020 amounted to approximately RMB131,613,000 (2019: approximately RMB180,796,000), due to new leases of office premises.

### ii) Lease liabilities

As at December 31, 2020, the carrying amount of lease liabilities was approximately RMB282,817,000 (2019: approximately RMB283,931,000).

For the year ended December 31, 2020, the Group entered into a number of new lease agreements for office premises and recognised lease liabilities of approximately RMB131,613,000 (2019: approximately RMB180,796,000).

Amounts payable under lease liabilities	2020	2019
	RMB'000	RMB'000
Within one year	113,227	101,392
After one year but within two years	75,985	83,312
After two year but within five years	90,500	97,143
After five years	3,105	2,084
	<hr/>	<hr/>
	282,817	283,931

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

### iii) Amount recognised in profit or loss

	2020	2019
	RMB'000	RMB'000
Depreciation expense of premises	137,268	112,131
Depreciation expense of land use rights	1,080	1,312
Interest expense on lease liabilities	6,310	6,617
Expense relating to short-term leases	31,952	57,748

### iv) Others

For the year ended December 31, 2020, the total cash outflow for leases amount to approximately RMB170,989,000 (2019: approximately RMB211,416,000).

#### Restrictions or covenants on leases

As at December 31, 2020, lease liabilities of RMB282,817,000 are recognised with related right-of-use assets of RMB338,438,000 (2019: lease liabilities of RMB283,931,000 and related right-of-use assets of RMB345,173,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## 29. DEFERRED TAX ASSETS

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

	2020	2019
	RMB'000	RMB'000
Deferred tax assets	1,833,475	1,643,070
Deferred tax liabilities	(23,698)	(97,243)
	1,809,777	1,545,827

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 29. DEFERRED TAX ASSETS (CONTINUED)

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

	Provision for impairment losses on assets RMB'000 Note (i)	Net (gains)/ losses 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
Credit/(charge) to profit or loss	159,761	51,658	(6,194)	31,501	236,726
Credit/(charge) to other comprehensive income	130	27,307	(213)	–	27,224
At December 31, 2020	1,509,622	(18,278)	26,863	291,570	1,809,777

*Notes:*

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets as at December 31, 2020 and 2019. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets as at December 31, 2020 and 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 December 31, 2020, the Group has unused tax losses of approximately RMB1,166,280,000 (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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 30. OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Other receivables and prepayments (Note (i))	992,377	3,964,479
Deposits paid for acquisitions of premises	–	245,776
Intangible assets (Note (ii))	18,520	22,890
Reposessed assets (Note (iii))	156,751	5,184
Other	324	255
	<b>1,167,972</b>	<b>4,238,584</b>

Notes:

(i) Other receivables and prepayments:

	2020 RMB'000	2019 RMB'000
Other receivables and prepayments	1,083,674	4,065,139
Less: Provision for impairment losses	(91,297)	(100,660)
	<b>992,377</b>	<b>3,964,479</b>

Movements of provision for impairment losses:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	100,660	24,431
(Reversal of) impairment losses recognised	(9,363)	76,229
At the end of the year	<b>91,297</b>	<b>100,660</b>

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 30. OTHER ASSETS (CONTINUED)

Notes: (Continued)

(ii) Movements of intangible assets:

	2020 RMB'000	2019 RMB'000
<b>Cost</b>		
At the beginning of the year	31,930	23,669
Additions	2,024	8,261
At the end of the year	33,954	31,930
<b>Accumulated amortisation</b>		
At the beginning of the year	9,040	4,661
Amortisation for the year	6,394	4,379
At the end of the year	15,434	9,040
<b>Carrying amounts</b>		
At the end of the year	18,520	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 year ended December 31, 2020 and 2019.

## 31. PLEDGED ASSETS

### (a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities or contingent liabilities mainly include debt securities, which is for repurchase agreements. The carrying amounts of the financial assets pledged as collaterals as at December 31, 2020 are approximately RMB19,802,025,000 (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.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

### 32. BORROWINGS FROM THE CENTRAL BANK

	2020 RMB'000	2019 RMB'000
Borrowings	1,684,364	704,000
Re-discounted bills	4,935,831	1,612,353
	6,620,195	2,316,353

### 33. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	2020 RMB'000	2019 RMB'000
Deposits from the following institutions operating in Mainland China		
– Banks	6,103,280	10,993,658
– Other financial institutions	4,751,700	1,863,758
	10,854,980	12,857,416
Deposits from the following institutions operating outside Mainland China		
– Banks	770,744	764,473
	11,625,724	13,621,889

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

Analysed by type and location of counterparty

	2020 RMB'000	2019 RMB'000
Placements from the following institutions operating in Mainland China		
– Banks	–	890,000



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

### 35. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	2020 RMB'000	2019 RMB'000
In Mainland China		
– Banks	6,837,518	5,168,580
– Other financial institutions	1,892,552	230,000
	<hr/>	<hr/>
	8,730,070	5,398,580

(b) Analysed by collateral

	2020 RMB'000	2019 RMB'000
Debt securities	8,730,070	5,398,580

(c) Transfer of financial assets

In daily operating activities, the Group entered into repurchase agreements with certain counterparties. As at December 31, 2020, there are debt securities with carrying amount of RMB8,730,070,000 under these agreements measured at amortised cost (2019: approximately RMB5,398,580,000). The proceeds from selling such debt securities totalling RMB8,730,070,000 as at December 31, 2020 (2019: approximately RMB5,398,580,000).

As stipulated in the repurchase agreements, there is no transfer of the legal ownership of these debt securities to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these debt securities and therefore has not derecognised from the consolidated financial statements but regarded as “collateral” for the secured lending from the counterparties.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 36. DEPOSITS FROM CUSTOMERS

	2020 RMB'000	2019 RMB'000
Demand deposits		
– Corporate customers	60,133,866	52,256,807
– Individual customers	31,259,494	26,216,993
	91,393,360	78,473,800
Time deposits		
– Corporate customers	22,260,582	19,771,679
– Individual customers	117,781,557	110,243,641
	140,042,139	130,015,320
Pledged deposits		
– Acceptances	8,163,377	10,308,646
– Guarantees and letters of guarantees	197,905	176,072
– Others	3,484,391	3,499,758
	11,845,673	13,984,476
Others	6,396,529	14,395,061
	249,677,701	236,868,657

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 37. ACCRUED STAFF COSTS

	2020 RMB'000	2019 RMB'000
Salary and bonus payable	495,102	444,004
Social pension schemes payable	8,086	8,148
Other social insurances payable	25,587	9,995
Supplementary retirement benefits payable (Note (i))	17,310	36,470
Other long-term staff welfare payable (Note (ii))	5,180	6,870
	551,265	505,487

Notes:

(i) Supplementary retirement benefits ("SRB"):

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were assessed using projected unit credit actuarial cost method by an external independent actuary, Wills Towers Watson (a member of Society of Actuaries in America).

The balances of SRB of the Group are as follows:

	2020 RMB'000	2019 RMB'000
Present value of SRB obligation	17,310	36,470

Movements of SRB of the Group are as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	36,470	35,150
Service cost	1,840	2,490
Interest cost	870	1,240
Past service cost	(19,550)	-
Actuarial (gains)/losses	(850)	(1,010)
Payment made	(1,470)	(1,400)
At the end of the year	17,310	36,470

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 37. ACCRUED STAFF COSTS (CONTINUED)

Notes: (Continued)

- (i) Supplementary retirement benefits ("SRB"): (Continued)

Principal actuarial assumptions of the Group are as follow:

	2020	2019
Discount rate	3.25%	3.50%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

Sensitivity analysis:

	Effect on SRB 2020 RMB'000	2019 RMB'000
Discount rate (increase by 1%)	(164)	(641)
Discount rate (decrease by 1%)	231	930

Although the analysis does not take account of the full distribution of cash flows expected under the SRB, it does provide an approximation of the sensitivity of the assumptions shown.

