



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

2021 INTERIM REPORT



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

Contents

Chapter 1	Definitions	2
Chapter 2	Company Profile	6
Chapter 3	Financial Highlights	8
Chapter 4	Management Discussion and Analysis	11
Chapter 5	Changes in Share Capital and Particulars of Shareholders	57
Chapter 6	Directors, Supervisors, Senior Management, Employees and Organizations	61
Chapter 7	Important Events	72
Chapter 8	Report on Review of Condensed Consolidated Financial Statements	76
Chapter 9	Notes to the Condensed Consolidated Financial Statements	86
Chapter 10	Unaudited Supplementary Financial Information	142

Chapter 1 Definitions

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

“Articles of Association” or “Articles”	the articles of association of the Bank
“Baiyin City Commercial Bank”	the former Baiyin City Commercial Bank Co., Ltd. (白銀市商業銀行股份有限公司). In May 2011, 25 legal entities, all shareholders of Baiyin City Commercial Bank and all shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“Bank” or “our Bank”	Bank of Gansu Co., Ltd. (甘肅銀行股份有限公司), a joint stock company incorporated in Gansu Province, the PRC on November 18, 2011 with limited liability in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Banking Ordinance”	Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Board of Directors” or “Board”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“Capital Administrative Measures”	the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) promulgated by the CBRC on June 7, 2012 and effective on January 1, 2013
“CBRC”	the former China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CBIRC Gansu Office”	the China Banking and Insurance Regulatory Commission Gansu Office (中國銀行保險監督管理委員會甘肅監管局)
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for in Renminbi or credited as paid up

Chapter 1 Definitions

“Gansu Electric Power Investment”	Gansu Province Electric Power Investment Group Co., Ltd. (甘肅省電力投資集團有限公司), a company incorporated in the PRC on July 15, 1990, and a wholly-owned subsidiary of Gansu State-owned Assets Investment. As of the Latest Practicable Date, Gansu Electric Power Investment held approximately 4.21% of the Shares of the Bank
“Gansu Highway Aviation Tourism”	Gansu Province Highway Aviation Tourism Investment Group Co., Ltd. (甘肅省公路航空旅遊投資集團有限公司), a company incorporated in the PRC on December 24, 1999, which is wholly-owned by Gansu SASAC. As of the Latest Practicable Date, Gansu Highway Aviation Tourism held approximately 18.30% of the Shares of the Bank. It is a substantial Shareholder and connected person of the Bank
“Gansu SASAC”	the State-owned Assets Supervision and Administration Commission of the Gansu Provincial Government (甘肅省人民政府國有資產監督管理委員會)
“Gansu State-owned Assets Investment”	Gansu Province State-owned Assets Investment Group Co., Ltd. (甘肅省國有資產投資集團有限公司), a company incorporated in the PRC on November 23, 2007, and 84% of its equity interest owned by Gansu SASAC and 16% of its equity interest owned by Jiuquan Iron & Steel. As of the Latest Practicable Date, it directly held approximately 12.67% of the Shares of the Bank, and indirectly held approximately 10.74% of the Shares of the Bank through its subsidiaries, including Gansu Electric Power Investment and Jinchuan Group. It is a substantial Shareholder and connected person of the Bank
“GDP”	gross domestic product
“GRC system”	the internal control, compliance and operational risk management system
“H Share(s)”	ordinary shares issued by the Bank in Hong Kong pursuant to the global offering, with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed and traded on the Hong Kong Stock Exchange
“HK\$, “HKD” or “HK dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“HKMA”	the Hong Kong Monetary Authority
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (《香港聯合交易所有限公司證券上市規則》), as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, International Accounting Standards, amendments and the related interpretations issued by the International Accounting Standards Board

Chapter 1 Definitions

“independent third party”	a person or entity not considered a connected person or associate of a connected person of the Bank under the Hong Kong Listing Rules
“Jinchuan Group”	Jinchuan Group Co., Ltd. (金川集團股份有限公司), a company incorporated in the PRC on September 28, 2001, of which Gansu State-owned Assets Investment is the largest shareholder, holding 47.97% of its equity interests. As of the Latest Practicable Date, Jinchuan Group held approximately 6.53% of the Shares of the Bank
“Jingning Chengji Rural Bank”	Pingliang Jingning Chengji Rural Bank Co., Ltd., a joint stock company with limited liability incorporated in the PRC on September 18, 2008 and a subsidiary of the Bank
“Jiuquan Iron & Steel”	Jiuquan Iron & Steel (Group) Co., Ltd. (酒泉鋼鐵(集團)有限責任公司), a company incorporated in the PRC on May 26, 1998, and 68.42% of its equity interest owned by Gansu SASAC and 31.58% of its equity interest owned by Gansu State-owned Assets Investment. As of the Latest Practicable Date, Jiuquan Iron & Steel held approximately 6.53% of the Shares of the Bank
“Latest Practicable Date”	August 27, 2021, the latest practicable date for ascertaining certain information in this interim report before its publication
“Listing”	the listing of our H Shares on the Hong Kong Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“NPL ratio” or “non-performing loan ratio”	the percentage ratio calculated by dividing non-performing loans by total loans
“NPLs” or “non-performing loans”	loans classified as substandard, doubtful and loss according to the five-category loan classification system of the Bank
“PBoC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pingliang City Commercial Bank”	the former Pingliang City Commercial Bank Co., Ltd. (平涼市商業銀行股份有限公司). In May 2011, 25 legal entities, all shareholders of Baiyin City Commercial Bank and all shareholders of Pingliang City Commercial Bank jointly promoted and incorporated the Bank
“PRC” or “China”	the People’s Republic of China, but for the purpose of this interim report only, excluding Hong Kong, Macau and Taiwan, unless otherwise specified in the context
“PRC GAAP”	the PRC Accounting Standards for Business Enterprises (中國企業會計準則) promulgated by MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
“provincial city commercial bank(s)”	local city commercial bank(s), whose establishment was promoted by the provincial government

Chapter 1 Definitions

“related party(ies)”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》) promulgated by the CBIRC, the PRC GAAP and/or IFRS
“related party transaction(s)”	has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders promulgated by the CBIRC, the PRC GAAP and/or IFRS
“Reporting Period”	the six months ended June 30, 2021 (namely from January 1, 2021 to June 30, 2021)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each
“subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Supervisor(s)”	the supervisor(s) of the Bank
“United States” or “U.S.”	the United States of America
“US\$”, “USD” or “U.S. dollar(s)”	U.S. dollars, the lawful currency of the United States of America
“we”, “us”, “our”, “Group” or “our Group”	the Bank and its subsidiary on a consolidated basis

In this interim report:

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

Chapter 2 Company Profile

I. BASIC INFORMATION OF THE COMPANY

Legal Name of the Company in Chinese	:	甘肅銀行股份有限公司
Legal Name of the Company in English	:	Bank of Gansu Co., Ltd.
Legal Representative	:	Liu Qing
Authorized Representatives	:	Liu Qing, 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
Customer Service Hotline	:	+86 400 86 96666
Telephone	:	+86 931 877 0897
Facsimile	:	+86 931 877 1877
Website of the Bank	:	www.gsbankchina.com
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	:	www.hkexnews.hk
Stock Listing Place, Stock Short Name and Stock Code	:	The Stock Exchange of Hong Kong Limited, BANK OF GANSU, 2139
Domestic Shares Trustee Agency	:	China Securities Depository and Clearing Corporation Limited
H Share Registrar	:	Computershare Hong Kong Investor Services Limited
PRC Legal Adviser	:	Grandall Law Firm (Shanghai)
Hong Kong Legal Adviser	:	Latham & Watkins LLP
Domestic Auditor	:	Shinewing Certified Public Accountants LLP
International Auditor	:	SHINEWING (HK) CPA Limited
Place of Inspection of the Interim Report	:	Office of the Board of the Bank

II. HISTORY OF THE BANK

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

The registered address of the Bank is No. 122, Gannan Road, Chengguan District, Lanzhou City, Gansu Province, the PRC. The Bank has established a principal place of business in Hong Kong at 40/F, 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.

III. AWARDS OF THE BANK IN THE FIRST HALF YEAR OF 2021

Awards and Honors	Awarding Parties/Media
Ranked 300th among the 2021 Top 1000 World Banks (50th among Chinese banks)	The Banker Magazine
Ranked 49th among the 2021 Top 100 Banks in China's Banking Industry (2021年中國銀行業100強榜單排名49位)	China Banking Association
2020 Governor's Finance Award (2020年度省長金融獎)	Gansu Provincial Government
Awarded "Mobile Intelligence Innovative Award" at the 2021 China Financial Digital Technology Innovation Competition	www.cebnet.com.cn

Chapter 3 Financial Highlights

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)	Year ended December 31,
	2021	2020		2020
Results of operations				
Interest income	6,918.7	7,095.0	(2.5)	14,752.9
Interest expenses	(4,527.8)	(4,607.2)	(1.7)	(9,002.5)
Net interest income	2,390.9	2,487.8	(3.9)	5,750.4
Fee and commission income	191.3	202.0	(5.3)	379.3
Fee and commission expenses	(24.5)	(15.5)	58.1	(50.4)
Net fee and commission income	166.8	186.5	(10.6)	328.9
Net trading gains	415.0	498.3	(16.7)	716.3
Net gains/(losses) arising from investment securities	64.4	7.0	820.0	(1.4)
Net exchange (losses)/gains	(59.1)	66.1	(189.4)	(279.7)
Other operating income/ (expense), net	2.2	(2.4)	(191.7)	(21.2)
Operating income	2,980.2	3,243.3	(8.1)	6,493.3
Operating expenses	(922.5)	(958.2)	(3.7)	(2,319.5)
Impairment losses on assets, net of reversals	(1,692.4)	(1,889.8)	(10.4)	(3,754.5)
Operating profit	365.3	395.3	(7.6)	419.3
Share of results of an associate	0.3	0.6	(50.0)	1.3
Profit before tax	365.6	395.9	(7.7)	420.6
Income tax credit/ (expense)	17.1	(27.4)	(162.4)	141.8
Profit for the period	382.7	368.5	3.9	562.4
Profit for the period attributable to:				
– Owners of the Bank	381.4	366.2	4.2	558.2
– Non-controlling interests	1.3	2.3	(43.5)	4.2
Profit for the period	382.7	368.5	3.9	562.4
Basic earnings per share (RMB)	0.03	0.04	(25.0)	0.06
Diluted earnings per share (RMB)	0.03	0.04	(25.0)	0.06

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

Chapter 3 Financial Highlights

(Expressed in millions of RMB, unless otherwise stated)	As at June 30, 2021	As at December 31, 2020	Percentage change (%)
Major indicators of assets/liabilities			
Total assets	349,581.6	342,363.8	2.1
Of which: total loans and advances to customers	194,465.7	181,825.7	7.0
Total liabilities	317,742.6	310,899.0	2.2
Of which: deposits from customers	254,555.7	249,677.7	2.0
Total equity	31,839.0	31,464.8	1.2

	Six months ended June 30,		Percentage change
	2021	2020	(%)
	(%)	(%)	(%)
Profitability indicators (%)			
Return on assets ⁽¹⁾⁽¹⁴⁾	0.22	0.22	0.00
Return on equity ⁽²⁾⁽¹⁴⁾	2.42	2.96	(18.24)
Net interest spread ⁽³⁾⁽¹⁴⁾	1.63	1.76	(7.39)
Net interest margin ⁽⁴⁾⁽¹⁴⁾	1.66	1.78	(6.74)
Net fee and commission income to operating income ratio ⁽⁵⁾	5.60	5.75	(2.61)
Cost-to-income ratio ⁽⁶⁾	29.15	28.05	3.92

	As at June 30, 2021	As at December 31, 2020	Percentage Change	As at June 30, 2020
	(%)	(%)	(%)	(%)
Capital adequacy indicators (%)				
Core tier-one capital adequacy ratio ⁽⁷⁾	12.30	12.85	(4.28)	9.86
Tier-one capital adequacy ratio ⁽⁸⁾	12.30	12.85	(4.28)	9.86
Capital adequacy ratio ⁽⁹⁾	12.83	13.39	(4.18)	11.63
Shareholders' equity to total assets ratio	9.11	9.19	(0.87)	7.40
Assets quality indicators (%)				
Non-performing loan ratio	2.14	2.28	(6.14)	2.32
Provision coverage ratio ⁽¹⁰⁾	132.60	131.23	1.04	131.20
Provision to total loan ratio ⁽¹¹⁾⁽¹²⁾	2.84	2.99	(5.02)	3.05
Other indicators (%)				
Loan to deposit ratio ⁽¹³⁾	76.39	72.82	4.90	68.48

Chapter 3 Financial Highlights

Notes:

- (1) Calculated by dividing the net profit for a period by the average balance of total assets at the beginning and the end of that period.
- (2) Calculated by dividing the net profit for a period by the average balance of total equity at the beginning and the end of that period.
- (3) Represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average interest-earning assets.
- (5) Calculated by dividing net fee and commission income by operating income.
- (6) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.
- (7) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions)/risk-weighted assets.
- (8) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions)/risk-weighted assets.
- (9) Capital adequacy ratio = (total capital – corresponding capital deductions)/risk-weighted assets.
- (10) Provision coverage ratio = provision for impairment losses on loans/total non-performing loans and advances.
- (11) Provision to total loan ratio = provision for impairment losses on loans/total loans and advances to customers.
- (12) In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank made a provision to total loans at the minimum standard ratio of 2.5%.
- (13) Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for PRC commercial banks under the amended Commercial Banking Law of the People's Republic of China, which became effective on October 1, 2015.
- (14) The ratio for the six months ended June 30, 2020 and 2021, respectively, is calculated on an annual basis.

Chapter 4 Management Discussion and Analysis

1. ENVIRONMENT AND PROSPECT

Since the second quarter, the global economy has been on an accelerated recovery track, and international institutions have generally raised their forecasts for the annual economic growth. In the first half of 2021, the economy maintained steady and stable development. The GDP was RMB53,216.7 billion, representing a year-on-year increase of 12.7%, a two-year average increase of 5.3%, and 0.3 percentage point higher than that of the first quarter. By industry, the secondary industry experienced the fastest recovery among the three major industries, and the tertiary industry still has much room for recovery. In the first half of the year, the growth of the primary, secondary and tertiary industries increased by 7.8%, 14.8% and 11.8% year-on-year, with a two-year average increase of 4.3%, 6.1% and 4.9%, respectively. The increases in the primary and secondary industries are already higher than the normal level before the pandemic, among which the industrial and manufacturing production has recovered well, while the tertiary industry has not yet recovered to the pre-pandemic level.

In the first half of the year, Gansu Province saw an accelerated recovery in its economic operation which was generally stable and showed steady progress and a positive trend. Gansu's gross regional product was RMB474.82 billion, representing a year-on-year increase of 10.5%, a two-year average increase of 5.9%, and 1.3 percentage points higher than that of the first quarter. By industry, the growth of the primary industry was RMB33.77 billion, representing a year-on-year increase of 11.6% and a two-year average increase of 8.7%; the growth of the secondary industry was RMB161.32 billion, representing a year-on-year increase of 9.9% and a two-year increase of 5.8%; the growth of the tertiary industry was RMB279.73 billion, representing a year-on-year increase of 10.7%, and a two-year increase of 5.7%.

The national economy continued to recover steadily in the first half of the year, laying a sound foundation for the economic operation in the second half of the year. From the perspective of factors affecting the economic trend, the factors which will contribute to the further recovery and further positive growth of economy in the second half of the year have gradually accumulated and gradually increased. Firstly, the endogenous dynamics of economy gradually strengthened. In the first half of this year, the contribution rate of domestic demand to national economic growth reached 80.9%, increasing by 4.9 percentage points as compared to the first quarter. Secondly, the confidence of main market players continues to grow. In June, the manufacturing purchasing manager's index (PMI), the non-manufacturing business activity index and the composite PMI output index were all in the relatively promising range. Thirdly, the global economic recovery has continued, laying a foundation for the growth of external demand. The global composite PMI in June was 56.6%, remaining at a 15-year high. Fourthly, from the perspective of financial operation, the financial operation remained stable in the first half of this year, and the financial structure continued to be optimized. The prudent monetary policy remains flexible, precise and reasonably moderate. The liquidity has been reasonable and sufficient. Significant results have been achieved in stabilizing the macro leverage ratio and reducing the financing costs for real economy.

2. 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 technology and digitalization capabilities, omni-channel management capability, organizational and talent capabilities, risk and internal control and compliance capabilities, assets and liabilities and assets allocation capabilities, corporate governance and shareholder returns, corporate culture capabilities, and cooperative and collaborative capabilities; (iii) strengthen risk management and control and improve asset quality; (iv) promote the transformation to 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; and (vii) optimize the structure of the talent team to empower high-quality development.

Chapter 4 Management Discussion and Analysis

3. OVERALL BUSINESS REVIEW

The Bank's total operating income was RMB2,980.2 million for the six months ended June 30, 2021, representing a decrease of 8.1% as compared with RMB3,243.3 million for the six months ended June 30, 2020. The Bank's net profit increased by 3.9% from RMB368.5 million for the six months ended June 30, 2020 to RMB382.7 million for the six months ended June 30, 2021. The year-on-year decrease in the Bank's operating income was mainly attributable to the impact of the macro-economic downturn, the operating income decreased slightly; the net profit recorded a slightly year-on-year increase.

As at June 30, 2021, the Bank's total assets amounted to RMB349,581.6 million, representing an increase of 2.1% as compared with the end of 2020; total loans and advances to customers amounted to RMB194,465.7 million, representing an increase of 7.0% as compared with the end of 2020; the non-performing loan ratio was 2.14%, representing a decrease of 0.14 percentage point as compared with the beginning of 2021; total deposits from customers amounted to RMB254,555.7 million, representing an increase of 2.0% as compared with the end of 2020.

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Increase or decrease	Percentage change (%)
	2021	2020		
Interest income	6,918.7	7,095.0	(176.3)	(2.5)
Interest expenses	(4,527.8)	(4,607.2)	79.4	(1.7)
Net interest income	2,390.9	2,487.8	(96.9)	(3.9)
Fee and commission income	191.3	202.0	(10.7)	(5.3)
Fee and commission expenses	(24.5)	(15.5)	(9.0)	58.1
Net fee and commission income	166.8	186.5	(19.7)	(10.6)
Net trading gains	415.0	498.3	(83.3)	(16.7)
Net gains arising from investment securities	64.4	7.0	57.4	820.0
Net exchange (losses)/ gains	(59.1)	66.1	(125.2)	(189.4)
Other operating income/ (expense), net	2.2	(2.4)	4.6	(191.7)
Operating income	2,980.2	3,243.3	(263.1)	(8.1)
Operating expenses	(922.5)	(958.2)	35.7	(3.7)
Impairment losses on assets, net of reversals	(1,692.4)	(1,889.8)	197.4	(10.4)
Operating profit	365.3	395.3	(30.0)	(7.6)
Share of results of an associate	0.3	0.6	(0.3)	(50.0)
Profit before tax	365.6	395.9	(30.3)	(7.7)
Income tax credit/ (expense)	17.1	(27.4)	44.5	(162.4)
Profit for the period	382.7	368.5	14.2	3.9
Profit for the period attributable to:				
– Owners of the Bank	381.4	366.2	15.2	4.2
– Non-controlling interests	1.3	2.3	(1.0)	(43.5)
Profit for the period	382.7	368.5	14.2	3.9

Chapter 4 Management Discussion and Analysis

For the first half of 2021, the Bank's profit before tax was RMB365.6 million, representing a year-on-year decrease of 7.7%; profit for the period was RMB382.7 million, the net profit recorded a slightly year-on-year increase.

