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**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)*

**(Stock Code: 2139)**

**ANNUAL RESULTS ANNOUNCEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

The board of directors (the “**Board of Directors**” or the “**Board**”) of Bank of Gansu Co., Ltd. (the “**Bank**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Bank and its subsidiary (collectively the “**Group**”) for the year ended December 31, 2019 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards (the “**IFRSs**”) promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

**1. BASIC INFORMATION OF THE COMPANY**

Legal Name of the Company in Chinese : 甘肅銀行股份有限公司

Legal Name of the Company in English : Bank of Gansu Co., Ltd.

Legal Representative : Liu Qing

Authorized Representatives : Liu Qing, Fok Po Yi

Secretary to the Board : Hao Jumei

Company Secretary : Fok Po Yi

Registered Address : No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province, the People's Republic of China (the "PRC")

Principal Office Address : Gansu Bank Building, 525 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, the PRC

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Website of the Bank : [www.gsbankchina.com](http://www.gsbankchina.com)

Principal Place of Business in Hong Kong : 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong

H Share Information Disclosure Website : [www.hkexnews.hk](http://www.hkexnews.hk)

Stock Listing Place, Stock Short Name and Stock Code : The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), BANK OF GANSU, 2139

H Share Registrar : Computershare Hong Kong Investor Services Limited  
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183 Queen's Road East  
Wanchai  
Hong Kong

PRC Legal Adviser : Grandall Law Firm (Shanghai)  
23–25/F, Garden Square  
968 West Beijing Road  
Shanghai, the PRC

- Hong Kong Legal Adviser : Latham & Watkins LLP  
18/F, One Exchange Square  
8 Connaught Place  
Central, Hong Kong
- Domestic Auditor : Shinewing Certified Public Accountants LLP  
9/F, Block A, Fu Hua Mansion  
No. 8 Chao Yang Men Bei Da Jie  
Dong Cheng District, Beijing, the PRC
- International Auditor : SHINEWING (HK) CPA Limited  
43/F, Lee Garden One  
33 Hysan Avenue, Causeway Bay  
Hong Kong
- Compliance Advisor : Guotai Junan Capital Limited  
27/F, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong
- Place of Inspection of the Annual Report : Office of the Board of the Bank

## 2. FINANCIAL HIGHLIGHTS

### 2.1 Financial Data from 2015 to 2019

#### Five-year financial data

(Expressed in millions of RMB,  
unless otherwise stated)

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

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

*Notes:*

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

### 3. MANAGEMENT DISCUSSION AND ANALYSIS

#### Environment and Prospect

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

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

Although macroeconomic development faces many uncertain factors, China's economy still presents stable performance with good momentum for growth. In relation to Gansu Province, it is in an unprecedented period full of strategic opportunities for economic development. With the gradually increased national support for the development of the western region, the advancement of the Belt and Road Initiative and the construction of new land and sea corridors in the western region, as well as the accelerated transfer and concentration of various manufacturing factors to the western region, Gansu's advantages in terms of location, resource, industries, role of platform will be further unleashed. In

particular, President Xi Jinping made an inspection tour to Gansu again in 2019, bringing the greatest historical opportunity for the development of the province, including opportunities in infrastructure construction such as transportation, water conservancy, energy, information, etc., ecological protection and governance in the Yellow River Basin, critical battle against poverty, pollution prevention, cultural tourism, and ten major ecological industry-driven projects, Green Finance Reform and Innovation Pilot Area in Lanzhou New District, Yuzhong Ecological Innovation City construction, the Great Dunhuang cultural tourism economic circle, and constructions of a number of railways, highways, and airports. In other words, these major projects will lay a solid foundation for Gansu's economic operations in the future, bringing Bank of Gansu great development opportunity. The Bank will follow the trend, refine measures to seize such opportunities, further improve the corporate governance mechanism, make full use of the various advantages of the economic environment within and outside the province, continue to comply with operational requirements while maintaining stable development, lay solid foundation, build capacity, enhance efficiency, strictly control risks, maintain consistent asset quality and carry out digital transformation, so as to comprehensively promote its high-quality development.

### **Evaluation on the impact of COVID-19 outbreak**

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

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

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



## **Development Strategy**

Our vision is committed to building ourselves into a first class listed urban commercial bank. To this end, the Bank will adhere to the principle of customer-oriented business operation based on sustainable high-quality development, focus on business safety with risk prevention and compliance management, guarantee business growth through refined management and professional capability enhancement and consider serving the real economy as its mission. We will make steady progress and uphold traditional values to lay a solid foundation for development and insist on the quality first while prioritizing economic benefits and set off on a path that leads to “differentiated, refined and professional” development.