- (ii) Other long-term staff welfare payable

The Group pays compensation for termination benefits of eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of other long-term staff welfare payable were assessed using projected unit credit actuarial cost method by an external independent actuary (a member of Society of Actuaries in America) of Wills Towers Watson.

The balances of other long-term staff welfare payable of the Group are as follows:

	2020 RMB'000	2019 RMB'000
Present value of other long-term staff welfare payable obligation	5,180	6,870

Movements of other long-term staff welfare payable of the Group are as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	6,870	8,870
Service cost	(170)	400
Payment made	(1,520)	(2,400)
At the end of the year	5,180	6,870

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 37. ACCRUED STAFF COSTS (CONTINUED)

Notes: (Continued)

(ii) Other long-term staff welfare payable (Continued)

Principal actuarial assumptions of the Group are as follow:

	2020	2019
Discount rate	2.8%	2.5%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

Sensitivity analysis:

	Effect on long-term staff welfare payable	
	2020	2019
	RMB'000	RMB'000
Discount rate (increase by 1%)	(11)	(16)
Discount rate (decrease by 1%)	12	17

Although the analysis does not take account of the full distribution of cash flows expected under other long-term staff welfare payable, it does provide an approximation of the sensitivity of the assumptions shown.

## 38. INTERESTS PAYABLE

	2020	2019
	RMB'000	RMB'000
Deposits from customers	7,441,618	8,381,387
Deposits from banks and other financial institutions	79,757	184,333
Borrowings from the central bank	22,607	588
Debts securities issued	79,436	186,382
Others	6,245	8,811
	<b>7,629,663</b>	<b>8,761,501</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 39. DEBT SECURITIES ISSUED

	2020 RMB'000	2019 RMB'000
Fixed rates financial bonds (Note (i))	2,499,512	5,998,191
Fixed rate tier-two capital bonds issued (Note (ii))	–	3,197,198
Interbank deposits (Note (iii))	21,052,033	30,263,784
	<b>23,551,545</b>	<b>39,459,173</b>

*Notes:*

- (i) Fixed rates financial bonds
- (a) Fixed rates financial bonds for “three rurals” (the first tranche) at a face value of RMB1,000,000,000 with a term of three years were issued on March 10, 2017. The coupon rate is 4.67%. The effective interest rate per annum on the Group’s fixed rate financial bonds issued is 4.71%. As at December 31, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,918,000. The fixed rates financial bonds were fully settled during the year ended December 31, 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 December 31, 2020, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,750,000 (2019: approximately 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 year ended December 31, 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 December 31, 2019, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,499,680,000. The fixed rate financial bonds for the “three rurals” (the second tranche) were fully settled during the year ended December 31, 2020.
- (e) Fixed rate financial bonds for the “three rurals” (the first tranche) at a face value of RMB1,500,000,000 with a term of three years were issued on May 25, 2018. The coupon rate is 4.87%. The effective interest rate per annum on the Group’s fixed rate financial bonds issued is 4.88%. As at December 31, 2020, the outstanding balance of this fixed rate financial bonds issued is approximately RMB1,499,762,000 (2019: approximately RMB1,499,260,000).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 39. DEBT SECURITIES ISSUED (CONTINUED)

Notes: (Continued)

(ii) Fixed rate tier-two capital bonds issued

Fixed rate tier-two capital bonds at a face value of RMB3,200,000,000 with a term of ten years were issued on December 11, 2015. The coupon rate is 5.10%. The Group has an option to redeem the debts on December 11, 2020 at the nominal amount. The effective interest rate per annum on the Group's tier-two capital bonds issued is 5.20%. As at December 31, 2019, the outstanding balance of this fixed rate tier-two capital bonds issued is approximately RMB3,197,198,000. The fixed rate tier-two capital bonds were fully settled during the year ended December 31, 2020.

(iii) Interbank deposits

(a) During the year ended December 31, 2020, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB31,910,000,000 and duration between 1 month to 1 year. As at December 31, 2020, the outstanding balance of interbank deposits issued is approximately RMB21,052,033,000. The ranges of effective interest rates per annum on the Group's interbank deposits issued are 1.40% to 3.80%.

(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%. The balance was fully settled in 2020.

## 40. OTHER LIABILITIES

	2020	2019
	RMB'000	RMB'000
Other payables and accrued expenses	317,549	273,114
Clearance of inter-bank accounts	1,635,427	1,569,011
Agency business liabilities	60,729	37,499
Dividend payable	23,716	25,695
Other tax payables	107,375	129,109
Fiscal deposits	6,166	16,094
Provision for bank acceptances and letters of guarantees (note)	34,818	26,354
Others	16,922	72,824
	<hr/>	<hr/>
	2,202,702	2,149,700

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 40. OTHER LIABILITIES (CONTINUED)

Note:

Movement of provision for bank acceptances and letters of guarantees:

	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL- credit impaired RMB'000	Total RMB'000
Provision for bank acceptances and letters of guarantees at January 1, 2019	61,454	-	-	61,454
Changes in the provision for impairment losses - Credit to profit or loss	(35,100)	-	-	(35,100)
Provision for bank acceptances and letters of guarantees at December 31, 2019 and January 1, 2020	26,354	-	-	26,354
Changes in the provision for impairment losses - Charge to profit or loss	8,464	-	-	8,464
Provision for bank acceptances and letters of guarantees at December 31, 2020	34,818	-	-	34,818

## 41. SHARE CAPITAL

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

	2020 RMB'000	2019 RMB'000
Registered, issued and fully paid ordinary shares of RMB1 each:		
- Ordinary shares	15,069,791	10,069,791
At the beginning of the year	10,069,791	10,069,791
Issue of shares (Note)	5,000,000	-
At the end of the year	15,069,791	10,069,791

Note:

- (i) On December 29, 2020, the Bank has completed the issuance of domestic shares and the issuance of H shares. A total of 3.75 billion domestic shares were issued to the existing substantial shareholder while 1.25 billion H shares were issued to a new shareholder. After the completion of the issuance of domestic shares and the issuance of H shares, the registered capital of the Bank was increased to approximately RMB15,069,791,000, and the total number of the Bank's Shares was increased to 15,069,791,000 shares. Total gross proceeds from the share issuance amounted to approximately RMB6,297,209,000 (equivalent to HK\$7,460,629,000) giving rise to share premium approximately RMB1,297,209,000 credit to capital reserve. Share issuance expenses approximately RMB3,047,000 was debited to capital reserve.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 41. SHARE CAPITAL (CONTINUED)

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

	Domestic shareholders	H shareholders	Total
As at January 1, 2019, January 31, 2019 and January 1, 2020	7,525,991	2,543,800	10,069,791
Issuance	3,750,000	1,250,000	5,000,000
At December 31, 2020	11,275,991	3,793,800	15,069,791

## 42. RESERVES

### (a) Capital reserve

	2020 RMB'000	2019 RMB'000
Share premium	5,633,746	4,339,584
Shareholders' injection (Note)	321,183	320,279
Changes in ownership in a subsidiary without change in control	554	554
	5,955,483	4,660,417

Note:

The promoters of the additional shares issued during the Bank's restructuring injected the Bank's net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Bank. During the year, net proceed of approximately RMB904,000 (2019: approximately RMB2,103,000) were received as shareholders' injection. As at December 31, 2020, approximately RMB321,183,000 has been recorded as capital reserve (2019: approximately RMB320,279,000).

### (b) Surplus reserve

The surplus reserve at December 31, 2020 and 2019 represented statutory surplus reserve fund and other surplus reserve. The statutory surplus reserve fund of the Group as at December 31, 2020 were approximately RMB1,615,945,000 (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 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 43. DIVIDENDS

	2020 RMB'000	2019 RMB'000
2018 final dividend (Note)	–	1,029,365

Note:

Pursuant to the resolution of the shareholders meeting held on June 4, 2019, the Bank declared final cash dividends in respect of the year ended December 31, 2018 of approximately RMB0.1022 per share (tax included) based on approximately 10,069,791,000 shares held amounting to approximately RMB1,029,365,000 during the year ended December 31, 2019.