(i) Net interest income

The net interest income was the largest component of the Bank's operating revenue, accounting for 76.7% and 80.2% of the operating income for the six months ended June 30, 2020 and 2021, respectively. The table below sets forth the Bank's interest income, interest expenses and net interest income for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2021	2020	Increase or decrease	Percentage change (%)
Interest income	6,918.7	7,095.0	(176.3)	(2.5)
Interest expenses	(4,527.8)	(4,607.2)	79.4	(1.7)
Net interest income	2,390.9	2,487.8	(96.9)	(3.9)

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2021			Six months ended June 30, 2020		
	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)
Interest-earning assets						
Loans and advances to customers	183,500.7	5,178.3	5.64	173,585.7	4,858.7	5.60
Investment securities and other financial assets ⁽³⁾	100,688.9	1,660.7	3.30	108,018.5	2,249.1	4.16
Deposits with banks	837.8	13.3	3.17	1,568.9	27.1	3.45
Financial assets held under resale agreements and placements with banks and other financial institutions	17,546.1	200.3	2.28	16,022.0	178.0	2.22
Deposits with the central bank ⁽⁴⁾	22,646.1	167.7	1.48	24,139.0	178.8	1.48
Total interest-earning assets	325,219.6	7,220.3	4.44	323,334.1	7,491.7	4.63

Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2021			Six months ended June 30, 2020		
	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾ (%)	Average balance ⁽¹⁾	Interest expense	Average cost ⁽²⁾ (%)
Interest-bearing liabilities						
Deposits from customers	260,820.6	3,671.3	2.82	257,778.6	3,592.2	2.79
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	5,624.6	61.9	2.20	4,646.2	48.5	2.09
Debt securities issued ⁽⁵⁾	25,439.5	414.9	3.26	41,564.4	727.8	3.50
Deposits from banks and other financial institutions	23,612.8	312.8	2.65	15,681.1	218.7	2.79
Borrowings from the central bank	6,098.3	64.2	2.11	1,377.2	16.9	2.45
Lease liabilities	240.0	2.7	2.25	302.6	3.1	2.05
Total interest-bearing liabilities	321,835.8	4,527.8	2.81	321,350.1	4,607.2	2.87
Net interest income		2,692.5			2,884.5	
Net interest spread⁽⁶⁾			1.63			1.76
Net interest margin⁽⁷⁾			1.66			1.78

Notes:

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

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

Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30, 2021 vs 2020 Increase/ (decrease)		
	Amount ⁽¹⁾	Interest rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-earning assets			
Loans and advances to customers	279.6	34.7	319.6
Investment securities and other financial assets	(120.9)	(464.5)	(588.4)
Deposits with banks	(11.6)	(2.2)	(13.8)
Financial assets held under resale agreements and placements with banks and other financial institutions	17.4	4.8	22.3
Deposits with the central bank	(11.0)	0.0	(11.1)
Change in interest income	41.9	(307.2)	(271.4)
Interest-bearing liabilities			
Deposits from customers	42.9	38.7	79.1
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	10.8	2.6	13.4
Debt securities issued	(262.8)	(49.9)	(312.9)
Deposits from banks and other financial institutions	105.1	(11.0)	94.1
Borrowings from the central bank	49.8	(2.3)	47.3
Lease liabilities	(0.7)	0.3	(0.4)
Change in interest expense	6.8	(96.4)	(79.4)
Change in net interest income	35.1	(210.8)	(192.0)

Notes:

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

Chapter 4 Management Discussion and Analysis

(ii) Interest income

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2021		2020	
	Amount	% of total (%)	Amount	% of total (%)
Loans and advances to customers	5,178.3	71.7	4,858.7	64.8
Investment securities and other financial assets ⁽¹⁾	1,660.7	23.0	2,249.1	30.0
Deposits with banks	13.3	0.2	27.1	0.4
Financial assets held under resale agreements and placements with banks and other financial institutions	200.3	2.8	178.0	2.4
Deposits with the central bank	167.7	2.3	178.8	2.4
Total	7,220.3	100.0	7,491.7	100.0

Note:

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

Interest income decreased by 3.6% from RMB7,491.7 million for the six months ended June 30, 2020 to RMB7,220.3 million for the six months ended June 30, 2021, primarily due to the average yield of interest-earning assets decreased to 4.44% from 4.63% in the same period of last year.

(A) Interest income from loans and advances to customers

Interest income from loans and advances to customers represented 64.8% and 71.7% of total interest income for the six months ended June 30, 2020 and 2021, respectively. The table below sets forth the average balance, interest income and average yield of loans and advances to customers of the Bank by product for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,					
	2021			2020		
	Average balance ⁽¹⁾	Interest income	Average yield (%)	Average balance ⁽¹⁾	Interest income	Average yield (%)
Corporate loans	113,653.0	3,445.0	6.06	112,933.6	3,370.5	5.97
Retail loans	41,696.0	1,289.4	6.18	34,554.4	1,065.9	6.17
Discounted bills	28,151.7	443.9	3.15	26,097.7	422.3	3.24
Total loans and advances to customers	183,500.7	5,178.3	5.64	173,585.7	4,858.7	5.60

Note:

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

Chapter 4 Management Discussion and Analysis

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

Interest income from investment securities and other financial assets decreased by 26.2% from RMB2,249.1 million for the six months ended June 30, 2020 to RMB1,660.7 million for the six months ended June 30, 2021, primarily due to a 6.8% decrease in the average balance of investment securities and other financial assets, from RMB108,018.5 million for the six months ended June 30, 2020 to RMB100,688.9 million for the six months ended June 30, 2021, the average yield of investment securities and other financial assets decreased from 4.16% for the six months ended June 30, 2020 to 3.30% for the six months ended June 30, 2021. The decrease in average yield was mainly due to the impact of the economic downturn.

(C) Interest income from deposits with banks

Interest income from deposits with banks decreased by 50.9% from RMB27.1 million for the six months ended June 30, 2020 to RMB13.3 million for the six months ended June 30, 2021, primarily due to a 46.6% decrease in the average balance of deposits with banks, from RMB1,568.9 million for the six months ended June 30, 2020 to RMB837.8 million for the six months ended June 30, 2021, and a decrease in the average yield of deposits with banks, from 3.45% for the six months ended June 30, 2020 to 3.17% for the six months ended June 30, 2021. The decrease in average balance was due to the adjustment of asset allocation structure of the Bank. The decrease in average yield was primarily due to the fluctuations in the market interest rates.

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

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 12.5% from RMB178.0 million for the six months ended June 30, 2020 to RMB200.3 million for the six months ended June 30, 2021, primarily due to a 9.5% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB16,022.0 million for the six months ended June 30, 2020 to RMB17,546.1 million for the six months ended June 30, 2021, and an increase in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 2.22% for the six months ended June 30, 2020 to 2.28% for the six months ended June 30, 2021. The increase in average balance was primarily due to the adjustment of asset allocation structure of the Bank. The increase in average yield was primarily due to the fluctuations in the market interest rates.

(E) Interest income from deposits with the central bank

Interest income from deposits with the central bank decreased by 6.2% from RMB178.8 million for the six months ended June 30, 2020 to RMB167.7 million for the six months ended June 30, 2021, primarily due to a 6.2% decrease in the average balance of deposits with the central bank, from RMB24,139.0 million for the six months ended June 30, 2020 to RMB22,646.1 million for the six months ended June 30, 2021. The decrease in average balance was primarily due to the improvement of the fund utilisation efficiency, the decrease of the average daily balance of deposit reserve with the central bank.

Chapter 4 Management Discussion and Analysis

(iii) Interest expense

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2021		2020	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	3,671.3	81.0	3,592.2	77.9
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	61.9	1.4	48.5	1.1
Debt securities issued	414.9	9.2	727.8	15.8
Deposits from banks and other financial institutions	312.8	6.9	218.7	4.7
Borrowings from the central bank	64.2	1.4	16.9	0.4
Lease liabilities	2.7	0.1	3.1	0.1
Total	4,527.8	100.0	4,607.2	100.0

Interest expense decreased by 1.7% from RMB4,607.2 million for the six months ended June 30, 2020 to RMB4,527.8 million for the six months ended June 30, 2021, primarily due to a decrease in the average cost of interest-bearing liabilities, from 2.87% for the six months ended June 30, 2020 to 2.81% for the six months ended June 30, 2021 as a result of repayment of certain issued bonds due at higher interest rate in the interest-bearing liabilities.

(A) Interest expense on deposits from customers

Interest expense on deposits from customers increased by 2.2% from RMB3,592.2 million for the six months ended June 30, 2020 to RMB3,671.3 million for the six months ended June 30, 2021, primarily due to the average cost of deposits from customers increased from 2.79% for the six months ended June 30, 2020 to 2.82% for the six months ended June 30, 2021, as well as an increase of 1.2% in the average balance of deposits from customers, from RMB257,778.6 million for the six months ended June 30, 2020 to RMB260,820.6 million for the six months ended June 30, 2021.

Chapter 4 Management Discussion and Analysis

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

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions increased by 27.6% from RMB48.5 million for the six months ended June 30, 2020 to RMB61.9 million for the six months ended June 30, 2021, primarily due to a 21.1% increase in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB4,646.2 million for the six months ended June 30, 2020 to RMB5,624.6 million for the six months ended June 30, 2021, and an increase in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 2.09% for the six months ended June 30, 2020 to 2.20% for the six months ended June 30, 2021. The increase in average balance was primarily due to the adjustment of liability allocation structure of the Bank and the increase of the allocation of financial assets sold under repurchase agreements.

(C) Interest expense on debt securities issued

Interest expense on debt securities issued decreased by 43.0% from RMB727.8 million for the six months ended June 30, 2020 to RMB414.9 million for the six months ended June 30, 2021, primarily due to a 38.8% decrease in the average balance of debt securities issued, from RMB41,564.4 million for the six months ended June 30, 2020 to RMB25,439.5 million for the six months ended June 30, 2021 and a decrease in the average cost of debt securities issued, from 3.50% for the six months ended June 30, 2020 to 3.26% for the six months ended June 30, 2021. The decrease in average balance was primarily due to the maturity for repayment of certain issued bonds. The decrease in average cost was primarily due to the maturity for repayment of certain issued bonds with higher interest rates, which lowered the average cost of debt securities issued in general.

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

Interest expense on deposits from banks and other financial institutions increased by 43.0% from RMB218.7 million for the six months ended June 30, 2020 to RMB312.8 million for the six months ended June 30, 2021, primarily due to a 50.6% increase in the average balance of deposits from banks and other financial institutions, from RMB15,681.1 million for the six months ended June 30, 2020 to RMB23,612.8 million for the six months ended June 30, 2021, the increase in the average balance was primarily because fund raising through deposits from banks and other financial institutions was increased.

(E) Interest expense on borrowings from the central bank

Interest expense on borrowings from the central bank increased by 279.9% from RMB16.9 million for the six months ended June 30, 2020 to RMB64.2 million for the six months ended June 30, 2021, primarily due to a 342.8% increase in the average balance of borrowings from the central bank, from RMB1,377.2 million for the six months ended June 30, 2020 to RMB6,098.3 million for the six months ended June 30, 2021, and the increase in the average balance was due to the increase in the re-discounted business of and the loans from the central bank.

Chapter 4 Management Discussion and Analysis

(iv) Net interest spread and net interest margin

Net interest spread decreased from 1.76% for the six months ended June 30, 2020 to 1.63% for the six months ended June 30, 2021, and net interest margin decreased from 1.78% for the six months ended June 30, 2020 to 1.66% for the six months ended June 30, 2021, primarily due to a decrease in average yield of interest-earning assets, from 4.63% to 4.44% as a result of the decrease in the average yield due to the impact of the economic downturn; the average cost of interest-bearing liabilities decreased from 2.87% to 2.81%, which was mainly because of repayment of certain due issued bonds with high interest rate in the interest-bearing liabilities, which lowered the average cost for the interest-bearing liabilities in general.

(v) Non-interest income

(A) Net fee and commission income

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2021	2020	Increase or decrease	Percentage change (%)
Fee and commission income				
Wealth management service fees	11.1	26.8	(15.7)	(58.6)
Agency service fees	33.2	27.6	5.6	20.3
Settlement and clearing fees	67.7	108.2	(40.5)	(37.4)
Bank acceptance bill service fees	17.5	8.9	8.6	96.6
Letters of guarantee fees	–	1.4	(1.4)	(100.0)
Others ⁽¹⁾	61.8	29.1	32.7	112.4
Subtotal	191.3	202.0	(10.7)	(5.3)
Fee and commission expenses	(24.5)	(15.5)	(9.0)	58.1
Net fee and commission income	166.8	186.5	(19.7)	(10.6)

Note:

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

Net fee and commission income decreased by 10.6% from RMB186.5 million for the six months ended June 30, 2020 to RMB166.8 million for the six months ended June 30, 2021, primarily due to the year-on-year decrease in settlement and clearing fees as a result of the increase in online business and the natural decline in offline business as the Bank is actively building the online “Second Bank”.

Fee and commission expenses mainly included settlement and clearing fees paid to third parties and debit card service fees. Fee and commission expenses increased by 58.1% from RMB15.5 million for the six months ended June 30, 2020 to RMB24.5 million for the six months ended June 30, 2021, primarily due to the increase in fees for certain channels as the Bank is actively building the online “Second Bank”.

Chapter 4 Management Discussion and Analysis

(B) Net trading gains

Net trading gains primarily included gains from selling, and the fair value changes of, financial assets held for trading. The Bank had net gains of RMB498.3 million for the six months ended June 30, 2020 and net gains of RMB415.0 million for the six months ended June 30, 2021. The decrease was primarily due to the decrease in trading volume of financial assets held for trading during the period.

(C) Net gains arising from investment securities

The net gains arising from investment securities and other financial assets included net gains arising from selling investment securities and other financial assets and revaluation gains arising from the reclassification of other comprehensive income to profit or loss upon the disposal of assets. The Bank had net gains arising from investment securities and other financial assets of RMB7.0 million for the six months ended June 30, 2020, and RMB64.4 million for the six months ended June 30, 2021.

(D) Net exchange (losses)/ gains

Net exchange (losses)/ gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. The Bank had net exchange gains of RMB66.1 million for the six months ended June 30, 2020 and net exchange losses of RMB59.1 million for the six months ended June 30, 2021. The exchange losses were primarily due to changes in foreign exchange rates.

(E) Other operating income/ (expense)

Other operating income/ (expense) mainly included net amount of government subsidies and disposal income from fixed assets after deducting non-operating expenses. For the six months ended June 30, 2020, other operating expense of the Bank amounted to RMB2.4 million. For the six months ended June 30, 2021, the Bank recorded other operating income of RMB2.2 million.

(vi) Operating expenses

Operating expenses decreased by 3.7% from RMB958.2 million for the six months ended June 30, 2020 to RMB922.5 million for the six months ended June 30, 2021. The decrease was mainly due to the decrease in premises and equipment expenses. The table below sets forth the principal components of operating expense of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2021	2020	Increase or decrease	Percentage change (%)
Staff costs	499.5	437.0	62.5	14.3
Premises and equipment expenses	197.7	295.6	(97.9)	(33.1)
General management and administrative expenses	171.6	177.1	(5.5)	(3.1)
Business tax and surcharges	53.7	48.5	5.2	10.7
Total	922.5	958.2	(35.7)	(3.7)
Cost-to-income ratio⁽¹⁾ (%)	29.15	28.05	1.1	3.9

Note:

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

Chapter 4 Management Discussion and Analysis

(A) Staff costs

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			Percentage change (%)
	2021	2020	Increase or decrease	
Salaries and bonuses	335.1	283.7	51.4	18.1
Social insurance	106.1	99.2	6.9	7.0
Housing allowances	36.4	35.9	0.5	1.4
Labour union and staff education expenses	5.0	4.0	1.0	25.0
Staff welfares	16.2	13.1	3.1	23.7
Others	0.7	1.1	(0.4)	(36.4)
Total staff costs	499.5	437.0	62.5	14.3

Staff costs increased by 14.3% from RMB437.0 million for the six months ended June 30, 2020 to RMB499.5 million for the six months ended June 30, 2021. The increase in staff costs was primarily due to the low level of pay for performance in the same period of last year due to the impact of the pandemic and the lower staff costs in the same period of last year caused by the introduction of the national policy on social security exemptions.

(B) Premises and equipment expenses

Premises and equipment expenses decreased by 33.1% from RMB295.6 million for the six months ended June 30, 2020 to RMB197.7 million for the six months ended June 30, 2021. The decrease in premises and equipment expenses was primarily due to the decrease in depreciation and amortization expense as a result of the Bank's reassessment of the remaining useful lives of assets and adjustment of the depreciable lives of assets.

(C) General management and administrative expenses

General management and administrative expenses primarily included business promotion fees, administrative fees, transportation fee and repair expenses. General management and administrative expenses decreased by 3.1% from RMB177.1 million for the six months ended June 30, 2020 to RMB171.6 million for the six months ended June 30, 2021. The general management and administrative expenses slightly decreased.

(D) Business tax and surcharges

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges increased steadily due to business growth, which were RMB48.5 million and RMB53.7 million for the six months ended June 30, 2020 and 2021, respectively.

Chapter 4 Management Discussion and Analysis

(vii) Impairment losses on credit/assets

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			Percentage change (%)
	2021	2020	Increase or decrease	
Loans and advances to customers	1,109.0	1,556.7	(447.7)	(28.8)
Investment assets	583.4	324.5	258.9	79.8
Acceptance bills, letters of guarantees and unused credit card commitments	0.0	8.6	(8.6)	(100.0)
Total impairment losses on credit/assets	1,692.4	1,889.8	(197.4)	(10.4)

Impairment losses on credit/assets decreased by 10.4% from RMB1,889.8 million for the six months ended June 30, 2020 to RMB1,692.4 million for the six months ended June 30, 2021 mainly due to the decrease in provisions for credit impairment loss as a result of the improvement of assets quality.

Credit impairment losses on loans and advances to customers decreased by 28.8% from RMB1,556.7 million for the six months ended June 30, 2020 to RMB1,109.0 million for the six months ended June 30, 2021, mainly due to the improvement of assets quality of loans and advances to customers.

Credit impairment losses of investment assets increased by 79.8% from RMB324.5 million for the six months ended June 30, 2020 to RMB583.4 million for the six months ended June 30, 2021, which was mainly due to the increase in provision for debt investment assets.

(viii) Income tax credit/(expense)

Income tax expense was RMB27.4 million for the six months ended June 30, 2020 and the income tax credit was RMB17.1 million for the six months ended June 30, 2021. The income tax was negative, primarily due to the increase in write-off assets during the Reporting Period, forming a temporary difference of deductible loss, while recognizing the deferred income tax assets and deferred income tax expense, resulting in the occurrence of income tax credit.

(b) Analysis of the Consolidated Statement of Financial Position

(i) Assets

As of June 30, 2021 and December 31, 2020, the total assets of the Bank were RMB349,581.6 million and RMB342,363.8 million, respectively. Major components of total assets include (i) loans and advances to customers; (ii) investment securities and other financial assets; (iii) deposits with banks; (iv) cash and deposits with the central bank; and (v) financial assets held under resale agreements. The table below sets forth the components of total assets as of the dates indicated.

Chapter 4 Management Discussion and Analysis

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Assets				
Loans and advances to customers, gross	194,465.7	55.6	181,825.7	53.0
Provision for impairment losses	(5,517.2)	(1.6)	(5,438.9)	(1.6)
Loans and advances to customers, net	188,948.5	54.0	176,386.8	51.4
Investment securities and other financial assets ⁽¹⁾	103,483.1	29.6	105,982.7	31.0
Deposits with banks	5,561.2	1.6	3,716.1	1.1
Cash and deposits with the central bank	23,785.6	6.8	26,666.7	7.8
Financial assets held under resale agreements	16,205.8	4.6	19,150.1	5.6
Other assets ⁽²⁾	11,597.4	3.4	10,461.4	3.1
Total assets	349,581.6	100.0	342,363.8	100.0

Notes:

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

(A) Loans and advances to customers

As of June 30, 2021, the total loans and advances to customers of the Bank were RMB194,465.7 million, representing an increase of 7.0% as compared with December 31, 2020. Net loans and advances to customers accounted for 54.0 % of the total assets of the Bank, representing an increase as compared with the beginning of the year.