Subsequent to the end of the reporting period, no final dividend in respect of the year ended December 31, 2019 per share has been proposed by the directors of the Bank.

## 44. STRUCTURED ENTITIES

### (a) Consolidated structured entities

The consolidated structured entities of the Group mainly include principal-guaranteed wealth management products sponsored by the Bank. As at December 31, 2019, the amount of assets held by the consolidated principal-guaranteed wealth management products sponsored by the Bank amounted to approximately RMB314,176,000 (2020: nil).

### (b) Unconsolidated structured entities

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

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

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

	Financial assets at FVTPL RMB'000	As at December 31, 2020		
		Financial assets at amortised cost RMB'000	Carrying amount RMB'000	Maximum exposure RMB'000
Trust plans	1,635,851	17,490,179	19,126,030	19,126,030
Asset management plans	14,363,297	11,308,700	25,671,997	25,671,997
Asset-backed securities issued by bank and other financial institutions	–	249,000	249,000	249,000
Investment funds	7,486,448	–	7,486,448	7,486,448
	23,485,596	29,047,879	52,533,475	52,533,475

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 44. STRUCTURED ENTITIES (CONTINUED)

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

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

	Financial assets at FVTPL RMB'000	December 31, 2019		
		Financial assets at amortised cost RMB'000	Carrying amount RMB'000	Maximum exposure RMB'000
Trust plans	4,305,588	17,786,844	22,092,432	22,092,432
Asset management plans	24,013,317	13,948,670	37,961,987	37,961,987
Asset-backed securities issued by bank and other financial institutions	–	59,527	59,527	59,527
Investment funds	6,887,405	–	6,887,405	6,887,405
	35,206,310	31,795,041	67,001,351	67,001,351

#### (ii) Structured entities sponsored by the Group which the Group do not consolidate but holds an interest in as at December 31, 2020 and 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 December 31, 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 December 31, 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are approximately RMB22,722,790,000 (2019: approximately RMB21,351,716,000).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 44. STRUCTURED ENTITIES (CONTINUED)

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

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

During the year ended December 31, 2020, 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 RMB24,797,249,000.

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.

## 45. CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the CBIRC. 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 CBIRC.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2020 and 2019 in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50% for the years ended December 31, 2020 and 2019, 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.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 45. CAPITAL MANAGEMENT (CONTINUED)

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP. During the years ended December 31, 2020 and 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.

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

	2020 RMB'000	2019 RMB'000
<b>Total core tier-one capital</b>		
Share capital	15,069,791	10,069,791
Qualifying portion of capital reserve	5,955,483	4,660,417
Defined benefit plan reserve	(2,762)	(3,399)
Investment revaluation reserve	137,157	219,469
Surplus reserve	1,615,945	1,560,835
General reserve	4,538,992	4,471,044
Retained earnings	4,113,917	3,678,816
Qualifying portions of non-controlling interests	20,517	17,548
Core tier-one capital deductions (Note)	(249,038)	(253,804)
<b>Net core tier-one capital</b>	<b>31,200,002</b>	<b>24,420,717</b>
Eligible portion of non-controlling interests	2,736	2,340
<b>Net tier-one capital</b>	<b>31,202,738</b>	<b>24,423,057</b>
<b>Tier-two capital</b>		
Qualifying portion of tier-two capital instruments issued	-	3,197,198
Surplus provision for loan impairment	1,294,339	1,500,281
Eligible portion of non-controlling interests	5,472	4,680
<b>Net capital base</b>	<b>32,502,549</b>	<b>29,125,216</b>
Total risk weighted assets	242,733,465	246,207,977
Core tier-one capital adequacy ratio	12.85%	9.92%
Tier-one capital adequacy ratio	12.85%	9.92%
Capital adequacy ratio	13.39%	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".

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 46. CASH AND CASH EQUIVALENTS

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

	2020 RMB'000	2019 RMB'000
Cash on hand (Note 17)	600,864	405,812
Deposits with the central bank (Note 17)	5,079,698	4,533,697
Deposits with banks (Note 18)	3,648,014	3,967,542
Financial assets held under resale agreements (Note 19)	19,150,091	16,263,996
<b>Total</b>	<b>28,478,667</b>	<b>25,171,047</b>

## 47. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS

### (a) Related parties

#### (i) Major shareholders

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

Shareholding in the Bank:

	2020	2019
Gansu Province Highway Aviation Tourism Investment Group Co., Ltd.	17.63%	12.49%
Gansu State-owned Assets Investment Co., Ltd.	12.67%	N/A*
Gansu Financial Holding Group Co., Ltd.	8.29%	–
Mengshang Bank Co., Ltd.	5.61%	8.39%
Jiuquan Iron & Steel (Group) Co., Ltd.	6.53%	6.30%
Gansu Province Electric Power Investment Group Co., Ltd.	N/A*	6.30%
Jinchuan Group Co., Ltd.	6.53%	6.30%

\* The corresponding shareholding did not contribute over 5% of total shareholding of the Group.

#### (ii) Other related parties

Other related parties can be individuals or enterprises, which include members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 47(a)(i) or their controlling shareholders. Transactions with other related parties were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

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

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

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

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

	2020 RMB'000	2019 RMB'000
Transactions during the year		
Interest income	42,084	43,214
Interest expense	93,471	72,707

	2020 RMB'000	2019 RMB'000
Balances at end of the year		
Loans and advances to customers	1,500,000	800,000
Deposits from customers	2,778,450	2,610,132
Financial assets at FVTOCI	325,781	347,513
Interests payables	6,122	11,471

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

	2020 RMB'000	2019 RMB'000
Transactions during the year		
Interest income	276,415	248,723
Interest expense	173,177	139,726

	2020 RMB'000	2019 RMB'000
Balances at end of the year		
Loans and advances to customers	6,724,440	5,463,865
Deposits from customers	6,643,703	4,382,043
Deposits from banks and other financial institutions	494,978	597,971
Interests payables	19,078	2,928

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

### (c) Key management personnel

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

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

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

	2020	2019
	RMB'000	RMB'000
Transactions during the year		
Interest income	–	260
Interest expense	62	9

	2020	2019
	RMB'000	RMB'000
Balances at end of the year		
Loans and advances to customers	1,845	2,065
Deposits from customers	6,953	3,727
Interests payables	19	–

#### (ii) Key management personnel compensation

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

	2020	2019
	RMB'000	RMB'000
Salaries and allowances	2,240	2,065
Retirement benefits scheme contributions	1,471	1,355
Discretionary bonuses	3,514	3,436
	7,225	6,856

### (d) Loans and advances to directors, supervisors and senior management

During the year ended December 31, 2020, there are loans and advances to directors, supervisors and senior management of the Group amounting to RMB500,000 (2019: RMB2,065,000).



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 48. SEGMENT REPORTING

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

### Corporate banking

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

### Retail banking

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

### Financial market operations

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

### Others

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

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

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

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, with the exception of deferred tax assets and liabilities and dividend payable. Segment income and expenses, assets and liabilities are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment and intangible assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 48. SEGMENT REPORTING (CONTINUED)

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

	Year ended December 31, 2020				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/ (expense)	4,887,919	(2,798,691)	3,661,183	-	5,750,411
Internal net interest (expense)/ income	(2,588,562)	4,763,515	(2,174,953)	-	-
Net interest income	2,299,357	1,964,824	1,486,230	-	5,750,411
Net fee and commission income	210,715	50,428	41,529	26,165	328,837
Net trading gains	-	-	716,300	-	716,300
Net losses arising from investment securities	-	-	(1,421)	-	(1,421)
Net exchange losses	-	-	-	(279,690)	(279,690)
Other operating expenses, net	-	-	-	(21,239)	(21,239)
Operating income/(expenses)	2,510,072	2,015,252	2,242,638	(274,764)	6,493,198
Operating expenses	(896,636)	(719,879)	(801,105)	98,151	(2,319,469)
Impairment losses on assets, net of reversals	(2,736,092)	(389,162)	(630,169)	899	(3,754,524)
Operating (loss)/profit	(1,122,656)	906,211	811,364	(175,714)	419,205
Share of result of an associate	-	-	-	1,322	1,322
(Loss)/profit before tax	(1,122,656)	906,211	811,364	(174,392)	420,527
Segment assets	109,721,562	41,564,659	188,696,218	547,874	340,530,313
Deferred tax assets	-	-	-	1,833,475	1,833,475
Total assets	109,721,562	41,564,659	188,696,218	2,381,349	342,363,788
Segment liabilities	90,430,662	156,258,449	64,023,809	138,708	310,851,628
Deferred tax liabilities	-	-	-	23,698	23,698
Dividend payable	-	-	-	23,716	23,716
Total liabilities	90,430,662	156,258,449	64,023,809	186,122	310,899,042
Other segment information					
- Depreciation and amortisation	165,757	62,792	285,066	3,598	517,213
- Capital expenditure	163,140	61,801	280,565	3,541	509,047

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 48. SEGMENT REPORTING (CONTINUED)

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

	Year ended December 31, 2019				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/ (expense)	4,977,220	(2,567,987)	2,878,666	-	5,287,899
Internal net interest (expense)/ income	(1,874,016)	3,963,142	(2,089,126)	-	-
Net interest income	3,103,204	1,395,155	789,540	-	5,287,899
Net fee and commission income	135,165	66,251	27,567	24,273	253,256
Net trading gains	-	-	1,489,821	-	1,489,821
Net gains arising from investment securities	-	-	131,183	-	131,183
Net exchange gains	-	-	-	68,888	68,888
Other operating income, net	-	-	-	2,275	2,275
Operating income	3,238,369	1,461,406	2,438,111	95,436	7,233,322
Operating expenses	(1,055,021)	(476,108)	(794,307)	(31,067)	(2,356,503)
Impairment losses on assets	(3,193,420)	(404,847)	(677,297)	(36,420)	(4,311,984)
Operating (loss)/profit	(1,010,072)	580,451	966,507	27,949	564,835
Share of result of an associate	-	-	-	(68)	(68)
(Loss)/profit before tax	(1,010,072)	580,451	966,507	27,881	564,767
Segment assets	110,799,219	34,861,870	187,318,644	421,682	333,401,415
Deferred tax assets	-	-	-	1,643,070	1,643,070
Total assets	110,799,219	34,861,870	187,318,644	2,064,752	335,044,485
Segment liabilities	87,806,823	144,295,260	78,092,012	38,450	310,232,545
Deferred tax liabilities	-	-	-	97,243	97,243
Dividend payable	-	-	-	25,695	25,695
Total liabilities	87,806,823	144,295,260	78,092,012	161,388	310,355,483
Other segment information					
- Depreciation and amortisation	166,577	50,478	282,676	5,048	504,779
- Capital expenditure	97,750	29,621	165,879	2,963	296,213

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 48. SEGMENT REPORTING (CONTINUED)

### (b) Geographical information

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

### (c) Information about major customers

During the years ended December 31, 2020 and 2019, no operating income from a customer contributes over 10% of the total operating income of the Group.

## 49. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios.

As at December 31, 2020 and 2019, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL.

#### Loans and advances to customers and financial assets at amortised cost

The Group has applied the general approach in IFRS 9 to measure ECL. The Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### Debt instrument at FVTOCI

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of investment securities measured at FVTOCI is at Stage 1 of which the loss allowance is measured at 12-month ECL.

#### Deposits with banks

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of deposits with banks is at Stage 1 of which the loss allowance is measured at 12-month ECL.

#### Deposits with the central bank

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of deposits with central banks is at Stage 1 of which the loss allowance is measured at 12-month ECL.

#### Financial assets held under resale agreements

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of financial assets held under resale agreements is at Stage 1 of which the loss allowance is measured at 12-month ECL.

#### Credit commitments and financial guarantees

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of financial guarantees and credit commitments is at Stage 1 of which the loss allowance is measured at 12-month ECL.

#### Other financial assets

The Group has applied the general approach in IFRS 9 to measure ECL. A substantial proportion of other financial assets is at Stage 1 of which the loss allowance is measured at 12-month ECL.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### Other financial assets (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third party guarantees or credit enhancements
- significant increase in credit risk on other financial instruments of the borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

In order to minimise credit risk, the Group has tasked to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit grading information is based on a range of data provided by the major rating agencies that is determined to be predictive of the risk of default and applying experienced credit judgment. The nature of the exposure and the type of counterparty are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

The five categories classifications in which the Group classifies major financial assets, including loans and advances to customers at amortised cost and trust beneficiary rights and asset management plans measured at amortised cost are set out below:

Category	Description	Basis for recognising ECL
Normal	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.	12-month ECL Lifetime ECL – not credit impaired (Only if more than 30 days past due)
Special mention	Borrowers are able to repay their loans currently, although repayment may be adversely affected by specific factors.	12-month ECL Lifetime ECL – not credit impaired (Only if more than 30 days past due) Lifetime ECL – credit impaired (Only if more than 90 days past due)
Substandard	Borrowers' ability to repay their loans is in question and they cannot rely entirely on normal operational revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.	Lifetime ECL – credit impaired
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.	Lifetime ECL – credit impaired
Loss	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.	Lifetime ECL – credit impaired

The internal credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases, the difference in risk of default between grades changes. Each exposure is allocated to a credit's risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The Group uses credit risk grades as a primary input into the determination of the term structure of the probability of default ("PD") for exposures. The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative information that are indicative of risk of default.

The carrying amount of the Group's financial assets at FVTPL as disclosed in Note 23 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The Group established a credit risk management structure which includes the president, chief officers and the risk management committee of the head office, persons-in-charge and risk officers of branches and sub-branches, credit approval committees or groups and the risk management, business, marketing and internal audit departments. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies and authorisation proposals for credit business. Legal and Compliance Department is responsible for formulating the authorisation proposals for credit business. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments such as the Corporate Business Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks. Customer relationship managers and risk managers work independently to manage the key risk points throughout the process of credit business.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to overdue loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### Credit rating

The Group adopts a credit rating approach in managing the credit risk of the listed debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at December 31, 2020 and 2019 are as follows:

	2020	2019
	RMB'000	RMB'000
Neither overdue nor impaired		
Ratings		
– AAA- to AAA+	13,709,341	10,343,424
– AA- to AA+	1,104,897	1,271,780
– A- to A+	–	345,991
– Lower than A-	8,539,104	–
– unrated (Note)	31,085,396	35,233,295
	<hr/>	<hr/>
	54,438,738	47,194,490

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (Continued)

#### Credit rating (Continued)

The following tables represent an analysis of the carrying value of listed debt securities by credit or issuer rating and credit risk characteristic:

	As at December 31, 2020			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	
<b>Ratings</b>				
– AAA- to AAA+	13,712,843	–	–	13,712,843
– AA- to AA+	1,105,643	–	–	1,105,643
– Lower than A–	8,539,104	–	–	8,539,104
– Unrated (Note)	29,441,404	1,685,888	–	31,127,292
	52,798,994	1,685,888	–	54,484,882
Provision for impairment loss	(7,809)	(38,335)	–	(46,144)
	52,791,185	1,647,553	–	54,438,738

	As at December 31, 2019			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	
<b>Ratings</b>				
– AAA- to AAA+	10,346,411	–	–	10,346,411
– AA- to AA+	1,272,992	–	–	1,272,992
– A- to A+	347,513	–	–	347,513
– Unrated (Note)	35,239,127	–	–	35,239,127
	47,206,043	–	–	47,206,043
Provision for impairment loss	(11,553)	–	–	(11,553)
	47,194,490	–	–	47,194,490