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Corporate loans	115,926.5	59.6	110,853.4	61.0
Retail loans	46,878.6	24.1	41,359.8	22.7
Discounted bills	31,660.6	16.3	29,612.5	16.3
Total loans and advances to customers	194,465.7	100.0	181,825.7	100.0

Loans and advances to customers are the largest component of total assets. The Bank offers a variety of loan products, substantially all of which are denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 54.0% and 51.4% of total assets as of June 30, 2021 and December 31, 2020, respectively.

The Bank's corporate loans increased from RMB110,853.4 million as of December 31, 2020 to RMB115,926.5 million as of June 30, 2021, representing an increase as compared with the beginning of the year.

Chapter 4 Management Discussion and Analysis

The Bank's retail loans mainly comprise of personal business loans, personal consumption loans and residential and commercial mortgage loans. The Bank's retail loans increased by 13.3% from RMB41,359.8 million as of December 31, 2020 to RMB46,878.6 million as of June 30, 2021, primarily due to the Bank's active adjustment of asset allocation structure towards retail loans and the increase of investment in credit card overdrafts and personal loans.

Loans and advances to customers by type of collateral

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Collateralized loans	81,098.1	41.6	83,120.4	45.7
Pledged loans	13,748.6	7.1	14,706.2	8.1
Guaranteed loans	74,006.5	38.1	60,822.4	33.5
Unsecured loans	25,612.5	13.2	23,176.7	12.7
Total loans and advances to customers	194,465.7	100.0	181,825.7	100.0

As of June 30, 2021 and December 31, 2020, collateralized loans, pledged loans and guaranteed loans in aggregate represented 86.8% 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. The Bank usually only accepts guarantees provided by listed companies, guarantee companies or guarantor with strong guarantee capacity and in compliance with guarantee conditions. The Bank evaluates a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

Unsecured loans increased by 10.5% from RMB23,176.7 million as of December 31, 2020 to RMB25,612.5 million as of June 30, 2021. The rapid growth in unsecured loans mainly reflected that the Bank transformed towards retail loans, and increased allocation for credit card business and other unsecured loans.

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021	As of December 31, 2020
As at the beginning of the Reporting Period	5,438.9	5,682.4
Charge for the period/year	1,109.0	3,104.9
Write-off and others for the period/year	(1,040.7)	(3,463.1)
Recoveries of loans and advances previously written off	10.0	114.7
As of June 30/December 31	5,517.2	5,438.9

Provisions for impairment losses on loans and advances to customers increased by 1.4% from RMB5,438.9 million as of December 31, 2020 to RMB5,517.2 million as of June 30, 2021, representing a slight increase in loan provision balance as compared with the beginning of the year.

Chapter 4 Management Discussion and Analysis

(B) Investment securities and other financial assets

As of June 30, 2021 and December 31, 2020, the Bank's investment securities and other financial assets (original value without deducting provisions for impairment) were RMB105,094.8 million and RMB107,339.9 million, representing 30.1% and 31.4% of the total assets, respectively.

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

Investment securities and other financial assets (original value without deducting provisions for impairment) decreased by RMB2,245.1 million from RMB107,339.9 million as of December 31, 2020 to RMB105,094.8 million as of June 30, 2021, mainly due to the natural decline in the size of non-standard investments upon maturity.

(ii) Liabilities

As of June 30, 2021 and December 31, 2020, the total liabilities of the Bank were RMB317,742.6 million and RMB310,899.0 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) deposits from banks and other financial institutions; (iii) financial assets sold under repurchase agreements; (iv) debt securities issued; (v) borrowings from the central bank; (vi) placements from banks and other financial institutions; and (vii) other liabilities. The table below sets forth the components of total liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	254,555.7	80.1	249,677.7	80.4
Deposits from banks and other financial institutions	12,437.9	3.9	11,625.7	3.7
Financial assets sold under repurchase agreements	6,791.7	2.1	8,730.1	2.8
Debt securities issued	27,598.5	8.7	23,551.5	7.6
Borrowings from the central bank	6,904.6	2.2	6,620.2	2.1
Other liabilities ⁽¹⁾	9,454.2	3.0	10,693.8	3.4
Total liabilities	317,742.6	100.0	310,899.0	100.0

Note:

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

Chapter 4 Management Discussion and Analysis

(A) Deposits from customers

Deposits from customers are the largest component of total liabilities. As of June 30, 2021 and December 31, 2020, deposits from customers represented 80.1% and 80.4% of the total liabilities, respectively.

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Corporate deposits				
Demand deposits	58,131.8	22.9	60,133.9	24.1
Time deposits	23,015.7	9.1	22,260.6	8.9
Subtotal	81,147.5	32.0	82,394.5	33.0
Retail deposits				
Demand deposits	31,079.2	12.2	31,259.5	12.5
Time deposits	126,861.7	49.9	117,781.6	47.2
Subtotal	157,940.9	62.1	149,041.1	59.7
Pledged deposits	11,027.3	4.3	11,845.7	4.7
Others	4,440.0	1.7	6,396.4	2.6
Total deposits from customers	254,555.7	100.0	249,677.7	100.0

Total deposits from customers increased by 2.0% from RMB249,677.7 million as of December 31, 2020 to RMB254,555.7 million as of June 30, 2021, primarily attributable to the steady increase of customer deposits in line with the business growth as a result of the enhancement of deposit marketing effort by the Bank.

(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.

From January 1, 2021 to June 30, 2021, the Bank issued several tranches of interbank certificates in an aggregate face value of RMB29,840.0 million. These interbank certificates have terms of one month to one year and bear effective interest rates between 2.53% and 3.60% per annum.

Chapter 4 Management Discussion and Analysis

(iii) Shareholders' equity

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Share capital	15,069.8	47.4	15,069.8	47.9
Capital reserve	5,956.0	18.7	5,955.5	18.9
Defined benefit plan reserve	(2.8)	–	(2.8)	–
Investment revaluation reserve	129.0	0.4	137.2	0.4
Surplus reserve	1,671.1	5.2	1,616.0	5.2
General reserve	4,539.0	14.3	4,539.0	14.4
Retained earnings	4,440.3	13.9	4,113.9	13.1
Non-controlling interests	36.6	0.1	36.2	0.1
Total equity	31,839.0	100.0	31,464.8	100.0

(c) Asset quality analysis

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

For the Bank, the non-performing loans are classified into loans and advances to customers of substandard, doubtful and loss. As of June 30, 2021, the Bank's non-performing loans amounted to RMB4,160.9 million. The table below sets forth loans and advances to customers by loan classification as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Normal	182,545.6	93.9	170,790.3	93.9
Special mention	7,759.2	4.0	6,890.8	3.8
Substandard	990.4	0.5	1,055.9	0.6
Doubtful	2,479.1	1.3	2,553.2	1.4
Loss	691.4	0.3	535.5	0.3
Total loans and advances to customers	194,465.7	100.0	181,825.7	100.0
Non-performing loans and non-performing loan ratio⁽¹⁾	4,160.9	2.14	4,144.6	2.28

Note:

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

As of June 30, 2021 and December 31, 2020, the non-performing loan ratios of the Bank were 2.14% and 2.28%, respectively, representing a decrease of 0.14%.

Chapter 4 Management Discussion and Analysis

(ii) Concentration of loans

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021				As of December 31, 2020			
	Loan amount	% of total (%)	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total (%)	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans								
Wholesale and retail	13,115.3	6.7	931.3	7.10	15,077.9	8.3	814.7	5.40
Manufacturing	21,869.0	11.2	795.4	3.64	21,603.0	11.9	636.7	2.95
Agriculture, forestry, animal husbandry and fishing	8,369.8	4.3	237.8	2.84	7,955.7	4.4	349.3	4.39
Construction	10,276.6	5.3	362.7	3.53	12,364.9	6.8	320.9	2.60
Real estate	12,048.7	6.2	45.0	0.37	13,176.7	7.2	45.0	0.34
Mining	5,386.5	2.8	13.0	0.24	5,186.1	2.9	13.1	0.25
Water, environment and public facility management	4,915.5	2.5	0.0	0.00	2,494.2	1.4	0.0	0.00
Culture, sports and entertainment	4,630.1	2.4	1.7	0.04	3,428.7	1.9	29.6	0.86
Leasing and business services	13,031.2	6.7	96.9	0.74	10,080.6	5.5	42.7	0.42
Electricity, heating power, gas and water production and supply	2,061.7	1.1	8.8	0.43	3,064.6	1.7	23.4	0.76
Transportation, storage and postal services	8,607.7	4.4	15.7	0.18	5,344.8	2.9	23.0	0.43
Education	1,582.1	0.8	0.3	0.02	1,585.9	0.9	0.0	0.00
Accommodation and catering	2,762.8	1.4	35.8	1.30	2,654.1	1.4	66.1	2.49
Financial	3,770.0	1.9	0.0	0.00	1,860.0	1.0	0.0	0.00
Health and social services	2,072.0	1.1	0.0	0.00	2,230.1	1.2	3.8	0.17
Residents and other services	489.5	0.3	18.6	3.8	1,215.3	0.7	1.1	0.09
Scientific research, technical service and geological prospecting	743.3	0.4	20.0	2.69	1,315.6	0.7	20.0	1.52
Information transmission, computer service and software	118.3	0.1	18.5	15.64	118.5	0.1	9.7	8.18
Public administration, social security and social organizations	76.5	0.0	0.0	0.00	96.7	0.1	0.0	0.00
Retail loans	46,878.6	24.1	1,559.4	3.33	41,359.8	22.7	1,745.5	4.22
Discounted bills	31,660.5	16.3	0.0	0.00	29,612.5	16.3	0.0	0.00
Total amount	194,465.7	100.0	4,160.9	2.14	181,825.7	100.0	4,144.6	2.28

Note:

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

Chapter 4 Management Discussion and Analysis

Loans to borrowers in the manufacturing, wholesale and retail, leasing and business services industries, real estate and construction represented the largest components of the Bank's corporate loan portfolio. Loans to these industries accounted for 65.2% and 60.7% of total corporate loans as of December 31, 2020 and June 30, 2021, respectively.

As of June 30, 2021, non-performing loans of the Bank's corporate loans were mainly concentrated in the wholesale and retail industry with a non-performing loan ratio of 7.10%.

(B) Borrower concentration

Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of June 30, 2021 and the balances of loans to these borrowers. All of these loans were classified as normal.

(Expressed in millions of RMB, unless otherwise stated)		As of June 30, 2021	
Customers	Industries involved	Amount	% of total loans (%)
Borrower A	Manufacturing	3,000.0	1.5
Borrower B	Construction	2,109.3	1.1
Borrower C	Leasing and business services	1,720.4	0.9
Borrower D	Manufacturing	1,600.0	0.8
Borrower E	Financial	1,500.0	0.8
Borrower F	Leasing and business services	1,483.0	0.8
Borrower G	Transportation, storage and postal services	1,400.0	0.7
Borrower H	Real estate	1,063.1	0.6
Borrower I	Manufacturing	1,000.0	0.5
Borrower J	Leasing and business services	1,000.0	0.5

Chapter 4 Management Discussion and Analysis

(C) Non-performing loans by product

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021			As of December 31, 2020		
	Loan amount	Non-performing Loan amount	Non- performing loan ratio ⁽¹⁾ (%)	Loan amount	Non- performing Loan amount	Non- performing loan ratio ⁽¹⁾ (%)
Corporate loans						
Fixed asset loans	41,723.3	145.0	0.35	41,330.0	45.0	0.11
Working capital loans	73,691.4	1,944.6	2.64	68,982.6	1,842.3	2.67
Others ⁽²⁾	511.9	511.9	100.00	540.8	511.8	94.64
Sub-total	115,926.6	2,601.5	2.24	110,853.4	2,399.1	2.16
Retail loans						
Personal business loans	6,032.6	1,111.9	18.43	6,572.6	1,246.3	18.96
Personal consumption loans	16,906.2	134.2	0.79	13,877.0	234.9	1.69
Residential and commercial mortgage loans	23,939.8	313.3	1.31	20,910.2	264.3	1.26
Sub-total	46,878.6	1,559.4	3.33	41,359.8	1,745.5	4.22
Discounted bills	31,660.5	0.0	0.00	29,612.5	0.00	0.00
Total non-performing loans	194,465.7	4,160.9	2.14	181,825.7	4,144.6	2.28

Notes:

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

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

The non-performing loan ratio of corporate loans decreased from 2.16% as of December 31, 2020 to 2.24% as of June 30, 2021, representing an increase of 0.08%.

The non-performing loan ratio of retail loans increased from 4.22% as of December 31, 2020 to 3.33% as of June 30, 2021, representing a decrease of 0.89%.

Chapter 4 Management Discussion and Analysis

(D) Loan aging schedule

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Loans not overdue	185,848.9	95.6	171,082.8	94.1
Loans past due for:				
1 to 90 days	5,165.0	2.7	7,011.9	3.9
91 days to 1 year	1,237.9	0.6	1,607.7	0.9
1 to 3 years	1,977.2	1.0	1,897.0	1.0
3 years or more	236.7	0.1	226.3	0.1
Subtotal	8,616.8	4.4	10,742.9	5.9
Total loans and advances to customers	194,465.7	100.0	181,825.7	100.0

(d) Segments information

(i) Summary of business segment

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2021		2020	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking	1,274.0	42.7	1,558.5	48.1
Retail banking	914.0	30.7	623.6	19.2
Financial market operations	787.4	26.4	968.4	29.8
Others ⁽¹⁾	4.8	0.2	92.9	2.9
Total operating income	2,980.2	100.0	3,243.4	100.0

Note:

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

Chapter 4 Management Discussion and Analysis

(ii) Summary of geographical segment information

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

(e) Off-balance sheet commitments

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021	As of December 31, 2020
Credit commitments:		
Bank acceptances ⁽¹⁾	16,107.1	18,488.8
Letters of guarantee ⁽²⁾	1,667.9	1,686.5
Letters of credit	1,789.8	903.8
Unused credit card commitments	7,592.2	5,857.3
Subtotal	27,157.0	26,936.4
Capital commitments	58.4	30.2
Total	27,215.4	26,966.6

Notes:

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

Off-balance sheet commitments increased by 0.9% from RMB26,966.6 million as of December 31, 2020 to RMB27,215.4 million as of June 30, 2021. The increase in off-balance sheet commitments was mainly due to the increase in unused credit card commitments, but the decrease in bank acceptances offset the increase in off-balance sheet commitments.

(f) Miscellaneous

During the interim Reporting Period, the Bank launched the business related to the sub-loan ("ADB Sub-loan") of Asian Development Bank ("ADB"). ADB Sub-loan refers to the RMB denominated loans extended by the Bank to the final borrowers who meet the requirements of the ADB and the Bank leveraging on the capital funded by the ADB to the Chinese government, which shall be used to satisfy the production and operation needs of such borrowers. The ADB Sub-loan consists of two parts, with one part directly channeled from ADB funds and the other supported by the self-owned capital of the Bank. As of June 30, 2021, the Group has granted a total of RMB20.7 million ADB Sub-loan. Currently, it has applied for 4 reimbursement withdrawals totaling US\$3,144,800.

Chapter 4 Management Discussion and Analysis

4. BUSINESS REVIEW

(a) Corporate banking

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

In addition, the Bank commits to seeking to develop long-term business relationships with customers by closely monitoring their financial needs and offering tailored financial solutions. As of June 30, 2021, the Bank had 1,467 corporate borrowers with total loans of RMB115,926.5 million, and 79,337 corporate deposit customers with total deposits of RMB81,147.5 million. For the six months ended June 30, 2020 and 2021, operating income from the Bank's corporate banking business accounted for 48.1% and 42.7% 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)	Six months ended June 30,		Percentage change (%)
	2021	2020	
External interest income, net ⁽¹⁾	2,237.7	2,262.3	(1.1)
Inter-segment interest expenses, net ⁽²⁾	(1,040.2)	(825.5)	26.0
Net interest income	1,197.5	1,436.8	(16.7)
Net fees and commission income	76.5	121.6	(37.1)
Operating income	1,274.0	1,558.4	(18.2)
Operating expenses	(394.4)	(460.4)	(14.3)
Impairment losses on assets	(294.8)	(1,418.7)	(79.2)
Operating profit/(loss)	584.8	(320.7)	(282.4)
Profit/(loss) before tax	584.8	(320.7)	(282.4)

Notes:

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

Chapter 4 Management Discussion and Analysis

(i) Corporate loans

Corporate loans constituted the largest component of the Bank's loan portfolio. As of June 30, 2021 and December 31, 2020, corporate loans amounted to RMB115,926.5 million and RMB110,853.4 million, accounting for 59.6% and 61% of the Bank's total loans and advances to customers, respectively.

(ii) Discounted bills

The Bank purchases bank and commercial acceptance bills with remaining maturities of up to one year at discounted prices to satisfy the short-term funding needs of banks and corporate customers. As of June 30, 2021 and December 31, 2020, discounted bills totaled RMB31,660.6 million and RMB29,612.5 million, accounting for 16.3% and 16.3% of the Bank's total loans and advances to customers, respectively.

(iii) Corporate deposits

The Bank accepts demand and time deposits denominated in Renminbi and major foreign currencies (including HKD, USD and Euros) from corporate customers. As of June 30, 2021 and December 31, 2020, corporate deposits totaled RMB81,147.5 million and RMB82,394.5 million, accounting for 31.9% and 33.0% of the Bank's total customer deposits, respectively.

(iv) Fees and commission-based products and services

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

(A) *Wealth management services*

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

For the six months ended June 30, 2020 and 2021, wealth management products sold by the Bank to corporate customers totaled RMB70.2 million and RMB106.2 million, respectively.

(B) *Entrusted loans*

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

The Bank charges agency fees based on the principal amount of entrusted loans. The Bank's corporate customers bear the risk of default associated with these loans. For the six months ended June 30, 2020 and 2021, service fees charged by the Bank to corporate customers for entrusted loans totaled RMB8.09 million and RMB10.97 million, respectively.

Chapter 4 Management Discussion and Analysis

(C) Settlement services

The Bank offers corporate customers domestic and international settlement services.

Domestic Settlement Services: The Bank provides domestic settlement services in the form of bank acceptance bills, collections and telegraphic transfers. As of June 30, 2021 and December 31, 2020, the Bank's total domestic settlement transaction volumes were approximately RMB451.45 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. As of June 30, 2021 and December 31, 2020, the Bank's international settlement transaction volumes were US\$103.1 million and US\$103.0 million, respectively.

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

The Bank offers other fees and commission-based products and services to corporate customers, such as guarantee 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 fees and commission-based products and services. The Bank has a large retail customer base.

As of June 30, 2021, the Bank had 162,636 retail borrowers with total loans of RMB46,878.6 million and over 7.73 million retail deposit customers with total deposits of RMB157,940.9 million. For the six months ended June 30, 2020 and 2021, operating income from the Bank's retail banking business accounted for 19.2% and 30.7% of its total operating income, respectively.