*Note:* Debt securities held by the Group mainly issued by the Mainland China government and policy banks and corporations issuers in the market, but not rated by independent rating agencies.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial market operations. The board assumes ultimate responsibility for management of market risk. The senior management implements market risk management strategies and policies as approved by the board of the Bank. The Group's business departments implement market risk management measures in their daily operations.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

#### *Repricing risk*

Repricing risk, which is also known as “maturity mismatch risk”, is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The planning and finance department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

#### *Trading interest rate risk*

Trading interest rate risk mainly arises from the treasury’s investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios’ fair value given a 100 basis points (1%) movement in the interest rates.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### Interest rate risk (Continued)

##### Trading interest rate risk (Continued)

(i) The following tables indicate the assets and liabilities as at December 31, 2020 and 2019 by the expected next repricing dates or by maturity dates, depending on which is earlier:

	At December 31, 2020					
	Total RMB'000	Non- interest bearing RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000
<b>Assets</b>						
Cash and deposits with the central bank	26,666,680	600,864	26,065,816	-	-	-
Deposits with banks	3,716,145	-	3,648,014	68,131	-	-
Financial assets held under resale agreement	19,150,091	-	19,150,091	-	-	-
Interests receivables	4,151,959	4,151,959	-	-	-	-
Loans and advances to customers	176,386,767	4,824,088	50,309,432	66,543,813	43,633,673	11,075,761
Investments (Note)	105,982,705	2,790,494	18,325,964	23,288,702	48,047,750	13,529,795
Others	6,309,441	6,309,441	-	-	-	-
	342,363,788	18,676,846	117,499,317	89,900,646	91,681,423	24,605,556
<b>Liabilities</b>						
Borrowings from the central bank	6,620,195	-	2,517,259	4,102,936	-	-
Deposits from banks and other financial institutions	11,625,724	55,864	1,974,860	9,595,000	-	-
Financial assets sold under repurchase agreements	8,730,070	-	8,730,070	-	-	-
Deposits from customers	249,677,701	-	121,398,511	33,593,796	94,685,394	-
Interests payables	7,629,663	7,629,663	-	-	-	-
Debt securities issued	23,551,545	-	13,949,352	8,102,681	1,499,512	-
Others	3,064,144	2,781,328	-	113,227	166,485	3,104
	310,899,042	10,466,855	148,570,052	55,507,640	96,351,391	3,104
<b>Asset-liability gap</b>	<b>31,464,746</b>	<b>8,209,991</b>	<b>(31,070,735)</b>	<b>34,393,006</b>	<b>(4,669,968)</b>	<b>24,602,452</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### Interest rate risk (Continued)

##### Trading interest rate risk (Continued)

(i) The following tables indicate the assets and liabilities as at December 31, 2020 and 2019 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)

	Total RMB'000	Non- interest bearing RMB'000	At December 31, 2019			
			Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000
<b>Assets</b>						
Cash and deposits with the central bank	25,274,278	405,811	24,868,467	-	-	-
Deposits with banks	3,967,542	-	3,967,542	-	-	-
Financial assets held under resale agreement	16,263,996	-	16,263,996	-	-	-
Interests receivables	2,202,105	2,202,105	-	-	-	-
Loans and advances to customers	164,766,836	8,669,946	64,506,732	56,228,695	29,158,311	6,203,152
Investments (Note)	113,508,742	315,094	26,953,398	18,554,764	60,192,307	7,493,179
Others	9,060,986	9,060,986	-	-	-	-
	335,044,485	20,653,942	136,560,135	74,783,459	89,350,618	13,696,331
<b>Liabilities</b>						
Borrowings from the central bank	2,316,353	-	1,902,988	413,365	-	-
Deposits from banks and other financial institutions	13,621,889	54,406	7,177,483	6,390,000	-	-
Placements from banks and other financial institutions	890,000	-	580,000	310,000	-	-
Financial assets sold under repurchase agreements	5,398,580	-	5,398,580	-	-	-
Deposits from customers	236,868,657	-	92,738,992	24,280,784	119,848,881	-
Interests payables	8,761,501	8,761,501	-	-	-	-
Debt securities issued	39,459,173	-	10,030,256	23,732,944	999,515	4,696,458
Others	3,039,330	2,755,399	14	101,378	180,455	2,084
	310,355,483	11,571,306	117,828,313	55,228,471	121,028,851	4,696,542
<b>Asset-liability gap</b>	24,689,002	9,082,636	18,731,822	19,554,988	(31,678,233)	8,997,789

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### Interest rate risk (Continued)

##### *Trading interest rate risk (Continued)*

(i) *The following tables indicate the assets and liabilities as at December 31, 2020 and 2019 by the expected next repricing dates or by maturity dates, depending on which is earlier: (Continued)*

*Note:*

Investments include financial assets at fair value through profit or loss, financial assets at amortised cost, financial assets at fair value through other comprehensive income.

(ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity.

The following tables demonstrate the sensitivity as at December 31, 2020 and 2019, assuming other variables remain unchanged, an increase in estimated interest rate, of the Group's net profit and equity.

	Effect on net profit	
	2020	2019
	RMB'000	RMB'000

#### Change in basis points

Increase 100 basis points	143,929	60,379
Decrease 100 basis points	(143,929)	(60,379)

	Effect on equity	
	2020	2019
	RMB'000	RMB'000

#### Change in basis points

Increase 100 basis points	(617,926)	(675,885)
Decrease 100 basis points	617,926	675,885

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### Interest rate risk (Continued)

##### *Trading interest rate risk (Continued)*

##### *(ii) Interest rate sensitivity analysis (Continued)*

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

- Interest rate movements at December 31, 2020 and 2019 apply to non-derivative financial instruments of the Group.
- At December 31, 2020 and 2019, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months.
- There is a parallel shift in the yield curve with the changes in interest rates.
- There are no other changes to the assets and liabilities portfolio.
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

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

#### Foreign currency risk

The Group's foreign currency risk mainly arises from exchange rate fluctuation on its foreign exchange exposures. The Group manages foreign currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies and monitoring its foreign currency exposures on daily basis.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### Foreign currency risk (Continued)

The Group's currency exposures as at December 31, 2020 and 2019 are as follows:

	RMB'000	At December 31, 2020		Total (RMB'000 equivalent)
		USD (RMB'000 equivalent)	Others (RMB'000 equivalent)	
<b>Assets</b>				
Cash and deposits with the central bank	26,666,672	-	8	26,666,680
Deposits with banks	1,726,892	369,909	1,619,344	3,716,145
Financial assets held under resale agreements	19,150,091	-	-	19,150,091
Financial assets at fair value through profit or loss	25,837,489	-	-	25,837,489
Interests receivables	4,151,959	-	-	4,151,959
Loans and advances to customers	176,386,767	-	-	176,386,767
Financial assets at fair value through other comprehensive income	10,887,333	325,782	-	11,213,115
Financial assets at amortised cost	67,845,350	986,781	99,970	68,932,101
Others	6,309,441	-	-	6,309,441
	338,961,994	1,682,472	1,719,322	342,363,788
<b>Liabilities</b>				
Borrowing from the central bank	6,620,195	-	-	6,620,195
Deposits from banks and other financial institutions	11,569,860	-	55,864	11,625,724
Financial assets sold under repurchase agreements	8,730,070	-	-	8,730,070
Deposits from customers	249,668,775	8,924	2	249,677,701
Interests payables	7,629,663	-	-	7,629,663
Debt securities issued	23,551,545	-	-	23,551,545
Others	3,064,020	124	-	3,064,144
	310,834,128	9,048	55,866	310,899,042
<b>Net position</b>	<b>28,127,866</b>	<b>1,673,424</b>	<b>1,663,456</b>	<b>31,464,746</b>
<b>Off-balance sheet credit commitments</b>	<b>26,885,307</b>	<b>51,146</b>	<b>-</b>	<b>26,936,453</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### Foreign currency risk (Continued)

The Group's currency exposures as at December 31, 2020 and 2019 are as follows: (Continued)