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

Chapter 4 Management Discussion and Analysis

As of June 30, 2021, the Bank had 247,188 wealthy customers and 1,858 private banking customers. The Bank continues to grow its wealthy customer and private banking customer base by expanding its product and service portfolio. The table below sets forth the financial performance of the Bank's retail banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2021	2020	
External interest expenses, net ⁽¹⁾	(1,174.7)	(1,418.2)	(17.2)
Inter-segment interest income, net ⁽²⁾	2,077.6	2,015.0	3.1
Net interest income	902.9	596.8	51.3
Net fee and commission income	11.1	26.8	(58.6)
Operating income	914.0	623.6	46.6
Operating expenses	(282.9)	(184.2)	53.6
Impairment losses on assets	(801.9)	(193.3)	314.8
Operating (loss)/profit	(170.9)	246.1	(169.4)
(Loss)/profit before tax	(170.9)	246.1	(169.4)

Notes:

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

(i) Retail loans

The Bank offers retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of June 30, 2021 and December 31, 2020, total retail loans were RMB46,878.6 million and RMB41,359.8 million, accounting for 24.1% and 22.7% of the Bank's total loans and advances to customers, respectively.

(ii) Retail deposits

The Bank accepts demand and time deposits denominated in Renminbi and major foreign currencies from retail customers. As of June 30, 2021 and December 31, 2020, retail deposits totaled RMB157,940.9 million and RMB149,041.1 million, accounting for 62.1% and 59.7% of the Bank's total customer deposits, respectively.

Chapter 4 Management Discussion and Analysis

(iii) Bank card services

(A) Debit cards

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

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

- Social Security Card (社會保障卡): The Bank works with the Department of Human Resources and Social Security of Gansu Province (甘肅省人力資源和社會保障廳) to issue Social Security Cards, which can be used for making social security contributions and social security information inquiries.
- Housing Provident Fund Co-branded Card (公積金聯名卡): The Bank works with the local housing provident fund management center to issue Housing Provident Fund Co-branded Cards, which can be used for withdrawal and transfer of housing provident funds, loan distribution and account inquiries.
- Longyuan Transportation Card (隴原交通卡): The Bank works with the Gansu Provincial Expressway Administration to issue IC financial cards, which can be used for paying expressway tolls electronically.
- Veteran Card (退役軍人保障卡): The IC financial cards issued by the Bank in partnership with Gansu Provincial Veterans Affairs Office, which targets veterans and soldiers' dependents in the province, providing exclusive financial management, savings products, exclusive guarantees and exclusive VIP services for cardholders.
- Longjing Card (隴警卡): The IC financial cards issued by the Bank in partnership with the Gansu Public Security Department, which targets public security officers and their immediate family members in the province, providing exclusive financial management, savings products and exclusive VIP services for cardholders.

In addition, to enhance its brand recognition, the Bank cooperates with local governments to issue theme cards based on regional characteristics of Gansu Province, such as the Golden Tower Golden Poplar Card (金塔金胡楊卡), Xiongguan Card (雄關卡), the Journey of Xuanzang Card (玄奘之路卡) and Long Nan Landscape Card (隴南山水卡). The Bank also cooperates with various institutions in issuing co-branded cards, including the Gansu Police Vocational College Co-branded Card (甘肅警察職業學校聯名卡), Tianshui Reli Co-branded Card (天水熱力聯名卡) and Qingyang Labor Benefit Card (慶陽工惠卡).

As of June 30, 2021, the Bank had issued approximately 8.89 million debit cards. As of June 30, 2021 and December 31, 2020, holders of these debit cards conducted transactions of approximately RMB37,704.9 million and RMB57,813.3 million, respectively.

Chapter 4 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 by using leading financial technology and big data and officially issued credit cards with a certain credit limit to the public on November 11, 2019. Cardholders can consume by the card within the credit line first and then make payment to the Bank, and are entitled to financial services such as consumer credit, cash deposit and withdrawal and settlement by transfer of account. Credit cards issued by the Bank are classified into basic cards, gold cards, platinum cards and diamond cards according to different credit ratings.

As of June 30, 2021, the Bank had issued 459,053 credit cards, including 438,475 credit cards and 20,578 business cards. The revolving credit card line was RMB9,416 million, of which RMB8,963 million and RMB453 million were granted to credit cards and business cards, respectively. Balance of overdraft recorded was RMB2,071,214,500, of which RMB2,036,422,300 and RMB34,792,200 were made by holders of credit cards and business cards, respectively. Overdraft accounts reached 187,269, including 184,582 credit card accounts and 2,687 business card accounts. The total credit card income amounted to RMB57,795,000, of which RMB36,268,800 was recorded by intermediary business, and RMB21,526,200 was included in interest income.

(C) POS settlement services

As a payment settlement service provider, the Bank provides selected merchants with transaction fund settlement services. As of June 30, 2021, the Bank had 85,200 merchant customers for settlement services with 53,436,800 transactions, the total amount of transactions of merchant customers was approximately RMB14,490 million.

Chapter 4 Management Discussion and Analysis

(iv) Fees and commission-based products and services

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

(A) *Wealth management services*

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

For the six months ended June 30, 2021 and 2020, wealth management products sold to retail customers totaled RMB27,822.77 million and RMB22,028.34 million, respectively. As of June 30, 2021, the Bank had 352,980 retail wealth management clients and the return rate of its retail wealth management products was between 3.80% and 4.33% for the six months ended June 30, 2021.

(B) *Agency services*

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

Insurance Products: as of June 30, 2021, the Bank had entered into agency agreements with five nationwide insurance companies to promote and distribute their insurance products.

Precious Metal Products: the Bank received approval to distribute precious metals in China in August 2015. For the six months ended June 30, 2021 and 2020, the Bank sold an aggregate of RMB68.72 million and RMB63.77 million of precious metal products, respectively.

In October 2017, Dunhuang Research Academy granted the Bank an exclusive license to jointly develop and sell precious metal products featuring Mogao Grottoes. In addition, the Bank has completed the development of a fund agent system and fund qualification training for its employees.

(C) *Payroll and payment agency services*

Payroll Services: the Bank provides payroll services to governmental agencies, public organizations and enterprises customers. As of June 30, 2021, the Bank had over 4,114,286 payroll customers. For the six months ended June 30, 2021 and 2020, the Bank paid, in the role of paying agent, average monthly salaries of approximately RMB3,707.18 million and RMB3,624.65 million, respectively.

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

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

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

Chapter 4 Management Discussion and Analysis

(c) Financial market operations

The Bank's financial market operations primarily include money market transactions, investment business and wealth management business, and are one of its most important revenue sources. For the six months ended June 30, 2021 and 2020, operating income from financial market operations accounted for 26.4% and 29.8% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's financial market operations for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2021	2020	
External interest income, net ⁽¹⁾	1,327.9	1,643.7	(19.2)
Inter-segment interest expenses, net ⁽²⁾	(1,037.4)	(1,189.5)	(12.8)
Net interest income	290.5	454.2	(36.0)
Net fee and commission income	17.5	8.9	96.6
Net trading gains	415.0	498.3	(16.7)
Net gains arising from investment securities	64.4	7.0	820.0
Operating income	787.4	968.4	(18.7)
Operating expenses	(243.7)	(286.1)	(14.8)
Impairment losses on assets	(595.6)	(269.2)	121.2
Operating (loss)/profit	(52.0)	413.1	(112.6)
(Loss)/profit before tax	(52.0)	413.1	(112.6)

Notes:

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

Chapter 4 Management Discussion and Analysis

(i) Money market transactions

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

(A) Interbank deposits

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

As of June 30, 2021 and December 31, 2020, deposits from banks and other financial institutions totaled RMB12,437.9 million and RMB11,625.7 million, and deposits of the Bank at banks and other financial institutions (original value without deducting provisions for impairment) totaled RMB5,561.2 million and RMB3,716.1 million, respectively.

(B) Interbank placements

As of June 30, 2021 and December 31, 2020, the Bank did not make any placements with banks and other financial institutions. As of the same dates, no other banks made any placements with the Bank.

(C) Repurchase and reverse repurchase transactions

The securities underlying the Bank's repurchase and reverse repurchase transactions are mainly RMB-denominated PRC government bonds and policy financial bonds. As of June 30, 2021 and December 31, 2020, financial assets held under resale agreements totaled RMB16,205.8 million and RMB19,150.1 million, respectively, and financial assets sold under repurchase agreements totaled RMB6,791.7 million and RMB8,730.1 million, respectively.

(ii) Investment securities and other financial assets

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

(A) Security investment by holding purpose

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Financial assets at fair value through profit or loss	29,052.7	28.1	25,837.5	24.4
Financial assets at amortised costs	64,963.5	62.8	68,932.1	65.0
Financial assets at fair value through other comprehensive income	9,145.3	8.8	10,891.5	10.3
Other equity instrument investments	321.6	0.3	321.6	0.3
Total amount of investment securities and other financial assets	103,483.1	100.0	105,982.7	100.0

Total amount of investment securities and other financial assets decreased by 2.4% from RMB105,982.7 million as of December 31, 2020 to RMB103,483.1 million as of June 30, 2021.

Chapter 4 Management Discussion and Analysis

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2021		As of December 31, 2020	
	Amount	% of total (%)	Amount	% of total (%)
Repayable on demand	22,160.4	21.4	20,065.4	18.9
Due in three months or less	10,282.3	9.9	8,187.1	7.7
Due between three months and one year	13,956.7	13.5	23,288.7	22.0
Due between one year and five years	36,391.0	35.2	38,121.3	36.0
Due over five years	13,067.2	12.6	13,529.7	12.8
Indefinite ⁽¹⁾	7,625.5	7.4	2,790.5	2.6
Total	103,483.1	100.0	105,982.7	100.0

Note:

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

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

(C) Holding of government bonds

As of June 30, 2021, the balance of face value of government bonds held by the Bank amounted to RMB26,207.3 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of June 30, 2021.

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	2.7400	July 11, 2021
19 Interest-bearing treasury bond 03 (19付息國債03)	2,070.00	2.6900	March 7, 2022
20 Gansu bond 16 (20甘肅債16)	1,420.00	3.5700	May 29, 2040
20 Interest-bearing treasury bond 10 (20付息國債10)	1,120.00	2.1500	July 16, 2021
18 Gansu 01 (18甘肅01)	1,040.00	3.3900	April 24, 2023
19 Interest-bearing treasury bond 11 (19付息國債11)	1,020.00	2.7500	August 8, 2022
20 Gansu bond 14 (20甘肅債14)	850.00	3.5700	May 29, 2040
19 Interest-bearing treasury bond 04 (19付息國債04)	750.00	3.1900	April 11, 2024
18 Gansu 02 (18甘肅02)	700.00	3.7900	June 15, 2023
16 Gansu Targeted 02 (16甘肅定向02)	677.60	3.2600	April 21, 2023

Chapter 4 Management Discussion and Analysis

(D) Holding of financial bonds

As of June 30, 2021, 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 RMB17,160 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of June 30, 2021.

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	4.9800	January 12, 2025
18 ADBC bond 08 (18農發08)	1,080.00	4.3700	May 25, 2023
19 EIBC bond 05 (19進出05)	1,000.00	3.2800	February 11, 2024
15 CDB bond 16 (15國開16)	750.00	3.9400	July 10, 2022
16 ADBC bond 21 (16農發21)	570.00	2.9600	July 27, 2021
19 CDB bond 15 (19國開15)	550.00	3.4500	September 20, 2029
20 Bank of Lanzhou perpetual bond (20蘭州銀行永續債)	500.00	4.8000	–
14 CDB bond 21 (14國開21)	500.00	5.1000	August 7, 2021
16 ADBC bond 18 (16農發18)	500.00	3.5800	April 22, 2026
18 EIBC bond 03 (18進出03)	450.00	4.9700	January 29, 2023

Chapter 4 Management Discussion and Analysis

(d) Distribution network

(i) Physical outlets

As of June 30, 2021, the Bank had 1 head office operational department, 12 branches, 184 sub-branches, 5 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 organization
Head office operational department	No. 525-1 Donggangxi Road, Chengguan District, Lanzhou City	730000	9
Baiyin Branch	No. 35 Lanzhou Road, Baiyin District, Baiyin City	730900	18
Pingliang Branch	No. 38 East Street, Kongtong District, Pingliang City	744000	21
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
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	11
Lanzhou Jincheng Sub-branch	No. 613 Railway Station West Road, Chengguan District, Lanzhou City	730000	21
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 New District Sub-branch	Security Housing B50, Weiyi Road, Lanzhou New District, Lanzhou City	730000	4

Chapter 4 Management Discussion and Analysis

(ii) Electronic banking business

(A) Internet banking

Through the internet, the Bank offers customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of June 30, 2021, the Bank had over 3,549,600 internet banking customers, consisting of 52,100 corporate customers and over 3,497,500 retail customers. As of June 30, 2021, the Bank's corporate customers conducted over 1,568,600 million online transactions with a total transaction amount of approximately RMB276,581 million, while retail customers conducted approximately 6,326,200 online transactions with a total transaction amount of approximately RMB9,352,900.

(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 June 30, 2021, the Bank's direct banking platform had over 1,087,100 registered users. The AUM of customers of direct banking is approximately RMB2.701 billion.

(C) Mobile phone banking

The Bank provides customers with various financial services, such as account inquiries and management, transfers, payments and loan management. As of June 30, 2021, the Bank had approximately 2,890,600 mobile phone banking customers that had conducted approximately 5,631,400 transactions through mobile phone banking, with total transaction amounts of approximately RMB70,137 million.

(D) Telephone banking

The Bank provides customers with loan and deposit account inquiries, personal debit card account transfers, bill inquiries, lost declarations and business inquiry services through an interactive self-service voice system and live customer service. As of June 30, 2021, the Bank had 497,553 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 June 30, 2021, the Bank had 205 outlets, 114 off-bank self-service zones, 730 self-service facilities.

(F) WeChat banking

WeChat has become an important channel that provides value-added services to retail customers. Through WeChat banking, customers can access the Bank's products and services; accounts management, transaction inquires, payment and convenience services; and the Bank's outlet locations inquiry service. As of June 30, 2021, the Bank had over 905,400 WeChat banking customers.

(G) E-commerce platform

In June 2017, the Bank formally launched its e-commerce platform "Longyin Commerce", which provides merchants with comprehensive services. These services include purchasing, sales and inventory management, and online B2B and B2C transactions. As of June 30, 2021, the platform had 774 merchants and 550,000 users.

Chapter 4 Management Discussion and Analysis

(e) Information on the subsidiary

Jingning Chengji Rural Bank

In September 2008, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with 4 other legal entities and 7 individuals. As of June 30, 2021, the Bank held an approximately 62.7% equity interest in Jingning Chengji Rural Bank. Jingning Chengji Rural Bank, a joint stock company with limited liability incorporated in the PRC, carries out its business in the PRC, primarily engaging in offering financial products and services, including loans, deposits and fee and commission-based products and services to local corporate and retail customers.

As of June 30, 2021, Jingning Chengji Rural Bank had 34 corporate loan customers, 851 corporate deposit customers, 5,615 retail loan customers and 92,461 retail deposit customers. As of June 30, 2021, Jingning Chengji Rural Bank had 12 outlets and 116 employees.

As of June 30, 2021, Jingning Chengji Rural Bank had total assets of RMB1,584.84 million, total deposits of RMB1,398.14 million and total loans of RMB983.91 million. In 2020, operating income attributable to Jingning Chengji Rural Bank totaled RMB43.86 million, accounting for 0.68% of the Bank's total operating income. For the six months ended 30 June, 2021, operating income attributable to Jingning Chengji Rural Bank totaled RMB22.28 million, accounting for 0.75% of the Bank's total operating income.

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

(f) Operation and safety of IT systems

The Bank regularly optimizes and upgrades its IT system to support the operation and management of its businesses. For the six months ended June 30, 2020 and 2021, investments in its IT system totaled RMB56.8 million and RMB74.9 million, respectively.

In order to be proactively adapted to the development situation, and accelerate the digitalization of the Bank, the Bank has formulated the Digital Transformation Plan of Bank of Gansu for 2021 on the basis of the stage of cementing the foundation in 2020. 2021 digital transformation work closely focused on the strategy of "strengthening Party building, reinforce weak links, cementing foundation, adjusting structure, preventing risks, improving efficiency, and promoting development " to achieve the construction goal of "second online bank", and focused on "smart retail" and "intelligent risk control" to exert itself to promote the construction of eighteen key projects. The eighteen key projects are divided into three parts, namely digital smart retail, digital intelligent risk control, and digital decision-making support. The eighteen key projects are now progressing in a well-planned way in accordance with the plan formulated at the beginning of the year.

The Bank continued to carry out the work on the basis of the system of data governance which had been already established in 2020. It further rationalized the work mechanism and improved the data management process; continuously carried out the recognition of responsibility for the emerging basic data items, data indicators and data standards; continuously promoted the work of anti-money laundering, financial basic data and EAST data quality improvement; continued to improve the management and control platform in the unified data asset portal, improve the metadata generation mechanism of each transaction system to ensure accurate metadata generation, data archiving and data warehousing; improved data standard management, continued to conduct data standardization work and data warehouse data standardization work.

Chapter 4 Management Discussion and Analysis

The Bank launched out Mobile Banking 5.0 in May 2021 for trial operation. Mobile Banking 5.0 has made significant changes in four aspects, namely user experience improvement, digital operation and marketing, ecological construction and technical development and research efficiency, which enriched the product portfolio, improved the functions, optimized the transaction processes, and was able to conduct user behavior analysis via the client-side, forming a new generation of mobile banking featuring wide product coverage, good transaction experience and good data application.

In the mid-November of 2020, the Bank completed the IPv6 improvement and upgrading work through the support of a total of seven public-targeted Internet applications, namely mobile banking, Internet banking, corporate Internet banking, rural bank, mobile payment, Longyin Mall and online customer service, with the same business continuity safeguarding measures as that prior to the IPv6 improvement, accomplishing the phased improvement task ahead of schedule.

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

5. RISK MANAGEMENT

(a) Risk management of the Bank

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

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

(i) Credit risk management

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

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

Chapter 4 Management Discussion and Analysis

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

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

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

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.

Chapter 4 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, based on the results and forecast of which it formulates and adjusts interest rates, in order to better control interest rate risks and reduce losses arising from interest rate fluctuations.

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

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

(B) Exchange rate risk management

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

Chapter 4 Management Discussion and Analysis

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

(iii) Operational risk management

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

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

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

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

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

(iv) Liquidity risk

(A) *Liquidity risk management*

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

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

Chapter 4 Management Discussion and Analysis

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

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

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

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

(B) Liquidity risk analysis

The Bank's liquidity coverage ratio

	June 30, 2021	December 31, 2020
Liquidity coverage ratio (%)	279.20	268.73

The Bank's net stable funding ratio

(Expressed in millions of RMB, unless otherwise stated)	June 30, 2021	March 31, 2021	December 31, 2020
Closing amount of available stable funding	236,833.1	234,606.9	232,804.6
Closing amount of required stable funding	191,707.9	185,636.0	182,925.2
Net stable funding ratio (%)	123.54	126.38	127.27

Chapter 4 Management Discussion and Analysis

(v) Reputation risk management

Reputation risk refers to the risk of negative evaluation of the Bank by stakeholders, the public and the media due to the Bank's operation and management, the behavior of its employees or external events such as complaints, penalties and cases, which hurts the brand value and affects the normal operations or even the market stability. The general office of the Bank's head office is primarily responsible for the management of reputation risk, and the Board, Board of Supervisors and senior management assume the ultimate responsibility, supervisory responsibility and management responsibility for reputation risk management, respectively.

(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:

- organising the formulation of 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;

Chapter 4 Management Discussion and Analysis

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

This leadership group is led by the president of the Bank, the members of which are comprised of the responsible person from each department of the Bank.

Chapter 4 Management Discussion and Analysis

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.

Chapter 4 Management Discussion and Analysis

6. ANALYSIS ON CAPITAL ADEQUACY RATIO

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

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

(Expressed in millions of RMB, unless otherwise stated)	June 30, 2021	December 31, 2020
Core capital		
Paid-up capital	15,069.8	15,069.8
Qualifying portion of capital reserve	5,956.0	5,955.5
Defined benefit plan reserve	(2.8)	(2.8)
Investment revaluation reserve	129.0	137.2
Surplus reserve	1,671.1	1,616.0
General risk reserve	4,539.0	4,539.0
Retained earnings	4,440.3	4,113.9
Qualifying portion of non-controlling interest	22.8	20.5
Core tier-one capital deductions ⁽¹⁾	(228.0)	(249.0)
Net core tier-one capital	31,597.2	31,200.1
Other tier-one capital ⁽²⁾	3.0	2.7
Net tier-one capital	31,600.2	31,202.8
Tier-two capital		
Surplus reserve for loan impairment	1,362.4	1,294.3
Eligible portion of non-controlling interest	6.1	5.5
Net capital base	32,968.7	32,502.6
Total risk-weighted assets	256,991.3	242,733.5
Core tier-one capital adequacy ratio (%)	12.30	12.85
Tier-one capital adequacy ratio (%)	12.30	12.85
Capital adequacy ratio (%)	12.83	13.39

Notes:

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

Chapter 5 Changes in Share Capital and Particulars of Shareholders

I. CHANGES IN SHARE CAPITAL OF THE BANK

(I) Share Capital

As of June 30, 2021 and up to the Latest Practicable Date, the share capital of the Bank is as follows:

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

(II) Changes in Share Capital

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

Chapter 5 Changes in Share Capital and Particulars of Shareholders

II. PARTICULARS OF SHAREHOLDERS

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

As of June 30, 2021, top ten Shareholders of the Domestic Shares of the Bank are set out as follows:

No.	Name of Shareholder	Number of Shares of the Bank Held as at June 30, 2021 ⁽¹⁾	Shareholding Percentage as at June 30, 2021 (%)	Number of Shares of the Bank Held as at the Latest Practicable Date ⁽¹⁾	Shareholding Percentage as at the Latest Practicable Date (%)	Number of Shares Pledged
1	Gansu Highway Aviation Tourism	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

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.

Chapter 5 Changes in Share Capital and Particulars of Shareholders

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

As of June 30, 2021, to the best knowledge of the Directors of the Bank after making reasonable enquiries, the following persons (other than the Bank's Directors, Supervisors and chief executive) had interests or short positions in the Shares or underlying Shares which would be required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Bank pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interests	Class of Shares	Number of Shares Directly or Indirectly Held ⁽²⁾	Approximate Percentage of the Bank's Total Issued Share Capital (%)	Approximate Percentage of the Bank's Relevant Class of Shares (%)
Gansu State-owned Assets Investment	Beneficial owner	Domestic Shares	1,909,250,972 (L) ⁽¹⁾	12.67	16.93
	Interest in controlled corporation ⁽³⁾	Domestic Shares	1,617,944,606 (L) ⁽¹⁾	10.74	14.35
Gansu Highway Aviation Tourism	Beneficial owner ⁽⁴⁾	Domestic Shares	2,657,154,433 (L) ⁽¹⁾	17.63	23.56
	Interest in controlled corporation ⁽⁴⁾	Domestic Shares	100,541,667 (L) ⁽¹⁾	0.67	0.89
Mengshang Bank Co., Ltd.	Beneficial owner	Domestic Shares	845,296,403 (L) ⁽¹⁾	5.61	7.50
Jiuquan Iron & Steel	Beneficial owner	Domestic Shares	983,972,303 (L) ⁽¹⁾	6.53	8.73
Gansu Electric Power Investment	Beneficial owner ⁽³⁾	Domestic Shares	633,972,303 (L) ⁽¹⁾	4.21	5.62
Jinchuan Group	Beneficial owner ⁽³⁾	Domestic Shares	983,972,303 (L) ⁽¹⁾	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) ⁽¹⁾	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	340,588,000 (L) ⁽¹⁾	2.26	8.98
THE PACIFIC SECURITIES CO., LTD	Other ⁽⁵⁾	H Shares	458,535,000 (L) ⁽¹⁾	3.04	12.09
Pacific Securities Overseas Gong Ying No. 3 Single Asset Management Plan	Other ⁽⁵⁾	H Shares	458,535,000 (L) ⁽¹⁾	3.04	12.09
China Foreign Economy and Trade Trust Co., Ltd. (中國對外經濟貿易信託有限公司)	The Trustee ⁽⁶⁾	H Shares	360,577,000 (L) ⁽¹⁾	2.39	9.50
Harvest Ahead International Holdings Limited	Beneficial owner	H Shares	358,405,115 (L) ⁽¹⁾	2.38	9.45
Anar Real Estate Group Co., Ltd. (石榴置業集團股份有限公司)	Founder of a discretionary trust, who can affect the trustee how to exercise discretionary trust ⁽⁷⁾	H Shares	282,064,000 (L) ⁽¹⁾	1.87	7.43
Beijing Kadapu Investment Co., Ltd. (北京卡達普投資有限公司)	Interest in controlled corporation ⁽⁷⁾	H Shares	282,064,000 (L) ⁽¹⁾	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 ⁽⁷⁾	H Shares	282,064,000 (L) ⁽¹⁾	1.87	7.43
Cui Wei	Interest in controlled corporation ⁽⁷⁾	H Shares	282,064,000 (L) ⁽¹⁾	1.87	7.43
Sang Chunhua	Interest in controlled corporation ⁽⁷⁾	H Shares	282,064,000 (L) ⁽¹⁾	1.87	7.43

Chapter 5 Changes in Share Capital and Particulars of Shareholders

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.
- (5) 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 SFO, 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.
- (6) China Foreign Economy and Trade Trust Co., Ltd. holds 360,577,000 H Shares of the Bank as a trustee, among which, "FOTIC – Wuxingbaichuan No. 26 Special Unitrust of Anar Group" (外資信託一五行百川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.
- (7) Anar Real Estate Group Co., Ltd. (石榴置業集團股份有限公司) holds 282,064,000 H Shares of the Bank as founder of a discretionary trust who can influence the trustee how to exercise its discretion. Beijing Kadapu Investment Co., Ltd. (北京卡達普投資有限公司) 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 June 30, 2021, the Bank is not aware of any other person, other than the Directors, Supervisors and chief executive of the Bank, who had interests or short positions in the Shares and underlying Shares of the Bank, which were required to be recorded in the register of interests maintained by the Bank pursuant to section 336 of Part XV of the SFO, and which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(III) Particulars of Controlling Shareholders and De Facto Controller

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

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

I. INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

As of June 30, 2021 and up to the Latest Practicable Date, the information on the Directors, Supervisors and senior management members of the Bank is set out as follows:

Directors

Name	Age	Date of joining the Bank	Date of appointment as Director ⁽¹⁾	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, human resources, and strategic development; in charge of the Office of the Board of Directors, the Strategy and Development Department and the Human Resources Department (the Organization Department under the Party Committee).
Mr. Wang Wenyong (王文永)	55	December 2018	December 3, 2018	Executive Director	As the president of the Bank, primarily responsible for the overall operation and management of the Bank, and comprehensively coordinating and supervising the operation and management work of the management team; coordinating and supervising the overall implementation of operation plan of the Bank, giving priority to promoting 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.

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

Name	Age	Date of joining the Bank	Date of appointment as Director ⁽¹⁾	Position held as of the Latest Practicable Date	Responsibilities
Mr. Guo Jirong (郭繼榮)	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 ⁽²⁾	Non-executive Director	Participating in the major decisions related to the Bank including on its strategic development and operation management, and the matters of the Board of Directors and the Board committees of which he is a member.
Ms. Tang Xiuli (唐岫立)	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 transactions and risk management committee and the Consumer Rights Protection Committee.

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

Name	Age	Date of joining the Bank	Date of appointment as Director ⁽¹⁾	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 transactions and risk management committee.
Mr. Wong Sincere (黃誠思)	57	August 2017	August 12, 2017	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank in relation to compliance with Hong Kong laws and the Hong Kong Listing Rules based on his extensive experience in legal and compliance work, and performing his duties as a Director through the Board of Directors, audit committee and related party transactions and risk management committee.
Mr. Dong Ximiao (董希淼)	43	December 2018	December 3, 2018	Independent non-executive Director	Responsible for supervising and providing independent advice on the operation and management of the Bank, particularly providing advice to the Bank based on his extensive experience in finance, and performing his duties as a Director through the Board of Directors, nomination and remuneration committee, related party transactions and risk management committee and the Consumer Rights Protection Committee.

Notes:

⁽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.

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

Supervisors

Name	Age	Date of joining the Bank	Date of appointment as a Supervisor ⁽¹⁾	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. Wang Wenjian (王文建)	48	May 24, 2021	May 24, 2021	Shareholder Supervisor	Supervising the Board of Directors and the senior management
Mr. Li Yongjun (李永軍) ⁽²⁾	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
Ms. Sun Yan (孫岩)	40	May 24, 2021	May 24, 2021	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 representative Supervisors only) of the Bank.

⁽²⁾ The Board of Supervisors of the Bank received the letter of resignation from Mr. Li Yongjun, a shareholder Supervisor, on March 29, 2021. Due to the work rearrangement, Mr. Li Yongjun requests to resign as a shareholder Supervisor and a member of the nomination committee of the Board of Supervisors. His resignation will come into effect from the date when the Bank duly appoints a new external Supervisor.

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

Senior Management

Name	Age	Date of joining the Bank	Date of first appointment as senior management	Position held as of the Latest Practicable Date	Responsibilities
Mr. Wang Wenyong (王文永)	55	December 2018	December 3, 2018	Executive Director, president	As the president of the Bank, primarily responsible for the overall operation and management of the Bank, and comprehensively coordinating and supervising the operation and management work of the management team; coordinating and supervising the overall implementation of operation plan of the Bank; giving priority to promoting 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 in taking charge of the Office of the Board of Directors and Strategic Development Department. Assisting the president in giving priority to promoting the resolution, settlement and disposal of the risk assets.

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

Name	Age	Date of joining the Bank	Date of first appointment as senior management	Position held as of the Latest Practicable Date	Responsibilities
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 Jincheng Sub-branch.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

(I) Changes in Directors

The Board of Directors received the letter of resignation from Ms. Zhang Hongxia, a non-executive Director, on June 23, 2021. Due to the work rearrangement, Ms. Zhang requests to resign as a non-executive Director and a member of the strategy and development committee under the Board of Directors of the Bank, and Ms. Zhang will cease to hold positions in the Bank from the date when the Board of Directors received her letter of resignation. Save for that, there was no change to the members of the Board of Directors of the Bank during the Reporting Period and up to the Latest Practicable Date.

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

(II) Changes in Supervisors

The Board of Supervisors of the Bank 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 Board of Supervisors. The Bank is seeking out a suitable candidate to succeed the position of shareholder Supervisor of Mr. Li Yongjun, and will otherwise publish an announcement in due course. Prior to appointment of the new supervisor, Mr. Li Yongjun will continue to perform his duties as a shareholder Supervisor and a member of nomination committee of the Bank. Mr. Li Yongjun's resignation as a shareholder Supervisor and a member of the Nomination Committee of the Board of Supervisors of the Bank will come into effect from the date when the Bank duly appoints the new shareholder Supervisor.

Ms. Sun Yan and Mr. Wang Wenjian have been elected as an external Supervisor and a shareholder Supervisor of the Bank, respectively, at the annual general meeting. Mr. Yang Zhenjun and Mr. Liu Yongchong have ceased to be an external Supervisor and a shareholder Supervisor of the Bank, respectively, since the conclusion of the annual general meeting.

(III) Changes in Senior Management Members

During the Reporting Period, there was no change to the members of senior management of the Bank.

Mr. Wong Sincere, an independent non-executive Director, 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. U Banquet Group Holding Limited is now known as Net-a-Go Technology Company Limited. Save as disclosed above, no information on changes in Directors, Supervisors and senior management is required to be disclosed in accordance with Rule 13.51B(1) of the Hong Kong Listing Rules for the six months ended June 30, 2021.

III. COMPANY SECRETARY

On January 26, 2021, Ms. Fok Po Yi (霍寶兒) has tendered her resignation as the company secretary of the Bank. On the same day, Mr. Wong Wai Chiu (黃偉超) was appointed as the company secretary of the Bank. For details of the changes, please refer to the announcement published by the Bank on January 26, 2021.

IV. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

V. SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

Name	Position held with the Bank	Name of the shareholder company	Position held in the shareholder company
Ms. Wu Changhong	Non-executive Director	Gansu Highway Aviation Tourism	Member of the Party committee, and deputy general manager
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, and 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, and head of financial department of the Readers Group
Mr. Wang Wenjian	Shareholder Supervisor	Jingyuan Coal Industry Group Limited	Chief financial officer
Mr. Dong Ying	External Supervisor	Wuwei Economic Development and Investment (Group) Co., Ltd.	Deputy general manager

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

As at June 30, 2021, the interests of the Directors, Supervisors and chief executive of the Bank in the Shares, underlying Shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code or in accordance with Divisions 7 and 8 of Part XV under the SFO are as follows:

Name	Position in the Bank	Class of Shares	Nature of Interest	Number of Shares	Percentage of Domestic Shares of the Bank (%)	Percentage of the Total Share Capital of the Bank (%)
Mr. Liu Qing	Chairman, Executive Director	Domestic Shares	Beneficial owner	301,714 (L) ⁽¹⁾	0.003	0.002
Mr. Xu Yongfeng	Employee Supervisor	Domestic Shares	Beneficial owner	225,514 (L) ⁽¹⁾	0.002	0.001
Mr. Luo Zhenxia	Employee Supervisor	Domestic Shares	Beneficial owner	205,711 (L) ⁽¹⁾	0.002	0.001
Mr. Li Yongjun	Shareholder Supervisor	Domestic Shares	Interest in the controlled corporation ⁽²⁾	239,326,800 (L) ⁽¹⁾	2.122	1.588

Notes:

⁽¹⁾ L represents long position.

⁽²⁾ Mr. Li Yongjun, a Supervisor of the Bank, and his spouse together directly hold 2.0% equity interest in Yong Xin Hua Holdings Co., Ltd. (永新華控股有限公司); Gansu Yong Xin Construction and Installation Engineering Company Limited (甘肅永新建築安裝工程有限公司) and Gansu Huanghai Electronic and Mechanical Devices Engineering Company Limited (甘肅黃海電子機電設備工程有限公司) hold 33.0% and 65.0% equity interest in Yong Xin Hua Holdings Co., Ltd., respectively. Mr. Li Yongjun and his spouse collectively hold 100.0% equity interest in Gansu Yong Xin Construction and Installation Engineering Company Limited and Gansu Huanghai Electronic and Mechanical Devices Engineering Company Limited. Yong Xin Hua Holdings Group 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 executives of the Bank held any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations as of June 30, 2021.

VIII.EMPLOYEE, EMPLOYEE COMPENSATION POLICY AND EMPLOYEE TRAINING PROGRAM

(I) Staff Composition

As of June 30, 2021, the Bank had 4,112 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	832	20.23
Retail banking	987	24
Financial market operations	17	0.41
Finance and accounting	456	11.09
Risk management, internal audit and legal and compliance	333	8.1
Information technology	103	2.51
Management	184	4.48
Bank Teller	978	23.78
Others	222	5.4
Total	4,112	100

The following table sets forth the number of the employees of the Bank by age as of June 30, 2021.

	Number of employees	Percentage (%)
Under 30 (inclusive)	1,565	38.06
31 to 40 years old	1,759	42.78
41 to 50 years old	592	14.4
51 years old or above	196	4.76
Total	4,112	100

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

The following table sets forth the number of the employees of the Bank by education degree as of June 30, 2021.

	Number of employees	Percentage (%)
Master's degree or above	258	6.28
Bachelor's degree	3,447	83.83
Others	407	9.89
Total	4,112	100

(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.

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.

(III) Labor Union

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

IX. THE SUBSIDIARY OF THE BANK

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

Chapter 7 Important Events

I. CORPORATE GOVERNANCE CODE

The Bank believes that maintaining high standards of corporate governance mechanisms and high quality of corporate governance is one of the key factors to improve its core competitiveness and to build a modern urban commercial bank. Therefore, the Bank has been focusing on high quality of corporate governance and abiding by the best domestic and international corporate governance practice to safeguard 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 specific functions, consisting of the strategy and development committee, audit committee, nomination and remuneration committee, related party transaction and risk management committee and consumer rights protection 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 former CBRC (the "Guidelines") into the Bank's governance structure and policies. The Corporate Governance Code and Guidelines are well reflected in the Articles of Association and the terms of reference of the Shareholders' general meeting, the Board of Directors and committees under the Board of Directors. The Bank's Shareholders' general meeting, the Board of Directors and the Board of Supervisors perform their respective duties, forming good corporate governance structure. The Bank closely monitors its operation to ensure it complies with the relevant requirements under applicable laws, regulations, codes, guidelines and the Bank's internal policies.

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

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

II. PROFITS AND DIVIDENDS

(1) 2020 final dividend

At the meeting of the Board of Directors of the Bank convened on March 29, 2021, 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 2020 final dividend or any capitalisation of capital reserve.

The proposals were considered and approved at the 2020 annual general meeting of the Bank convened on May 24, 2021.

(2) 2021 interim dividend

The Bank's revenue for the six months ended June 30, 2021 and the Bank's financial position as of the same date are set out in the interim financial statements of this interim report.

The Board recommends no distribution of 2021 interim dividend or any capitalisation of capital reserve.

III. ISSUANCE OF BONDS

Interbank certificates

During the period from January 1, 2021 to June 30, 2021, the Bank issued several tranches of interbank certificates in an aggregate principal amount of RMB29,840.0 million. The interbank certificates have terms of one month to one year and bear effective interest rates between 2.53% and 3.6% per annum.

Financial bonds

At the meeting of the Board convened on March 27, 2019, the Board advised the Bank to issue capital bonds with indefinite maturity date to the public in an aggregate amount of no more than RMB5 billion (inclusive). The proposal was considered and approved at the 2018 annual general meeting convened on June 3, 2019 and the authorizing resolution shall be valid for 36 months from the date of approval at the annual general meeting (i.e. June 3, 2019).

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

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

Chapter 7 Important Events

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

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

V. RELATED PARTY TRANSACTIONS

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

VI. MATERIAL LAWSUITS AND ARBITRATIONS

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

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

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

VIII. PUBLIC FLOAT

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

Based on the Bank's publicly available information and to the best of the Directors' knowledge, as of the Latest Practicable Date, the number of H Shares in public hands represents approximately 25.17% 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.

IX. APPOINTMENT OF EXTERNAL AUDITORS

As deliberated and approved by Shareholders at the 2020 annual general meeting on May 24, 2021, the Bank reappointed Shinewing Certified Public Accountants LLP as its domestic external auditor for 2021, which is responsible for providing relevant domestic audit services in accordance with PRC GAAP; reappointed SHINEWING (HK) CPA Limited as its international external auditor for 2021, which is responsible for providing relevant overseas audit & review services in accordance with IFRS. The terms of the above two external auditors shall start from the date when the proposal on appointment of external auditors for 2021 was adopted at the 2020 annual general meeting of the Bank (namely on May 24, 2021) to the date when the 2021 annual general meeting of the Bank ended.

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

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

XI. REVIEW OF INTERIM REPORT

The financial statements disclosed in this interim report have not been audited. The interim financial statements of the Bank for the six months ended June 30, 2021 prepared in accordance with IFRS issued by the International Accounting Standards Board have been reviewed by SHINEWING (HK) CPA Limited according to Hong Kong Standard on Review Engagements 2410. The Board of Directors and its audit committee have reviewed and approved the Group's unaudited consolidated interim financial data for the six months ended June 30, 2021.