	RMB'000	At December 31, 2019		Total (RMB'000 equivalent)
		USD (RMB'000 equivalent)	Others (RMB'000 equivalent)	
<b>Assets</b>				
Cash and deposits with the central bank	25,274,260	10	8	25,274,278
Deposits with banks	3,602,394	229,682	135,466	3,967,542
Financial assets held under resale agreements	16,263,996	–	–	16,263,996
Financial assets at fair value through profit or loss	36,729,899	–	–	36,729,899
Interests receivables	2,138,705	54,742	8,658	2,202,105
Loans and advances to customers	164,766,836	–	–	164,766,836
Financial assets at fair value through other comprehensive income	14,732,411	349,036	–	15,081,447
Financial assets at amortised cost	58,018,056	3,482,580	196,760	61,697,396
Others	9,060,986	–	–	9,060,986
	330,587,543	4,116,050	340,892	335,044,485
<b>Liabilities</b>				
Borrowing from the central bank	2,316,353	–	–	2,316,353
Deposits from banks and other financial institutions	13,567,483	–	54,406	13,621,889
Financial assets sold under repurchase agreements	5,398,580	–	–	5,398,580
Placements from banks and other financial institutions	890,000	–	–	890,000
Deposits from customers	236,864,932	3,723	2	236,868,657
Interests payables	8,761,501	–	–	8,761,501
Debt securities issued	39,459,173	–	–	39,459,173
Others	3,039,330	–	–	3,039,330
	310,297,352	3,723	54,408	310,355,483
<b>Net position</b>	20,290,191	4,112,327	286,484	24,689,002
<b>Off-balance sheet credit commitments</b>	24,981,465	18,338	–	24,999,803

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk (Continued)

#### Foreign currency risk (Continued)

The table below indicates the potential effect of 100 basis points appreciation or depreciation of RMB spot and forward exchange rates against all other currencies on net profit based on the assumption of foreign currency exchange rate movements over the next 12 months.

	Effect on net profit	
	2020	2019
	RMB'000	RMB'000
Change in basis points		
Increase 100 basis points	25,028	32,991
Decrease 100 basis points	(25,028)	(32,991)

The impact on net profit arises from the effects of movement in RMB exchange rate on the net positions of foreign currency monetary assets and monetary liabilities. Changes in foreign currency exchange rate will not affect other comprehensive income.

The effect on net profit is calculated based on the assumption that the Group's net foreign currency exposure at the end of each reporting period remains unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ from the actual situation.

### (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximisation and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The planning and finance department is responsible for the development of liquidity risk management strategies, policies, procedures and limits, and routine supervision and monitoring of liquidity risks. It establishes and implements internal control systems relating to liquidity risk management, such as Liquidity Risk Management Measures (流動性風險管理辦法) and Contingency Plan for Liquidity Risks (流動性風險應急預案). The planning and finance department is also responsible for setting annual liquidity management objectives and liquidity management profile plans. It also monitors and adjusts these plans on a quarterly basis in order to maintain a reasonable assets and liabilities structure.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity Risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at December 31, 2020 and 2019:

	At December 31, 2020						Total RMB'000
	Indefinite (Note) RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000	
<b>Assets</b>							
Cash and deposits with the central bank	20,986,118	5,680,562	-	-	-	-	26,666,680
Deposits with banks	-	3,648,014	-	68,131	-	-	3,716,145
Financial assets held under resale agreements	-	-	19,150,091	-	-	-	19,150,091
Financial assets at fair value through profit or loss	-	2,468,915	2,111,171	1,160,779	19,262,696	833,928	25,837,489
Interests receivables	-	632,724	1,661,148	1,581,833	250,598	25,656	4,151,959
Loans and advances to customers	3,783,511	1,040,478	24,474,296	69,452,666	47,725,093	29,910,723	176,386,767
Financial assets at fair value through other comprehensive income	-	-	360,111	2,274,424	6,624,152	1,954,428	11,213,115
Financial assets at amortised cost	2,687,430	7,451,486	5,715,766	19,853,499	22,160,902	11,063,018	68,932,101
Others	5,668,464	-	-	-	640,977	-	6,309,441
	33,125,523	20,922,179	53,472,583	94,391,332	96,664,418	43,787,753	342,363,788
<b>Liabilities</b>							
Borrowings from the central bank	-	-	2,517,259	4,102,936	-	-	6,620,195
Deposits from banks and other financial institutions	-	950,724	1,080,000	9,595,000	-	-	11,625,724
Financial assets sold under repurchase agreements	-	-	8,730,070	-	-	-	8,730,070
Deposits from customers	-	93,738,891	27,659,620	33,593,796	94,685,394	-	249,677,701
Interests payables	-	3,013,571	1,749,495	1,251,203	1,615,394	-	7,629,663
Debt securities issued	-	-	13,949,351	8,102,681	1,499,513	-	23,551,545
Others	23,698	2,095,328	662,302	113,227	166,485	3,104	3,064,144
	23,698	99,798,514	56,348,097	56,758,843	97,966,786	3,104	310,899,042
Long/(short) position	33,101,825	(78,876,335)	(2,875,514)	37,632,489	(1,302,368)	43,784,649	31,464,746

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity Risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at December 31, 2020 and 2019: (Continued)

	At December 31, 2019						Total RMB'000
	Indefinite (Note) RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years RMB'000	
<b>Assets</b>							
Cash and deposits with the central bank	20,334,769	4,939,509	-	-	-	-	25,274,278
Deposits with banks	-	3,895,784	71,758	-	-	-	3,967,542
Financial assets held under resale agreements	-	-	16,263,996	-	-	-	16,263,996
Financial assets at fair value through profit or loss	-	-	14,657,871	3,193,190	17,991,752	887,086	36,729,899
Interests receivables	-	26,090	653,626	1,031,169	398,399	92,821	2,202,105
Loans and advances to customers	4,075,163	4,996,644	19,538,053	63,138,222	50,620,127	22,398,627	164,766,836
Financial assets at fair value through other comprehensive income	-	-	495,673	2,832,224	7,667,065	4,086,485	15,081,447
Financial assets at amortised cost	4,646,629	760,000	6,393,224	12,529,350	34,533,491	2,834,702	61,697,396
Others	5,569,820	-	-	-	3,491,166	-	9,060,986
	34,626,381	14,618,027	58,074,201	82,724,155	114,702,000	30,299,721	335,044,485
<b>Liabilities</b>							
Borrowings from the central bank	-	-	1,902,988	413,365	-	-	2,316,353
Deposits from banks and other financial institutions	-	601,889	6,630,000	6,390,000	-	-	13,621,889
Placements from banks and other financial institutions	-	-	580,000	310,000	-	-	890,000
Financial assets sold under repurchase agreements	-	-	5,398,580	-	-	-	5,398,580
Deposits from customers	-	82,717,263	10,021,729	24,280,784	119,848,881	-	236,868,657
Interests payables	-	8,381,652	135,542	155,082	35,205	54,020	8,761,501
Debt securities issued	-	-	10,030,256	23,732,944	999,515	4,696,458	39,459,173
Others	26,355	1,994,236	734,822	101,378	180,455	2,084	3,039,330
	26,355	93,695,040	35,433,917	55,383,553	121,064,056	4,752,562	310,355,483
<b>Long/(short) position</b>	34,600,026	(79,077,013)	22,640,284	27,340,602	(6,362,056)	25,547,159	24,689,002

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity Risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at December 31, 2020 and 2019: (Continued)

*Note:* Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial assets at amortised cost represents impaired investments or those overdue more than one month.

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments at December 31, 2020 and 2019:

	At December 31, 2020						
	Carrying amount RMB'000	Contractual undiscounted cash flow RMB'000	Repayable on demand RMB'000	Less than three months RMB'000	Between three	Between	More than
					months and one year RMB'000	one year and five years RMB'000	five years and indefinite RMB'000
<b>Non-derivative financial liabilities</b>							
Borrowings from the central bank	6,620,195	6,928,402	-	2,584,083	4,344,319	-	-
Deposits from banks	11,625,724	11,911,794	950,724	1,103,038	9,858,032	-	-
Financial assets sold under repurchase agreements	8,730,070	8,736,316	-	8,736,316	-	-	-
Deposits from customers	249,677,701	259,174,221	96,751,798	19,267,557	44,801,932	98,352,934	-
Debts securities issued	23,551,545	23,940,393	-	13,980,114	8,222,645	1,737,634	-
Other liabilities	3,029,326	3,044,815	2,084,150	662,302	117,093	177,698	3,572
	303,234,561	313,735,941	99,786,672	46,333,410	67,344,021	100,268,266	3,572
Off-balance sheet credit commitments	26,936,452	26,936,452	5,908,470	8,922,627	11,057,848	760,349	287,158

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity Risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments at December 31, 2020 and 2019: (Continued)

	Carrying amount RMB'000	Contractual undiscounted cash flow RMB'000	At December 31, 2019				
			Repayable on demand RMB'000	Less than three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	More than five years and indefinite RMB'000
<b>Non-derivative financial liabilities</b>							
Borrowings from the central bank	2,316,353	2,327,766	-	1,911,200	416,566	-	-
Deposits from banks	13,621,889	13,985,163	601,889	6,763,194	6,620,080	-	-
Placements from bank and other financial institutions	890,000	913,747	-	595,275	318,472	-	-
Financial assets sold under repurchase agreements	5,398,580	5,398,580	-	5,398,580	-	-	-
Deposits from customers	236,868,657	244,374,683	82,717,264	10,109,724	26,164,455	125,383,240	-
Debt securities issued	39,459,173	39,645,555	-	10,068,639	23,791,717	1,034,721	4,750,478
Other liabilities	3,012,976	3,032,152	1,994,235	734,822	104,256	196,217	2,622
	301,567,628	309,677,646	85,313,388	35,581,434	57,415,546	126,614,178	4,753,100
Off-balance sheet credit commitments	24,999,803	24,999,803	890,776	9,984,163	13,171,546	666,160	287,158

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 49. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, settlement, intermediary business and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

#### (i) Debt securities investments

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

#### (ii) Unlisted equity investments

Fair values of unlisted equity investments are determined with reference to the present value of the discounted cash flows model to be derived from the ownership of the investee, based on an appropriate discount rate.

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

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

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

Fair values of debt securities issued are based on the present value of estimated future cash flows at December 31, 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 December 31, 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, deposits with banks, financial assets held under resale agreements, loans and advances to customers, financial assets at amortised cost, financial assets at FVTPL and financial assets at FVTOCI.

Deposits with the central bank, deposits with banks and financial assets held under resale agreement are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

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

The carrying amount and fair value of financial assets at amortised cost is disclosed in Note 20.

The fair value of financial assets at FVTPL and FVTOCI are disclosed in Note 23 and Note 24 respectively.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

### (b) Fair value measurement (Continued)

#### (ii) Financial liabilities

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

The financial liabilities recorded at amortised cost are disclosed in Note 33, Note 36 and Note 39 respectively. Accordingly, the carrying amounts approximate the fair values.

### (c) Fair value hierarchy

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

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

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

	At December 31, 2020			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Assets</b>				
Financial assets at FVTPL				
– debt securities held for trading	–	2,351,893	–	2,351,893
– trust plans	–	1,635,851	–	1,635,851
– asset management plans	–	14,363,297	–	14,363,297
– investment funds	–	7,486,448	–	7,486,448
Financial assets at FVTOCI				
– Debt instruments at FVTOCI	–	10,891,537	–	10,891,537
– Unlisted equity investments measured at FVTOCI	–	–	321,578	321,578
	–	36,729,026	321,578	37,050,604
<b>At December 31, 2019</b>				
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<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 year ended December 31, 2020, there were no significant transfers among each level (2019: nil).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

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

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

(ii) The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

Financial assets	Fair value as at,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Range	Relationship of key inputs and significant unobservable inputs to fair value
	December 31, 2020 RMB'000	December 31, 2019 RMB'000					
<b>Financial assets at FVTPL</b>							
Debt securities – listed	2,351,893	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	N/A
Trust plans	1,635,851	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	N/A
Asset management plans	14,363,297	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	N/A
Investment funds	7,486,448	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	N/A
Other debt securities	nil	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	N/A

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

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

- (ii) The valuation techniques and input used in the fair value measurements of financial instruments as set out below: (Continued)

Financial assets	Fair value as at,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of key inputs and significant unobservable inputs to fair value
	December 31, 2020	December 31, 2019				
	RMB'000	RMB'000				
Financial assets at FVTOCI						
Debt securities – listed	10,891,537	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	321,578	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% (2019: 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 RMB3,332,000 and vice versa (2019:RMB2,077,000 and vice versa).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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

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

Reconciliation of Level 3 fair value measurements of financial assets:

	Unlisted equity investment designated at financial assets at FVTOCI RMB'000
At January 1, 2019 and December 31, 2019	315,094
Additions	28,165
Change in fair value recognised in investment revaluation reserve	(21,681)
<hr/>	
At December 31, 2020	321,578

There is no change in fair value for the year ended December 31, 2020.

## 51. ENTRUSTED LENDING BUSINESS

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

	2020 RMB'000	2019 RMB'000
Entrusted loans	3,620,685	4,250,235
Entrusted funds	3,620,685	4,250,250

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 52. COMMITMENTS

### (a) Credit commitments

The Group's credit commitments take the form of bank acceptances, letters of credit and financial guarantees and unused credit card commitment.

The Group provides letters of guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. The amounts disclosed in respect of unused credit card commitments are under the assumption that the amounts will be fully advanced.

	2020 RMB'000	2019 RMB'000
Bank acceptances	18,488,830	22,576,503
Letters of guarantees	1,686,482	1,510,474
Unused credit card commitment	5,857,325	872,439
Letters of credit	903,816	40,387
	<b>26,936,453</b>	<b>24,999,803</b>

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

### (b) Capital commitments

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

The Group

	2020 RMB'000	2019 RMB'000
Purchase of property and equipment – Contracted for but not provided	30,248	15,979



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

### 53. CONTINGENT LIABILITIES

The Bank and its subsidiary are involved as defendants in certain lawsuits arising from their normal business operations. As at December 31, 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.

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

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

	January 1, 2020	Financing cash flows	Non-cash changes		December 31, 2020
			New lease arrangement entered (Note 56(i))	Finance cost incurred	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Liabilities</b>					
Debts securities issued (Note 39)	39,459,173	(16,779,055)	–	871,427	23,551,545
Interests payables on debts securities issued (Note 38)	186,382	(454,727)	–	347,781	79,436
Lease liabilities (Note 28)	283,931	(139,037)	131,613	6,310	282,817
Dividend payable (Note 40)	25,695	(1,979)	–	–	23,716
	<b>39,955,181</b>	<b>(17,374,798)</b>	<b>131,613</b>	<b>1,225,518</b>	<b>23,937,514</b>

	January 1, 2019	Financing cash flows	Non-cash changes		December 31, 2019
			New lease arrangement entered (Note 56(i))	Dividends declared	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Liabilities</b>					
Debts securities issued (Note 39)	41,576,773	(2,567,520)	–	–	39,459,173
Interests payables on debts securities issued (Note 38)	187,318	(1,130,619)	–	–	186,382
Lease liabilities (Note 28)	250,186	(153,668)	180,796	–	283,931
Dividend payable (Note 40)	8,560	(1,012,230)	–	1,029,365	25,695
	<b>42,022,837</b>	<b>(4,864,037)</b>	<b>180,796</b>	<b>1,029,365</b>	<b>39,955,181</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 55. STATEMENTS OF FINANCIAL POSITION OF THE BANK