XII. PUBLICATION OF THE 2021 INTERIM REPORT

The 2021 interim report of the Bank prepared in accordance with the Hong Kong Listing Rules and IFRS is available on the HKEXnews website (<http://www.hkexnews.hk>) and the Bank's website (<http://www.gsbankchina.com>).

In this interim report, the financial data for the six months ended June 30, 2021 have not been audited, and the financial data for the year ended December 31, 2020 have been audited.

Chapter 8 Report on Review of Condensed Consolidated Financial Statements



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

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

甘肅銀行股份有限公司

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Bank of Gansu Co., Ltd (the “Bank”) and its subsidiary (hereinafter collectively referred to as the “Group”) set out on pages 78 to 141, which comprise the condensed consolidated statement of financial position as of June 30, 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Bank are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

Chapter 8 Report on Review of Condensed Consolidated Financial Statements

CONCLUSION

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

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lee Shun Ming
Practising Certificate Number: P07068

Hong Kong
August 27, 2021

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

For the six months ended June 30, 2021

	Notes	Six months ended June 30,	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest income		6,918,686	7,094,997
Interest expenses		(4,527,758)	(4,607,188)
Net interest income	4	2,390,928	2,487,809
Fee and commission income		191,306	202,026
Fee and commission expenses		(24,453)	(15,513)
Net fee and commission income	5	166,853	186,513
Net trading gains	6	414,985	498,285
Net gains arising from investment securities	7	64,362	7,030
Net exchange (losses)/ gains		(59,125)	66,145
Other operating income/ (expense), net	8	2,177	(2,384)
Operating income		2,980,180	3,243,398
Operating expenses	9	(922,504)	(958,234)
Impairment losses on assets, net of reversals	10	(1,692,421)	(1,889,827)
Operating profit		365,255	395,337
Share of profit of an associate	21	331	617
Profit before tax		365,586	395,954
Income tax credit/ (expense)	11	17,135	(27,425)
Profit for the period		382,721	368,529

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

For the six months ended June 30, 2021

	Notes	Six months ended June 30,	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Profit for the period		382,721	368,529
Other comprehensive (expense)/ income for the period:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
– Remeasurement of defined benefit obligations		–	(70)
– Income tax relating to item that will not be reclassified to profit or loss		–	18
		–	(52)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Debt instrument at fair value through other comprehensive income			
– Movement of provision for impairment losses	20	(65)	(422)
– Change in fair value recognised in investment revaluation reserve		(10,758)	14,280
– Income tax relating to item that may be reclassified subsequently		2,706	(3,465)
		(8,117)	10,393
Other comprehensive (expense)/ income for the period, net of income tax		(8,117)	10,341
Total comprehensive income for the period		374,604	378,870
Profit for the period attributable to:			
– Owners of the Bank		381,447	366,183
– Non-controlling interests		1,274	2,346
		382,721	368,529
Total comprehensive income for the period attributable to:			
– Owners of the Bank		373,330	376,524
– Non-controlling interests		1,274	2,346
		374,604	378,870
Earnings per share			
– Basic and diluted (<i>RMB cents</i>)	12	2.53	3.64

Condensed Consolidated Statement of Financial Position

At June 30, 2021

	<i>Notes</i>	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Assets			
Cash and deposits with the central bank	13	23,785,552	26,666,680
Deposits with banks	14	5,561,158	3,716,145
Financial assets held under resale agreements	15	16,205,811	19,150,091
Financial assets at amortised cost	16	64,963,516	68,932,101
Interests receivables	17	5,076,052	4,151,959
Loans and advances to customers	18	188,948,514	176,386,767
Financial assets at fair value through profit or loss	19	29,052,684	25,837,489
Financial assets at fair value through other comprehensive income	20	9,466,886	11,213,115
Interest in an associate	21	10,555	10,224
Property and equipment	22	2,970,738	2,959,332
Right-of-use assets	23	288,770	338,438
Deferred tax assets	24	1,839,216	1,833,475
Other assets	25	1,412,128	1,167,972
Total assets		349,581,580	342,363,788
Liabilities and equity			
Liabilities			
Borrowings from the central bank	27	6,904,576	6,620,195
Deposits from banks and other financial institutions	28	12,437,945	11,625,724
Financial assets sold under repurchase agreements	29	6,791,700	8,730,070
Deposits from customers	30	254,555,657	249,677,701
Accrued staff costs	31	448,371	551,265
Taxes payable		1,383	3,662
Interests payable	32	6,570,445	7,629,663
Debts securities issued	33	27,598,477	23,551,545
Deferred tax liabilities	24	8,295	23,698
Lease liabilities	23	239,974	282,817
Other liabilities	34	2,185,780	2,202,702
Total liabilities		317,742,603	310,899,042

Condensed Consolidated Statement of Financial Position

At June 30, 2021

	<i>Notes</i>	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Equity			
Share capital	35	15,069,791	15,069,791
Capital reserve	36(a)	5,956,011	5,955,483
Defined benefit plan reserve		(2,762)	(2,762)
Investment revaluation reserve		129,040	137,157
Surplus reserve	36(b)	1,671,055	1,615,945
General reserve	36(c)	4,538,992	4,538,992
Retained earnings		4,440,254	4,113,917
Total equity attributable to owners of the Bank		31,802,381	31,428,523
Non-controlling interests		36,596	36,223
Total equity		31,838,977	31,464,746
Total liabilities and equity		349,581,580	342,363,788

The condensed consolidated financial statements on pages 78 to 141 were approved and authorised for issue by the board of directors of the Bank on August 27, 2021 and are signed on its behalf by:

Mr. Liu Qing
Director

Mr. Wang Wenyong
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2021

	Attributable to owners of the Bank									
	Share capital	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2021	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
Profit for the period	-	-	-	-	-	-	381,447	381,447	1,274	382,721
Other comprehensive expense for the period	-	-	-	(8,117)	-	-	-	(8,117)	-	(8,117)
Total comprehensive (expense)/ income for the period	-	-	-	(8,117)	-	-	381,447	373,330	1,274	374,604
Shareholders' injection (Note 36(a))	-	528	-	-	-	-	-	528	-	528
Appropriation of profits	-	-	-	-	55,110	-	(55,110)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(901)	(901)
At June 30, 2021 (Unaudited)	15,069,791	5,956,011	(2,762)	129,040	1,671,055	4,538,992	4,440,254	31,802,381	36,596	31,838,977

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2021

	Attributable to owners of the Bank									
	Share capital	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2020	10,069,791	4,660,417	(3,399)	219,469	1,560,835	4,471,044	3,678,816	24,656,973	32,029	24,689,002
Profit for the period	-	-	-	-	-	-	366,183	366,183	2,346	368,529
Other comprehensive (expense)/ income for the period	-	-	(52)	10,393	-	-	-	10,341	-	10,341
Total comprehensive (expense)/ income for the period	-	-	(52)	10,393	-	-	366,183	376,524	2,346	378,870
Shareholders' injection (Note 36(a))	-	582	-	-	-	-	-	582	-	582
At June 30, 2020 (Unaudited)	10,069,791	4,660,999	(3,451)	229,862	1,560,835	4,471,044	4,044,999	25,034,079	34,375	25,068,454

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2021

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before tax	365,586	395,954
Adjustments for:		
Depreciation of property and equipment	109,030	199,642
Depreciation of right-of-use assets	73,559	73,193
Amortisation of intangible assets	3,363	2,914
Impairment losses on assets, net of reversals	1,692,421	1,889,827
Interest expense on lease liabilities	2,736	3,139
Interest expense on debts securities issued	414,919	727,779
Loss on disposal of repossessed assets	–	11
(Gain)/ loss on disposal of property and equipment	(292)	2
Net unrealised trading losses	29,172	33,373
Net gains arising from investment securities	(64,362)	(7,030)
Government grants	(780)	(3,747)
Interest income on financial investments	(1,359,076)	(1,852,450)
Share of profit of an associate	(331)	(617)
	1,265,945	1,461,990
Changes in operating assets		
Net decrease/ (increase) in deposits with the central bank	623,172	(99,502)
Net decrease/ (increase) in deposits with the banks	68,131	(37,061)
Net (increase)/ decrease in financial assets at fair value through profit or loss	(3,244,367)	3,316,083
Net increase in loans and advances to customers	(13,670,791)	(5,026,519)
Net increase in other operating assets	(2,062,037)	(3,551,090)
	(18,285,892)	(5,398,089)
Changes in operating liabilities		
Net increase/ (decrease) in borrowings from the central bank	284,381	(617,395)
Net increase/ (decrease) in deposits and placements from banks and other financial institutions	812,221	(7,030,352)
Net decrease in financial assets sold under repurchase agreements	(1,938,370)	(1,537,924)
Net increase in deposits from customers	4,877,956	16,519,806
Net decrease in other operating liabilities	(1,110,017)	(478,644)
	2,926,171	6,855,491

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2021

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash (used in)/ generated from operations	(14,093,776)	2,919,392
Income tax paid	(3,582)	(678)
NET CASH (USED IN)/ FROM OPERATING ACTIVITIES	(14,097,358)	2,918,714
INVESTING ACTIVITIES		
Proceeds from disposal of investments	23,075,911	12,492,595
Interest income received from financial investments	1,086,049	823,268
Proceeds from disposal of property and equipment	2,007	177
Payments on acquisition of investments	(16,727,425)	(13,491,246)
Payments on acquisition of property and equipment and intangible assets	(122,209)	(37,366)
NET CASH FROM/ (USED IN) INVESTING ACTIVITIES	7,314,333	(212,572)
FINANCING ACTIVITIES		
Government grants received	780	3,747
Proceeds from capital contribution by equity shareholder	528	582
Proceeds from issue of new debt securities	29,465,994	18,179,085
Repayment of debt securities issued	(25,780,000)	(22,260,000)
Repayment of lease liabilities	(66,734)	(60,227)
Interest paid on debts securities issued	(123,006)	(218,750)
Interest paid on lease liabilities	(2,736)	(3,139)
Dividends paid	(52)	(1,884)
Dividends paid to non-controlling interests	(841)	-
NET CASH FROM/ (USED IN) FINANCING ACTIVITIES	3,493,933	(4,360,586)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,289,092)	(1,654,444)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	28,478,667	25,171,047
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 40)	25,189,575	23,516,603
Interest received	6,296,163	6,577,089
Interest paid (excluding interest expense on debts securities issued and lease liabilities)	(5,100,296)	(4,212,832)

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

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 (the “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 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 June 30, 2021, the Bank has a head office, 12 branches, 184 sub-branches, 5 micro-to-small enterprise sub-branches, 3 community sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (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 mainly in Gansu Province of Mainland China.

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended June 30, 2021 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange, and with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, issued by the International Accounting Standards Board (“IASB”).

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2020.

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the IASB which are effective for the Group's financial year beginning January 1, 2021.

Amendments to IFRS 16	COVID-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

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

Changes of Accounting Estimates

Change of depreciation rate

	Prior to change in depreciation policy	Change in depreciation policy effective from January 1, 2021
Classes	Useful lives	Useful lives
Premises	20 years	20 to 30 years
Electronic equipment	5 years	3 to 5 years
Motor vehicles	5 years	5 to 8 years
Leasehold improvement	Shorter of 5 years or economic useful lives	Shorter of 5 to 10 years or economic useful lives
Computer software	Shorter of 3 years or economic useful lives	Shorter of 5 to 8 years or economic useful lives
Office equipment	5 years	5 to 8 years

The change of depreciation policy as a result of more reliable estimation to reflect the financial and operation position of the Bank, with an accurate depreciation policy to match with the useful lives of property and equipment of the Bank. This change in depreciation rate has decreased the depreciation charge for the six months ended June 30, 2021 by approximately RMB55,729,000. The changes in useful lives of the Group's property and equipment are considered as changes in accounting estimates and are to be accounted for prospectively without retrospective adjustment. Therefore, such changes will not have any impact on the Group's condensed consolidated financial statements for previous years.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

4. NET INTEREST INCOME

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income arising from		
– Deposits with the central bank	167,682	178,838
– Deposits with banks	13,337	27,104
– Placements with banks and other financial institutions	91	696
– Loans and advances to customers:		
Corporate loans and advances	3,444,993	3,370,459
Personal loans and advances	1,289,365	1,065,901
Discounted bills	443,946	422,291
– Financial assets held under resale agreements	200,196	177,258
– Financial assets at fair value through other comprehensive income	195,566	278,544
– Financial assets at amortised cost	1,163,510	1,573,906
	6,918,686	7,094,997
Less: Interest expenses arising from		
– Borrowings from the central bank	(64,155)	(16,866)
– Deposits from banks and other financial institutions	(312,697)	(218,677)
– Placements from banks and other financial institutions	–	(11,958)
– Deposits from customers:		
Corporate customers	(1,207,260)	(1,108,124)
Individual customers	(2,464,076)	(2,484,094)
– Financial assets sold under repurchase agreements	(61,915)	(36,551)
– Debts securities issued	(414,919)	(727,779)
– Lease liabilities	(2,736)	(3,139)
	(4,527,758)	(4,607,188)
	2,390,928	2,487,809

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

5. NET FEE AND COMMISSION INCOME

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fee and commission income		
– Wealth management service fees	11,127	26,801
– Bank acceptance bills service fees	17,466	8,929
– Agency services fees	33,231	27,567
– Settlement and clearing fees	67,705	108,214
– Letter of guarantee service fees	–	1,373
– Others	61,777	29,142
	191,306	202,026
Fee and commission expenses		
– Settlement and clearing fees	(3,577)	(432)
– Bank card service fees	(15,115)	(14,406)
– Others	(5,761)	(675)
	(24,453)	(15,513)
	166,853	186,513

6. NET TRADING GAINS

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Trading financial instruments		
– Realised gains from debt securities	142,587	134,978
– Unrealised losses from debt securities	(29,172)	(33,373)
Interest income arising from financial asset at FVTPL	301,570	396,680
	414,985	498,285

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

7. NET GAINS ARISING FROM INVESTMENT SECURITIES

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net gains on disposal of debt instruments at fair value through other comprehensive income	64,362	7,030

8. OTHER OPERATING INCOME/ (EXPENSE), NET

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants (Note)	780	3,747
Rental income	2,238	399
Loss on disposal of repossessed assets	–	(11)
Gain/ (loss) on disposal of property and equipment	292	(2)
Other operating expenses	(1,133)	(6,517)
	2,177	(2,384)

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. There are no unfulfilled conditions or contingencies attaching to government grants that have been recognised.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

9. OPERATING EXPENSES

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff costs (including directors' emoluments)		
– Salaries and bonuses	335,060	283,746
– Staff welfares	16,195	13,067
– Social insurance	106,074	99,209
– Housing allowances	36,418	35,874
– Labor union and staff education expenses	5,004	4,030
– Others	742	1,068
	499,493	436,994
Premises and equipment expenses		
– Depreciation of property and equipment	109,030	199,642
– Depreciation of right-of-use assets	73,559	73,193
– Amortisation of intangible assets	3,363	2,914
– Rental and property management expenses	11,671	19,896
	197,623	295,645
Business tax and surcharges	53,747	48,478
Other general and administrative expenses	171,641	177,117
	922,504	958,234

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

10. IMPAIRMENT LOSSES ON ASSETS, NET OF REVERSALS

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment losses on assets, net of reversals:		
Financial assets at FVTOCI	(65)	(422)
Financial assets at amortised cost	583,442	324,898
Loans and advances to customers	1,109,044	1,556,748
Acceptance bills, letters of guarantees and unused credit card commitments	–	8,603
	1,692,421	1,889,827

11. INCOME TAX (CREDIT)/ EXPENSE

(a) Income tax:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
– PRC Enterprise Income Tax	1,302	1,051
Deferred tax (Note 24)		
– Current year	(18,437)	26,374
	(17,135)	27,425

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

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

11. INCOME TAX (CREDIT)/ EXPENSE (CONTINUED)

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

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax	365,586	395,954
Tax at domestic income tax rate of 25%	91,397	98,989
Tax effect of share of result of an associate	(83)	(154)
Tax effect of expenses not deductible for tax purpose (Note (i))	6,909	12,839
Tax effect of income that are not taxable for tax purpose (Note (ii))	(114,955)	(83,457)
Income tax on concessionary rate	(403)	(792)
Income tax (credit)/ expense	(17,135)	27,425

Notes:

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

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

12. EARNINGS PER SHARE

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

	Six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Bank (RMB'000)	381,447	366,183
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	15,069,791	10,069,791

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the six months ended June 30, 2021 and 2020.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

13. CASH AND DEPOSITS WITH THE CENTRAL BANK

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Cash on hand	506,758	600,864
Deposits with the central bank		
– Statutory deposit reserve (Note (a))	20,208,287	20,947,416
– Surplus deposit reserve (Note (b))	2,915,848	5,079,698
– Fiscal deposits	154,659	38,702
	23,278,794	26,065,816
	23,785,552	26,666,680

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 June 30, 2021 and December 31, 2020, the statutory deposit reserve ratios applicable to the Bank were as follows:

	At June 30, 2021 (Unaudited)	At December 31, 2020 (Audited)
Reserve ratio for RMB deposits	8.0%	8.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

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.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

14. DEPOSITS WITH BANKS

Analysed by type and location of counterparty

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Deposits in Mainland China		
– Banks	5,482,360	1,804,589
Deposits outside Mainland China		
– Banks	78,798	1,911,556
	5,561,158	3,716,145

As at June 30, 2021 and December 31, 2020, the Group classifies all deposits with banks in Stage 1, and measures the loss allowance equal to 12-month expected credit losses (“ECL”).

15. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
In Mainland China		
– Banks	–	2,230,332
– Other financial institutions	16,205,811	16,919,759
	16,205,811	19,150,091

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

15. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(b) Analysed by type of security held

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Debt securities		
– Government	4,800,696	4,111,739
– Banks and other financial institutions	11,405,115	15,038,352
	16,205,811	19,150,091

As at June 30, 2021 and December 31, 2020, the Group classifies all financial assets held under resale agreements in Stage 1, and measures the loss allowance equal to 12-month ECL.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

16. FINANCIAL ASSETS AT AMORTISED COST

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Financial asset measured at amortised cost		
Debt securities issued by the following institutions in Mainland China		
– Government	22,747,870	22,687,965
– Banks and other financial institutions	11,295,577	13,905,876
– Corporations	3,831,088	4,647,611
Trust plans	17,295,244	17,490,179
Asset management plans	11,168,700	11,308,700
Asset-backed securities issued by bank and other institutions	236,785	249,000
	66,575,264	70,289,331
Less: Provision for impairment losses	(1,611,748)	(1,357,230)
	64,963,516	68,932,101
Analysed as:		
Listed outside Hong Kong	36,002,345	38,189,110
Unlisted outside Hong Kong	28,961,171	30,742,991
	64,963,516	68,932,101
Fair value	65,027,559	68,792,814

At June 30, 2021 and December 31, 2020, parts of debt securities were pledged as security for repurchase agreement (Note 26(a)).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

17. INTERESTS RECEIVABLES

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Interests receivables arising from:		
– Investments	2,816,207	2,543,180
– Loans and advances to customers	2,240,405	1,584,369
– Financial assets held under resale agreements	3,575	11,488
– Deposits with banks	6,169	1,829
– Deposits with the central bank	9,696	11,093
	5,076,052	4,151,959

As at June 30, 2021 and December 31, 2020, the Group classifies all interest receivables in Stage 1, and measures the loss allowance equal to 12-month ECL. The amounts of the ECL are not significant, no ECL was provided during the six months ended June 30, 2021 and the year ended December 31, 2020.