	Note	2020 RMB'000	2019 RMB'000
<b>Assets</b>			
Cash and deposits with the central bank		26,514,693	25,127,215
Deposits with banks		3,715,647	3,968,473
Financial assets held under resale agreements		19,150,091	16,263,996
Financial assets at amortised cost		68,932,101	61,697,396
Interests receivables		4,145,935	2,199,834
Loans and advances to customers		175,516,238	164,078,542
Financial assets at fair value through profit or loss		25,837,489	36,729,899
Financial assets at fair value through other comprehensive income		11,213,115	15,081,447
Interest in an associate		10,224	8,902
Investment in a subsidiary	26	29,250	29,250
Property and equipment		2,952,453	2,753,188
Right-of-use assets		313,196	345,173
Deferred tax assets		1,827,734	1,636,766
Other assets		1,187,048	4,295,151
<b>Total assets</b>		<b>341,345,214</b>	<b>334,215,232</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 55. STATEMENTS OF FINANCIAL POSITION OF THE BANK (CONTINUED)

	Note	2020 RMB'000	2019 RMB'000
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Borrowings from the central bank		6,564,244	2,312,353
Deposits from banks and other financial institutions		12,121,266	13,973,784
Placements from banks and other financial institutions		–	890,000
Financial assets sold under repurchase agreements		8,730,070	5,398,580
Deposits from customers		248,316,576	235,774,122
Accrued staff costs		550,922	503,428
Interests payables		7,606,534	8,743,335
Debts securities issued		23,551,545	39,459,173
Deferred tax liabilities		23,698	97,243
Other liabilities		2,483,860	2,431,208
<b>Total liabilities</b>		<b>309,948,715</b>	<b>309,583,226</b>
<b>Equity</b>			
Share capital		15,069,791	10,069,791
Capital reserve	(i)	5,954,929	4,659,863
Defined benefit plan reserve	(i)	(2,762)	(3,399)
Investment revaluation reserve	(i)	137,157	219,469
Surplus reserve	(i)	1,615,945	1,560,835
General reserve	(i)	4,511,832	4,446,325
Retained earnings	(i)	4,109,607	3,679,122
<b>Total equity</b>		<b>31,396,499</b>	<b>24,632,006</b>
<b>Total liabilities and equity</b>		<b>341,345,214</b>	<b>334,215,232</b>

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 55. STATEMENTS OF FINANCIAL POSITION OF THE BANK (CONTINUED)

### (i) Reserve of the Bank

	Capital reserve (Note) RMB'000	Defined benefit plan reserve RMB'000	Investment revaluation reserve RMB'000	Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2020	4,659,863	(3,399)	219,469	1,560,835	4,446,325	3,679,122	14,562,215
Profit for the year	-	-	-	-	-	551,102	551,102
Other comprehensive income/ (expense) for the year	-	637	(82,312)	-	-	-	(81,675)
Total comprehensive income/ (expense) for the year	-	637	(82,312)	-	-	551,102	469,427
Shareholders' injection (Note 42)	904	-	-	-	-	-	904
Change in share capital (Note 41)							
- Capital contribution by equity shareholders	1,297,209	-	-	-	-	-	1,297,209
- Share issue expenses	(3,047)	-	-	-	-	-	(3,047)
Appropriation of profits							
- Appropriation to surplus reserve	-	-	-	55,110	-	(55,110)	-
- Appropriation to general reserve	-	-	-	-	65,507	(65,507)	-
At December 31, 2020	5,954,929	(2,762)	137,157	1,615,945	4,511,832	4,109,607	16,326,708

*Note:*

The amount represented share premium and shareholders' injection included in Note 42.

	Capital reserve (Note) RMB'000	Defined benefit plan reserve RMB'000	Investment revaluation reserve RMB'000	Surplus reserve RMB'000	General reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2019	4,657,760	(4,156)	261,427	1,510,052	4,399,431	4,298,338	15,122,852
Profit for the year	-	-	-	-	-	507,826	507,826
Other comprehensive income/ (expense) for the year	-	757	(41,958)	-	-	-	(41,201)
Total comprehensive income/ (expense) for the year	-	757	(41,958)	-	-	507,826	466,625
Shareholders' injection (Note 42)	2,103	-	-	-	-	-	2,103
Appropriation of profits							
- Appropriation to surplus reserve	-	-	-	50,783	-	(50,783)	-
- Appropriation to general reserve	-	-	-	-	46,894	(46,894)	-
Dividends paid	-	-	-	-	-	(1,029,365)	(1,029,365)
At December 31, 2019	4,659,863	(3,399)	219,469	1,560,835	4,446,325	3,679,122	14,562,215

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

## 56. MAJOR NON-CASH TRANSACTIONS

- (i) During the year ended December 31, 2020, the Group entered into new arrangements in respect of office premises. Right-of-use assets and lease liabilities of approximately RMB131,613,000 were recognised at the commencement of the leases (2019: RMB180,796,000).
- (ii) During the year ended December 31, 2020, amount of approximately RMB28,165,000 of unlisted equity investment designated at FVTOCI was arising from financing restructuring of financial assets at amortised cost.
- (iii) During the year ended December 31, 2019, amounts of approximately RMB800,084,000 of financial assets at FVTPL and approximately RMB315,094,000 of unlisted equity investment designated at FVTOCI were arising from financing restructuring of loan and advance to customers and financial assets at amortised cost.

# Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

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

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

	At December 31, 2020	Average for the year ended December 31, 2020
Liquidity coverage ratio (RMB and foreign currency)	268.73%	226.57%

	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 December 31, 2020
Leverage Ratio (RMB and foreign currency)	8.64%

Pursuant to the Measures for the Administration of the Leverage Ratio of Commercial Banks issued by the China Banking Regulatory Commission ("CBRC") with effect from April 1, 2015, a minimum leverage ratio of 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the requirements promulgated by the CBIRC and based on the financial information prepared in accordance with the Generally Accepted Accounting Principles of the People's Republic of China (the "PRC GAAP"), with the specific computational formulas as follows:

- (1) Liquidity coverage ratio = high-quality liquid assets/net capital outflow in the next 30 days × 100%
- (2) Leverage ratio = (core tier 1 capital - corresponding capital deductions)/on and off-balance sheet assets after adjustment × 100%

## Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

### 2. CURRENCY CONCENTRATIONS

	At December 31, 2020		
	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	1,682,471.4	1,719,322.1	3,401,793.5
Spot liabilities	(9,048.3)	(55,866.5)	(64,914.8)
Net position	1,673,423.1	1,663,455.6	3,336,878.7

	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 structured position as at December 31, 2020 and 2019.

## Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

### 3. INTERNATIONAL CLAIMS

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

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

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

	At December 31,	
	2020	2019
Deposits with banks		
Asia Pacific excluding mainland China	1,911,556	263,815
Europe	–	–
	<hr/>	<hr/>
	1,911,556	263,815

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

	At December 31,	
	2020	2019
Gansu Region	3,203,558	2,995,809
Mainland China excluding Gansu Region	527,469	960,451
	<hr/>	<hr/>
Total	3,731,027	3,956,260



## Unaudited Supplementary Financial Information

(Amounts in thousands of Renminbi, unless otherwise stated)

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

	At December 31,	
	2020	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)	654,093	1,046,565
– Between six months and one year (inclusive)	953,560	2,021,830
– Between one year and three years	1,897,035	720,941
– Over three years	226,339	166,924
<b>Total</b>	<b>3,731,027</b>	<b>3,956,260</b>
As a percentage of total loans and advances		
– Between three months and six months (inclusive)	0.36%	0.61%
– Between six months and one year (inclusive)	0.52%	1.19%
– Between one year and three years	1.04%	0.42%
– Over three years	0.13%	0.10%
<b>Total</b>	<b>2.05%</b>	<b>2.32%</b>


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


### 6. NON-BANK MAINLAND CHINA EXPOSURE


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



甘肅銀行股份有限公司\*  
BANK OF GANSU CO., LTD.\*

 96666  
Inside the province call

 400-86-96666  
Outside the province call

 網址: [www.gsbankchina.com](http://www.gsbankchina.com)  
Website : [www.gsbankchina.com](http://www.gsbankchina.com)