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Gross loans and advances to customers		
Corporate loans and advances	115,926,591	110,853,360
Personal loans and advances		
– Personal business loans	6,032,604	6,572,616
– Personal consumption loans	16,906,194	13,876,986
– Residential and commercial mortgage loans	23,939,772	20,910,149
	46,878,570	41,359,751
Discounted bills	31,660,561	29,612,546
	194,465,722	181,825,657
Less: Provision for impairment losses	(5,517,208)	(5,438,890)
	188,948,514	176,386,767

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector

	At June 30, 2021		
	Amount RMB'000 (Unaudited)	Percentage (Unaudited)	Loans and advances secured by collaterals RMB'000 (Unaudited)
Gross loans and advances to customers			
Corporate loans and advances			
– Manufacturing	21,868,997	11.25%	10,717,718
– Wholesale and retail	13,115,318	6.75%	6,653,755
– Real estate	12,048,725	6.20%	11,991,225
– Construction	10,276,546	5.28%	5,642,540
– Mining	5,386,481	2.77%	2,206,689
– Agriculture, forestry, animal husbandry and fishery	8,369,817	4.30%	2,725,152
– Leasing and business services	13,031,186	6.70%	6,023,641
– Water, environment and public facility management	4,915,518	2.53%	3,712,918
– Cultural, sports and entertainment	4,630,086	2.38%	3,067,342
– Accommodation and catering	2,762,817	1.42%	2,300,077
– Electricity, gas and water production and supply	2,061,686	1.06%	629,788
– Transportation, storage and postal services	8,607,733	4.43%	952,403
– Health and social services	2,071,950	1.07%	601,214
– Education	1,582,126	0.81%	250,963
– Finance	3,770,000	1.94%	–
– Scientific research, technical services and geological prospecting	743,338	0.38%	78,900
– Resident and other services	489,443	0.25%	351,159
– Information transmission, computer services and software	118,344	0.06%	45,710
– Public administration, social security and social organisations	76,480	0.04%	74,700
	115,926,591	59.62%	58,025,894
Personal loans and advances	46,878,570	24.11%	23,072,209
Discounted bills	31,660,561	16.27%	–
	194,465,722	100.00%	81,098,103
Less: Provision for impairment losses	(5,517,208)		
	188,948,514		

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by industry sector (Continued)

	At December 31, 2020		
	Amount RMB'000 (Audited)	Percentage (Audited)	Loans and advances secured by collaterals RMB'000 (Audited)
Gross loans and advances to customers			
Corporate loans and advances			
– 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		

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Gross loans and advances to customers		
Unsecured loans	25,612,509	23,176,745
Guaranteed loans	74,006,539	60,822,436
Collateralised loans	81,098,102	83,120,261
Pledged loans	13,748,572	14,706,215
Less: Provision for impairment losses	194,465,722 (5,517,208)	181,825,657 (5,438,890)
	188,948,514	176,386,767

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Loans and advances and provision for impairment losses

	At June 30, 2021			
	Stage 1	Stage 2	Stage 3	Total
	12m ECL RMB'000 (Unaudited)	Lifetime ECL RMB'000 (Unaudited)	Lifetime ECL-credited impaired RMB'000 (Unaudited)	
Gross loans and advances to customers	182,534,438	7,770,413	4,160,871	194,465,722
Less: Provision for impairment losses	(2,320,469)	(1,435,661)	(1,761,078)	(5,517,208)
	180,213,969	6,334,752	2,399,793	188,948,514

	At December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
	12m ECL RMB'000 (Audited)	Lifetime ECL RMB'000 (Audited)	Lifetime ECL-credited impaired RMB'000 (Audited)	
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

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Movements of provision for impairment losses

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

	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
At January 1, 2021	2,213,624	1,502,306	1,722,960	5,438,890
Change in the provision for impairment losses				
– Transfer to Stage 1	515,562	(503,436)	(12,126)	–
– Transfer to Stage 2	(101,150)	103,407	(2,257)	–
– Transfer to Stage 3	(6,661)	(218,445)	225,106	–
– Write-offs and others	–	–	(1,040,743)	(1,040,743)
– (Reversal)/ charge to profit or loss	(300,906)	551,829	858,121	1,109,044
– Recoveries of loans and advances previously written off	–	–	10,017	10,017
At June 30, 2021 (Unaudited)	2,320,469	1,435,661	1,761,078	5,517,208

	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
At January 1, 2020	1,760,988	2,163,408	1,758,009	5,682,405
Change in the provision for impairment losses				
– Transfer to Stage 1	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
At December 31, 2020 (Audited)	2,213,624	1,502,306	1,722,960	5,438,890

(f) Analysed by geographical sector

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

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Financial assets held for trading (Note)	2,849,925	2,351,893
Trust plans	1,609,690	1,635,851
Asset management plans	12,783,499	14,363,297
Investment funds	11,809,570	7,486,448
	29,052,684	25,837,489
Analysed as:		
Listed outside Hong Kong	2,849,925	2,351,893
Unlisted outside Hong Kong	26,202,759	23,485,596
	29,052,684	25,837,489

Note:

Financial assets held for trading:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Debt securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	2,077,423	1,970,881
– Corporations	772,502	381,012
	2,849,925	2,351,893

As at June 30, 2021, no financial assets at FVTPL were subject to material restrictions on the realisation (December 31, 2020: nil).

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

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Debt instruments at FVTOCI		
Debt securities issued by the following institutions in Mainland China		
– Government	3,565,013	3,645,248
– Banks and other financial institutions	5,257,360	6,920,507
– Corporations	322,935	325,782
	9,145,308	10,891,537
Unlisted equity investments designated at FVTOCI	321,578	321,578
	9,466,886	11,213,115
Analysed as:		
– Listed in Hong Kong	200,833	382,564
– Listed outside Hong Kong	8,944,475	10,508,973
– Unlisted outside Hong Kong	321,578	321,578
	9,466,886	11,213,115

At June 30, 2021 and December 31, 2020, parts of debt securities were pledged as security for repurchase agreement (Note 26(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.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

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

Movement of provision for impairment losses:

Provision for impairment losses – debt instruments at fair value through other comprehensive income	Stage 1 12m ECL RMB'000	Stage 2 Lifetime ECL RMB'000	Stage 3 Lifetime ECL RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2021	2,603	–	–	2,603
– Credit to profit or loss	(65)	–	–	(65)
Provision for impairment losses at June 30, 2021	2,538	–	–	2,538

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 RMB'000	Total RMB'000
Provision for impairment losses at January 1, 2020	3,125	–	–	3,125
– Credit to profit or loss	(522)	–	–	(522)
Provision for impairment losses at December 31, 2020	2,603	–	–	2,603

21. INTEREST IN AN ASSOCIATE

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Cost of investment in an associate, unlisted	3,000	3,000
Share of post-acquisition profits	7,555	7,224
	10,555	10,224

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

21. INTEREST IN AN ASSOCIATE (CONTINUED)

As at June 30, 2021 and December 31, 2020, 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
				2020	2021	2020	2021	
Gansu Jingchuan BOC Limited liability Fullerton Community Bank Co., Ltd* (“甘肃涇川中銀富登村鎮銀行股份有限公司”, “Gansu Jingchuan”)		The PRC	Ordinary share	16.67%	16.67%	16.67%	16.67%	Corporate and retail bank

Note: This associate is directly held by the Bank. The Group considered that it has the practical ability to exercise significant influence over Gansu Jingchuan even though it owns less than 20% of the ownership interest and voting control after taking into account 1) the Group’s ownership interest is significant relative to other shareholders due to the wide dispersion of shareholding interests; 2) the representation or rights to appoint/ nominate directors for the board of directors of the associate; and 3) the rights to participate in the policy-making process, including dividends and other distribution.

* The English translation is for identification only.

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

	Six months ended June 30,	
	2021 RMB’000 (Unaudited)	2020 RMB’000 (Unaudited)
The Group’s share of profit and total comprehensive income for the period	331	617

	At June 30,	At December 31,
	2021 RMB’000 (Unaudited)	2020 RMB’000 (Audited)
Carrying amount of the Group’s interests in the immaterial associate	10,555	10,224

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

22. PROPERTY AND EQUIPMENT

	Construction in progress RMB'000	Premises (Buildings) RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Computer software RMB'000	Office equipment RMB'000	Total RMB'000
Cost								
At January 1, 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)
At December 31, 2020 and January 1, 2021	440,858	2,443,633	607,447	49,922	504,017	420,389	111,280	4,577,546
Additions	84,482	-	2,461	486	12,168	19,516	3,038	122,151
Transfers (out)/ in of construction in progress	(92,114)	92,114	-	-	-	-	-	-
Disposals	-	-	(12,535)	(1,874)	-	-	(4,803)	(19,212)
At June 30, 2021 (Unaudited)	433,226	2,535,747	597,373	48,534	516,185	439,905	109,515	4,680,485
Accumulated depreciation and impairment								
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 and January 1, 2021	-	466,478	515,219	45,333	320,298	189,871	81,015	1,618,214
Provided for the period	-	42,272	8,548	206	14,303	37,287	6,414	109,030
Eliminated on disposals	-	-	(11,435)	(1,818)	-	-	(4,244)	(17,497)
At June 30, 2021 (Unaudited)	-	508,750	512,332	43,721	334,601	227,158	83,185	1,709,747
Carrying value								
At June 30, 2021 (Unaudited)	433,226	2,026,997	85,041	4,813	181,584	212,747	26,330	2,970,738
At December 31, 2020 (Audited)	440,858	1,977,155	92,228	4,589	183,719	230,518	30,265	2,959,332

At June 30, 2021, the premises with carrying values of approximately RMB1,933,129,000 (December 31, 2020: approximately RMB1,879,397,000) 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 right certificates were approximately RMB111,085,000 (December 31, 2020: approximately RMB113,324,000).

The aforementioned premises are located in PRC with medium term leases (10 – 50 years).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

23. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

i) Right-of use assets

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Premises	263,937	313,196
Land use rights in the PRC	24,833	25,242
	288,770	338,438

Additions to the right-of-use assets for the six months ended June 30, 2021 amounted to approximately RMB23,891,000 (six months ended June 30, 2020: approximately RMB69,089,000), due to new leases of office premises.

ii) Lease liabilities

As at June 30, 2021, the carrying amount of lease liabilities was approximately RMB239,974,000 (December 31, 2020: approximately RMB282,817,000).

During the six months ended June 30, 2021, the Group entered into a number of new lease agreements for office premises and recognised lease liability of approximately RMB23,891,000 (six months ended June 30, 2020: approximately RMB69,089,000).

Amounts payable under lease liabilities	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Within one year	9,025	113,227
After one year but within two years	54,980	75,985
After two year but within five years	172,891	90,500
After five years	3,078	3,105
	239,974	282,817

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

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

iii) Amount recognised in profit or loss

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Depreciation expense of premises	73,150	72,537
Depreciation expense of land use rights	409	656
Interest expense on lease liabilities	2,736	3,139
Expense relating to short-term leases	7,557	17,043

iv) Others

For the six months ended June 30, 2021 and 2020, the total cash outflow for leases amounted to approximately RMB77,027,000 and RMB80,409,000 respectively.

Restrictions or covenants on leases

As at June 30, 2021, lease liabilities of RMB239,974,000 are recognised with related right-of-use assets of RMB288,770,000 (December 31, 2020: lease liabilities of RMB282,817,000 and related right-of-use assets of RMB338,438,000). 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.

24. DEFERRED TAXATION

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

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
	Deferred tax assets	1,839,216
Deferred tax liabilities	(8,295)	(23,698)
	1,830,921	1,809,777

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

24. DEFERRED TAXATION (CONTINUED)

The following are the major deferred tax assets/ (liabilities) recognised and movements thereon in the six months ended June 30, 2021 and the year ended December 31, 2020:

	Provision for impairment losses on assets RMB'000 Note (i)	Net losses/ (gains) from fair value changes of financial instruments RMB'000 Note (ii)	Salaries, bonuses and allowances payable RMB'000	Tax losses RMB'000 Note (iii)	Net balance of deferred tax assets RMB'000
At January 1, 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 and January 1, 2021	1,509,622	(18,278)	26,863	291,570	1,809,777
Credit/ (charge) to profit or loss	72,606	7,293	-	(61,461)	18,438
Credit to other comprehensive income	16	2,690	-	-	2,706
At June 30, 2021 (Unaudited)	1,582,244	(8,295)	26,863	230,109	1,830,921

Notes:

- (i) The Group recognised provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets as at June 30, 2021 and December 31, 2020. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets as at June 30, 2021 and December 31, 2020, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.
- (iii) At June 30, 2021 and December 31, 2020, the Group has unused tax losses of approximately RMB920,436,000 (December 31, 2020: approximately RMB1,166,280,000), 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.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

25. OTHER ASSETS

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Other receivables and prepayments (Note (i))	1,234,110	992,377
Intangible assets (Note (ii))	15,215	18,520
Repossessed assets (Note (iii))	162,465	156,751
Other	338	324
	1,412,128	1,167,972

Notes:

(i) Other receivables and prepayments:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Other receivables and prepayments	1,325,407	1,083,674
Less: Provision for impairment losses	(91,297)	(91,297)
	1,234,110	992,377

Movements of allowance for impairment loss:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
At the beginning of the period/ year	91,297	100,660
Reversal of impairment losses recognised	–	(9,363)
	91,297	91,297

At June 30, 2021 and December 31, 2020, the Group classifies all other receivables in Stage 1, and measures the loss allowance equal to 12-month ECL.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

25. OTHER ASSETS (CONTINUED)

Notes: (Continued)

(ii) Movements of intangible assets:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Cost		
At the beginning of the period/ year	33,954	31,930
Additions	58	2,024
At the end of the period/year	34,012	33,954
Accumulated amortisation		
At the beginning of the period/ year	15,434	9,040
Amortisation for the period/ year	3,363	6,394
At the end of the period/ year	18,797	15,434
Carrying amounts		
At the end of the period/ year	15,215	18,520

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

(iii) Repossessed assets

No impairment loss has been recognised for repossessed assets for the six months ended June 30, 2021 and for the year ended December 31, 2020.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

26. 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 June 30, 2021 are approximately RMB16,652,002,000 (December 31, 2020: approximately RMB19,802,025,000).

(b) Received pledged assets

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

27. BORROWINGS FROM THE CENTRAL BANK

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Borrowings	1,943,999	1,684,364
Re-discounted bills	4,960,577	4,935,831
	6,904,576	6,620,195

28. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparties

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Deposits from the following institutions operating in Mainland China		
– Banks	6,066,333	6,103,280
– Other financial institutions	5,600,906	4,751,700
	11,667,239	10,854,980
Deposits from the following institutions operating outside Mainland China		
– Banks	770,706	770,744
	12,437,945	11,625,724

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

29. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparties

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
In Mainland China		
– Banks	5,191,700	6,837,518
– Other financial institutions	1,600,000	1,892,552
	6,791,700	8,730,070

(b) Analysed by collateral

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Debt securities	6,791,700	8,730,070

(c) Transfer of financial assets

In daily operating activities, the Group entered into repurchase agreements with certain counterparties. As at June 30, 2021, there are debt securities with carrying amount of RMB6,791,700,000 under these agreements measured at amortised cost (December 31, 2020: approximately RMB8,730,070,000). The proceeds from selling such debt securities totalling RMB6,791,700,000 as at June 30, 2021 (December 31, 2020: approximately RMB8,730,070,000).

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.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

30. DEPOSITS FROM CUSTOMERS

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Demand deposits		
– Corporate customers	58,131,792	60,133,866
– Individual customers	31,079,162	31,259,494
	89,210,954	91,393,360
Time deposits		
– Corporate customers	23,015,731	22,260,582
– Individual customers	126,861,704	117,781,557
	149,877,435	140,042,139
Pledged deposits		
– Acceptances	7,156,145	8,163,377
– Guarantees and letters of guarantees	197,254	197,905
– Others	3,673,912	3,484,391
	11,027,311	11,845,673
Others	4,439,957	6,396,529
	254,555,657	249,677,701

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

31. ACCRUED STAFF COSTS

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Salary and bonus payable	365,935	495,102
Social pension schemes payable (Note (i))	12,861	8,086
Other social insurances payable	47,765	25,587
Supplementary retirement benefits payable (Note (ii))	17,380	17,310
Other long-term staff welfare payable (Note (iii))	4,430	5,180
	448,371	551,265

Notes:

(i) **Social pension schemes payable**

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution plan for the employees arranged by local government labor and social security organisations. The Group makes contributions to the retirement plan at the applicable rates based on the amounts stipulated by the relevant government organisations. The contributions by the Group for the defined contribution plan above are charged to the statement of profit or loss as they become payable in accordance with the rules of the respective defined contribution plan. The only obligation of the Group with respect to such defined contribution plan is to make the specified contributions. During the period/year ended June 30, 2021 and December 31, 2020, there was no forfeited contributions under the defined contribution plan. Accordingly, no forfeited contribution was utilised during the period/year, and there was no forfeited contribution available as at June 30, 2021 and December 31, 2020 to reduce level of contributions.

(ii) **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 period/ 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). There was no assets under the defined benefit plans as at June 30, 2021 and December 31, 2020.

The balances of SRB of the Group are as follows:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Present value of SRB obligation	17,380	17,310

Movements of SRB of the Group are as follows:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
At the beginning of the year	17,310	36,470
Service cost	500	1,840
Interest cost	270	870
Past service cost	–	(19,550)
Actuarial losses	–	(850)
Payment made	(700)	(1,470)
At the end of the year	17,380	17,310

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

31. ACCRUED STAFF COSTS (CONTINUED)

Notes: (Continued)

(ii) Supplementary retirement benefits ("SRB"): (Continued)

Principal actuarial assumptions of the Group are as follow:

	At June 30, 2021 (Unaudited)	At December 31, 2020 (Audited)
Discount rate	3.25%	3.25%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

Sensitivity analysis:

	Effect on SRB	
	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Discount rate (increase by 1%)	(164)	(164)
Discount rate (decrease by 1%)	231	231

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.

(iii) 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 period/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. There was no assets under the defined benefit plans as at June 30, 2021 and December 31, 2020.

The balances of other long-term staff welfare payable of the Group are as follows:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Present value of other long-term staff welfare payable obligation	4,430	5,180

Movements of other long-term staff welfare payable of the Group are as follows:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
At the beginning of the year	5,180	6,870
Service cost	60	(170)
Payment made	(810)	(1,520)
At the end of the year	4,430	5,180

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

31. ACCRUED STAFF COSTS (CONTINUED)

Notes: (Continued)

(iii) Other long-term staff welfare payable (Continued)

Principal actuarial assumptions of the Group are as follow:

	At June 30, 2021	At December 31, 2020
Discount rate	2.8%	2.8%
Mortality	CL5/CL6	CL5/CL6
Early retirement wage growth rate	6%	6%

Sensitivity analysis:

	Effect on long-term staff welfare payable	
	At June 30, 2021	At December 31, 2020
	RMB'000	RMB'000
Discount rate (increase by 1%)	(11)	(11)
Discount rate (decrease by 1%)	12	12

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.

32. INTERESTS PAYABLE

	At June 30, 2021	At December 31, 2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Deposits from customers	6,379,238	7,441,618
Deposits from banks and other financial institutions	156,398	79,757
Borrowings from the central bank	22,728	22,607
Debts securities issued	10,411	79,436
Others	1,670	6,245
	6,570,445	7,629,663

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

33. DEBT SECURITIES ISSUED

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Fixed rates financial bonds (Note (i))	999,804	2,499,512
Interbank deposits (Note (ii))	26,598,673	21,052,033
	27,598,477	23,551,545

Notes:

(i) Fixed rates financial bonds

- (a) Fixed rate financial bonds at a face value of RMB1,000,000,000 with a term of five years were issued on April 19, 2017. The coupon rate is 5.00%. The effective interest rate per annum on the Group's fixed rate financial bonds issued is 5.02%. As at June 30, 2021, the outstanding balance of this fixed rate financial bonds issued is approximately RMB999,804,000 (December 31, 2020: RMB999,750,000).
- (b) 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. The fixed rate financial bonds for the "three rurals" (the first tranche) were fully settled during the six months ended June 30, 2021.

(ii) Interbank deposits

- (a) During the six months ended June 30, 2021, the Bank issued a number of zero coupon interbank deposits with total nominal amount of RMB29,840,000,000 and duration between 1 month to 1 year. As at June 30, 2021, the outstanding balance of interbank deposits issued is approximately RMB26,598,673,000. The ranges of effective interest rates per annum on the Group's interbank deposits issued are 2.53% to 3.60%.
- (b) 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%.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

34. OTHER LIABILITIES

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Other payable and accrued expenses	318,059	317,549
Clearance of inter-bank accounts	1,586,640	1,635,427
Agency business liabilities	72,839	60,729
Dividend payable	23,724	23,716
Other tax payables	92,710	107,375
Fiscal deposits	14,168	6,166
Provision for bank acceptances and letters of guarantees	34,818	34,818
Others	42,822	16,922
	2,185,780	2,202,702

35. SHARE CAPITAL

Share capital as at June 30, 2021 and December 31, 2020 are as follows:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Registered, issued and fully paid ordinary shares of RMB1 each:		
- Ordinary shares	15,069,791	15,069,791

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

36. RESERVES

(a) Capital reserve

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Share premium	5,633,746	5,633,746
Shareholders' injection (Note)	321,711	321,183
Changes in ownership in a subsidiary without change in control	554	554
	5,956,011	5,955,483

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 six months ended June 30, 2021, net proceed of approximately RMB528,000 (six months ended June 30, 2020: approximately RMB582,000) were received as shareholders' injection. As at June 30, 2021, approximately RMB321,711,000 has been recorded as capital reserve (December 31, 2020: approximately RMB321,183,000).

(b) Surplus reserve

The surplus reserve at June 30, 2021 and December 31, 2020 represented statutory surplus reserve fund and other surplus reserve. The statutory surplus reserve fund of the Group as at June 30, 2021 were approximately RMB1,671,055,000 (December 31, 2020: approximately RMB1,615,945,000).

The Bank and its subsidiary are required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(c) General reserve

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

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

37. DIVIDENDS

No dividend was paid or proposed during the six months ended June 30, 2021, nor has any dividend been proposed since the end of the reporting period (six months ended June 30, 2020: nil).

38. STRUCTURED ENTITIES

(a) Unconsolidated structured entities

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

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include trust fund plans, asset management plans, asset-backed securities 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 June 30, 2021 and December 31, 2020:

	At June 30, 2021			
	Financial assets at FVTPL RMB'000 (Unaudited)	Financial assets at amortised cost RMB'000 (Unaudited)	Carrying amount RMB'000 (Unaudited)	Maximum exposure RMB'000 (Unaudited)
Trust plans	1,609,690	17,295,244	18,904,934	18,904,934
Asset management plans	12,783,499	11,168,700	23,952,199	23,952,199
Asset-backed securities issued by bank and other institutions	–	236,785	236,785	236,785
Investment funds	11,809,570	–	11,809,570	11,809,570
	26,202,759	28,700,729	54,903,488	54,903,488

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

38. STRUCTURED ENTITIES (CONTINUED)

(a) Unconsolidated structured entities (Continued)

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

	At December 31, 2020			
	Financial assets at FVTPL RMB'000 (Audited)	Financial assets at amortised cost RMB'000 (Audited)	Carrying amount RMB'000 (Audited)	Maximum exposure RMB'000 (Audited)
Trust plans	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 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

- (ii) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in as at June 30, 2021 and December 31, 2020:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at June 30, 2021, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the consolidated statements of financial positions.

As at June 30, 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, are approximately RMB24,908,430,000 (December 31, 2020: approximately RMB22,722,790,000).

- (iii) Unconsolidated structured entities sponsored by the Group during the year which the Group do not have an interest in as at June 30, 2021 and December 31, 2020:

During the six months ended June 30, 2021, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before June 30 amounted to approximately RMB5,766,271,000.

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 approximately RMB24,797,249,000.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

39. 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 on a continuing basis in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

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

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's interim financial statements prepared in accordance with PRC GAAP. During the period/ year ended June 30, 2021 and December 31, 2020, the Group has complied with all its externally imposed capital requirements.

The Group's overall strategies towards the capital management remain unchanged from prior years and periods.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

39. CAPITAL MANAGEMENT (CONTINUED)

The Group's capital adequacy ratios as at June 30, 2021 and December 31, 2020 calculated in accordance with "Administrative Measures for the Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the CBIRC are as follows:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Total core tier-one capital		
Share capital	15,069,791	15,069,791
Qualifying portion of capital reserve	5,956,011	5,955,483
Defined benefit plan reserve	(2,762)	(2,762)
Investment revaluation reserve	129,040	137,157
Surplus reserve	1,671,055	1,615,945
General reserve	4,538,992	4,538,992
Retained earnings	4,440,254	4,113,917
Qualifying portions of non-controlling interests	22,759	20,517
Core tier-one capital deductions (Note)	(227,963)	(249,038)
Net core tier-one capital	31,597,177	31,200,002
Eligible portion of non-controlling interests	3,034	2,736
Net tier-one capital	31,600,211	31,202,738
Tier-two capital		
Surplus provision for loan impairment	1,362,407	1,294,339
Eligible portion of non-controlling interests	6,069	5,472
Net capital base	32,968,687	32,502,549
Total risk weighted assets	256,991,254	242,733,465
Core tier-one capital adequacy ratio	12.30%	12.85%
Tier-one capital adequacy ratio	12.30%	12.85%
Capital adequacy ratio	12.83%	13.39%

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".

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

40. CASH AND CASH EQUIVALENTS

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

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Cash on hand	506,758	600,864
Deposits with the central bank	2,915,848	5,079,698
Deposits with banks	5,561,158	3,648,014
Financial assets held under resale agreements	16,205,811	19,150,091
	25,189,575	28,478,667

41. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS

(a) Related parties

(i) Major shareholders

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

Shareholding in the Bank:

	At June 30, 2021 (Unaudited)	At December 31, 2020 (Audited)
Gansu Province Highway Aviation Tourism Investment Group Co., Ltd.	17.63%	17.63%
Gansu State-owned Assets Investment Co., Ltd.	12.67%	12.67%
Gansu Financial Holding Group Co., Ltd.	8.29%	8.29%
Mengshang Bank Co., Ltd	5.61%	5.61%
Jiuquan Iron & Steel (Group) Co., Ltd.	6.53%	6.53%
Jinchuan Group Co., Ltd.	6.53%	6.53%

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

41. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Related parties (Continued)

(ii) Other related parties

Other related parties can be individuals or enterprises, which include members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 41(a)(i) or their controlling shareholders. Transactions with other related parties were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

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

(i) Transactions between the Bank and subsidiary

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

(ii) Transactions between the Group and major shareholders

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Transactions during the period		
Interest income	95,467	30,230
Interest expense	53,838	31,965

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

41. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

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

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

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Balances at end of the period/ year		
Loans and advances to customers	5,383,000	1,500,000
Deposits from customers	3,537,943	2,778,450
Financial assets at FVTOCI	322,935	325,782
Interests payable	1,663	6,122

(iii) Transactions between the Group and other related parties

	Six months ended June 30, 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Transactions during the period		
Interest income	203,638	145,704
Interest expense	113,763	80,807

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Balances at end of the period/ year		
Loans and advances to customers	9,650,560	6,724,440
Deposits from customers	5,917,846	6,643,703
Deposits from banks and other financial institutions	304,156	494,978
Interests payable	5,202	19,078

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

41. RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

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

(i) Transactions between the Group and key management personnel

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Transactions during the period		
Interest income	49	–
Interest expense	1	1

	At June 30,	At December 31,
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Balances at end of the period/ year		
Loans and advances to customers	1,823	1,845
Deposits from customers	423	6,953
Interests payables	–	19

(ii) Key management personnel compensation

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

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries and allowances	1,640	1,523
Retirement benefits scheme contributions	695	747
Discretionary bonuses	1,030	829
	3,365	3,099

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

During the six months ended June 30, 2021, there is no loans and advances to directors, supervisors and officers of the Group (six months ended June 30, 2020: nil).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

42. 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)". Interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/ (expense)".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, with the exception of deferred tax assets and liabilities and dividend payable. Segment income and expenses, assets and liabilities are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, right-of-use assets and intangible assets.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

42. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities

	Six months ended June 30, 2021				
	Corporate banking RMB'000 (Unaudited)	Retail banking RMB'000 (Unaudited)	Financial market operations RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Operating income					
External net interest income/ (expense)	2,237,733	(1,174,711)	1,327,906	-	2,390,928
Internal net interest (expense)/ income	(1,040,209)	2,077,569	(1,037,360)	-	-
Net interest income	1,197,524	902,858	290,546	-	2,390,928
Net fee and commission income	76,483	11,127	17,466	61,777	166,853
Net trading gains	-	-	414,985	-	414,985
Net gains arising from investment securities	-	-	64,362	-	64,362
Net exchange losses	-	-	-	(59,125)	(59,125)
Other operating income, net	-	-	-	2,177	2,177
Operating income	1,274,007	913,985	787,359	4,829	2,980,180
Operating expenses	(394,364)	(282,920)	(243,724)	(1,496)	(922,504)
Impairment losses on assets, net of reversals	(294,834)	(801,944)	(595,643)	-	(1,692,421)
Operating profit/ (loss)	584,809	(170,879)	(52,008)	3,333	365,255
Share of profit of an associate	-	-	-	331	331
Profit/ (loss) before tax	584,809	(170,879)	(52,008)	3,664	365,586
Segment assets	113,885,722	46,649,656	186,443,567	763,419	347,742,364
Deferred tax assets	-	-	-	1,839,216	1,839,216
Total assets	113,885,722	46,649,656	186,443,567	2,602,635	349,581,580
Segment liabilities	87,484,992	164,009,135	65,953,181	263,276	317,710,584
Dividend payable	-	-	-	23,724	23,724
Deferred tax liabilities	-	-	-	8,295	8,295
Total liabilities	87,484,992	164,009,135	65,953,181	295,295	317,742,603
Other segment information					
- Depreciation and amortisation	60,579	24,814	99,174	1,385	185,952
- Capital expenditure	39,813	16,308	65,178	910	122,209

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

42. SEGMENT REPORTING (CONTINUED)

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

	Six months ended June 30, 2020				
	Corporate banking RMB'000 (Unaudited)	Retail banking RMB'000 (Unaudited)	Financial market operations RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Operating income					
External net interest income/ (expense)	2,262,336	(1,418,193)	1,643,666	-	2,487,809
Internal net interest (expense)/ income	(825,497)	2,014,971	(1,189,474)	-	-
Net interest income	1,436,839	596,778	454,192	-	2,487,809
Net fee and commission income	121,642	26,801	8,929	29,141	186,513
Net trading gains	-	-	498,285	-	498,285
Net gains arising from investment securities	-	-	7,030	-	7,030
Net exchange gain	-	-	-	66,145	66,145
Other operating expense, net	-	-	-	(2,384)	(2,384)
Operating income	1,558,481	623,579	968,436	92,902	3,243,398
Operating expenses	(460,440)	(184,231)	(286,116)	(27,447)	(958,234)
Impairment losses on assets	(1,418,745)	(193,253)	(269,226)	(8,603)	(1,889,827)
Operating (loss)/ profit	(320,704)	246,095	413,094	56,852	395,337
Share of profit of an associate	-	-	-	617	617
(Loss)/ profit before tax	(320,704)	246,095	413,094	57,469	395,954
Segment assets	112,690,769	36,905,009	186,922,645	591,894	337,110,317
Deferred tax assets	-	-	-	1,608,476	1,608,476
Total assets	112,690,769	36,905,009	186,922,645	2,200,370	338,718,793
Segment liabilities	102,901,205	147,138,391	63,421,979	72,483	313,534,058
Dividend payable	-	-	-	23,811	23,811
Deferred tax liabilities	-	-	-	92,470	92,470
Total liabilities	102,901,205	147,138,391	63,421,979	188,764	313,650,339
Other segment information					
- Depreciation and amortisation	91,740	30,044	152,174	1,791	275,749
- Capital expenditure	94,201	30,849	156,253	1,839	283,142

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

42. SEGMENT REPORTING (CONTINUED)

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

	As at December 31, 2020				
	Corporate banking RMB'000 (Audited)	Retail banking RMB'000 (Audited)	Financial market operations RMB'000 (Audited)	Others RMB'000 (Audited)	Total RMB'000 (Audited)
Segment assets	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
Dividend payable	-	-	-	23,716	23,716
Deferred tax liabilities	-	-	-	23,698	23,698
Total liabilities	90,430,662	156,258,449	64,023,809	186,122	310,899,042

(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 six months ended June 30, 2021 and 2020, no operating income from a customer contributes over 10% of the total operating income of the Group.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

43. 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) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at June 30, 2021 and December 31, 2020.

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

Fair values of debt securities issued are based on the present value of estimated future cash flows at June 30, 2021 and December 31, 2020. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at June 30, 2021 and December 31, 2020.

(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 costs, financial assets at FVTPL and financial assets at FVTOCI.

Deposits with the central bank, deposits with banks and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

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

The carrying amount and fair value of financial assets at amortised cost are disclosed in Note 16.

The fair value of financial assets at FVTPL and FVTOCI are disclosed in Note 19 and Note 20 respectively.

(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 28, 30 and 33 respectively. Accordingly, the carrying amounts approximate the fair values.

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy

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

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

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

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

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

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

	At June 30, 2021			
	Level 1 RMB'000 (Unaudited)	Level 2 RMB'000 (Unaudited)	Level 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Assets				
Financial assets at FVTPL				
– Debt securities held for trading	–	2,849,925	–	2,849,925
– Trust plans	–	1,609,690	–	1,609,690
– Asset management plans	–	12,783,499	–	12,783,499
– Investment funds	–	11,809,570	–	11,809,570
Financial assets at FVTOCI				
– Debt instruments at FVTOCI	–	9,145,308	–	9,145,308
– Unlisted equity investments measured at FVTOCI	–	–	321,578	321,578
	–	38,197,992	321,578	38,519,570

	At December 31, 2020			
	Level 1 RMB'000 (Audited)	Level 2 RMB'000 (Audited)	Level 3 RMB'000 (Audited)	Total RMB'000 (Audited)
Assets				
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

During the six months ended June 30, 2021, there were no significant transfers among each level (December 31, 2020: nil).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

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

Financial assets	Fair value as at,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of key inputs and significant unobservable inputs to fair value
	June 30, 2021	December 31, 2020				
	RMB'000	RMB'000				
Financial assets at FVTPL						
Debt securities – listed	2,849,925	2,351,893	Level 2	Based on valuation results provided by China Central Depository & Clearing Co., determined by using discounted cash flow model	N/A	N/A
Trust plans	1,609,690	1,635,851	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses	N/A	N/A
Asset management plans	12,783,499	14,363,297	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses	N/A	N/A
Investment funds	11,809,570	7,486,448	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
Financial assets at FVTOCI						
Debt securities – listed	9,145,308	10,891,537	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	321,578	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% (December 31, 2020: 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 (December 31, 2020: RMB3,332,000 and vice versa).

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (Continued)

Reconciliation of Level 3 fair value measurements of financial assets:

	Unlisted equity investments designated as financial assets at FVTOCI RMB'000
At January 1, 2020	315,094
Additions	28,165
Change in fair value recognised in investment revaluation reserve	(21,681)
At December 31, 2020 and June 30, 2021	321,578

44. ENTRUSTED LENDING BUSINESS

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

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Entrusted loans	4,870,587	3,620,685
Entrusted funds	4,870,587	3,620,685

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

45. 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.

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Bank acceptances	16,107,063	18,488,830
Letters of guarantees	1,667,904	1,686,482
Unused credit card commitments	7,592,221	5,857,325
Letters of credit	1,789,796	903,816
	27,156,984	26,936,453

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 June 30, 2021 and December 31, 2020, the Group's authorised capital commitments are as follows:

	At June 30, 2021 RMB'000 (Unaudited)	At December 31, 2020 RMB'000 (Audited)
Purchase of property and equipment – Contracted for but not provided	58,437	30,248

Chapter 9

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2021

46. CONTINGENT LIABILITIES

The Bank and its subsidiary are involved as defendants in certain lawsuits arising from their normal business operations. As at June 30, 2021, 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.

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	At January 1, 2021 RMB'000	Financing cash flows RMB'000	Non-cash changes			At June 30, 2021 RMB'000
			New lease arrangement entered RMB'000	Finance cost incurred RMB'000	Dividend declared to non-controlling interests RMB'000	
Liabilities						
Debt securities issued (Note 33)	23,551,545	3,685,994	-	360,938	-	27,598,477
Dividend payable (Note 34)	23,716	(893)	-	-	901	23,724
Lease liabilities (Note 23)	282,817	(69,470)	23,891	2,736	-	239,974
Interests payable on debt securities issued (Note 32)	79,436	(123,006)	-	53,981	-	10,411
	23,937,514	3,492,625	23,891	417,655	901	27,872,586

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

Chapter 10

Unaudited Supplementary Financial Information

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

1. LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (%)

	At June 30, 2021	Average for the six months ended June 30, 2021
Liquidity coverage ratio (RMB and foreign currency)	279.20%	262.25%

	At December 31, 2020	Average for the year ended December 31, 2020
Liquidity coverage ratio (RMB and foreign currency)	268.73%	226.57%

Leverage Ratio

	At June 30, 2021
Leverage ratio (RMB and foreign currency)	8.63%

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

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

Liquidity coverage ratio = high-quality liquid assets/net capital outflow in the next 30 days × 100%

Leverage ratio = (core tier 1 capital – corresponding capital deductions)/on and off-balance sheet assets after adjustment × 100%

2. CURRENCY CONCENTRATIONS

	At June 30, 2021		
	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	2,519,734.0	3,358,527.3	5,878,261.3
Spot liabilities	(4,280.4)	(53,508.0)	(57,788.4)
Net position	2,515,453.6	3,305,019.3	5,820,472.9

	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

The above information is computed in accordance with the provisions of the CBIRC. The Group has no structural position as at December 31, 2020 and June 30, 2021.

3. INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within People's Republic of China ("PRC"), and regards all claims on third parties outside PRC as international claims. International claims include loans and advances to customers, deposit with the central bank, amounts due from banks and other financial institutions.

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

	At June 30, 2021	At December 31, 2020
Deposit with banks		
Asia Pacific, excluding mainland China	78,798	1,911,556
Europe	–	–
	78,798	1,911,556

Chapter 10

Unaudited Supplementary Financial Information

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

	At June 30, 2021	At December 31, 2020
Gansu Region	2,907,949	3,203,558
Mainland China, excluding Gansu Region	543,885	527,469
Total	3,451,834	3,731,027

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

	At June 30, 2021	At December 31, 2020
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)	310,722	654,093
– Between six months and one year (inclusive)	927,171	953,560
– Between one year and three years	1,977,222	1,897,035
– More than three years	236,719	226,339
Total	3,451,834	3,731,027
As a percentage of total gross loans and advances		
– Between three months and six months (inclusive)	0.16%	0.36%
– Between six months and one year (inclusive)	0.48%	0.52%
– Between one year and three years	1.02%	1.04%
– More than three years	0.12%	0.13%
Total	1.78%	2.05%

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

6. NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. At June 30, 2021 and December 31, 2020, substantial amounts of the Bank's exposures arose from businesses with mainland China entities or individuals.



甘肅銀行股份有限公司*
BANK OF GANSU CO., LTD.*

省內撥打 96666
Inside the province call

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

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