To achieve the aforesaid goals, the Bank plans to: (i) advance internal reforms to optimize organizational structure and enhance the corporate governance standards and fundamental management capability of the Bank; (ii) fully leverage domestic and overseas capital markets to expand capital replenishment channels and secure continuous capital replenishment; (iii) adapt to new norms for economy and regulation, hold onto the bottom line of risks and effectively strengthen quality control of assets; (iv) develop mega retail business system to ensure the implementation of the retail transformation strategy; (v) improve wholesale business service systems to lay a solid foundation for business growth; (vi) promote the application of Fintech and cross-sector cooperation and take the mobile end as a priority to expand its service coverage; (vii) optimize its business and management process and improve refined management standards towards the direction of building a refined management system; and (viii) adhere to talent cultivation with continuous promotion in team cohesion and comprehensive ability.

## **Overall Business Review**

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

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

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

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

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

**(i) Net interest income**

The net interest income was the largest component of the Bank's operating revenue, accounting for 80.3% and 73.1% of the operating income in 2018 and 2019, respectively. Such decrease in the percentage for 2019 was attributable to adjustments to its business structure and a decrease in net interest income as a result of the rise of capital cost. The table below sets forth the Bank's interest income, interest expenses and net interest income for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2019	2018	Increase or decrease	Percentage change (%)
Interest income	14,380.0	15,327.1	(947.1)	(6.2)
Interest expense	<u>(9,092.1)</u>	<u>(8,199.3)</u>	<u>(892.8)</u>	<u>10.9</u>
<b>Net interest income</b>	<b><u>5,287.9</u></b>	<b><u>7,127.8</u></b>	<b><u>(1,839.9)</u></b>	<b><u>(25.8)</u></b>

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2019			Year ended December 31, 2018		
	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup> (%)	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup> (%)
<b>Interest-earning assets</b>						
Loans and advances to customers	157,708.9	9,970.7	6.32	147,267.4	9,971.4	6.77
Investment securities and other financial assets <sup>(3)</sup>	97,736.0	3,969.9	4.06	92,171.5	3,812.3	4.14
Deposits with banks	6,804.0	244.1	3.59	20,051.6	692.6	3.45
Financial assets held under resale agreements and placements with banks and other financial institutions	14,972.2	451.8	3.02	13,486.8	416.4	3.09
Deposits with the central bank <sup>(4)</sup>	<u>26,055.0</u>	<u>392.8</u>	<u>1.51</u>	<u>28,153.5</u>	<u>434.4</u>	<u>1.54</u>
<b>Total interest-earning assets</b>	<b><u>303,276.1</u></b>	<b><u>15,029.3</u></b>	<b><u>4.96</u></b>	<b><u>301,130.8</u></b>	<b><u>15,327.1</u></b>	<b><u>5.09</u></b>

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

*Notes:*

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

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

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

*Notes:*

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

**(ii) Interest income**

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

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

*Note:*

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

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

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

Interest income from loans and advances to customers represented 65.1% and 66.4% of total interest income in 2018 and 2019, respectively. The table below sets forth the average balance, interest income and average yield of loans and advances to customers of the Bank by product for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Average balance <sup>(1)</sup>	Year ended December 31,				
		2019 Interest income	Average yield (%)	Average balance <sup>(1)</sup>	2018 Interest income	Average yield (%)
Corporate loans	106,724.7	7,103.5	6.66	106,076.8	7,194.3	6.78
Retail loans	27,547.6	1,888.8	6.86	22,678.2	1,757.7	7.75
Discounted bills	23,436.6	978.4	4.17	18,512.4	1,019.4	5.51
<b>Total loans and advances to customers</b>	<b>157,708.9</b>	<b>9,970.7</b>	<b>6.32</b>	<b>147,267.4</b>	<b>9,971.4</b>	<b>6.77</b>

*Note:*

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

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

Interest income from investment securities and other financial assets increased by 4.1% from RMB3,812.3 million in 2018 to RMB3,969.9 million in 2019, primarily due to a 6.0% increase in the average balance of investment securities and other financial assets, from RMB92,171.5 million in 2018 to RMB97,736.0 million in 2019, offset by a decrease in the average yield of investment securities and other financial assets, from 4.14% in 2018 to 4.06% in 2019. The increase in average balance was primarily due to our increased investments in financial assets to diversify our asset portfolio. The decrease in average yield was primarily due to (i) lower returns on our investments in non-standard credit assets; and (ii) our increased investments in standard securities with high liquidity and lower yields.

*(C) Interest income from deposits with banks*

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

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

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 8.5% from RMB416.4 million in 2018 to RMB451.8 million in 2019, which was primarily due to a 11.0% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB13,486.8 million in 2018 to RMB14,972.2 million in 2019; a decrease in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 3.09% in 2018 to 3.02% in 2019, was



offset, which in turn resulted in an increase in returns from reverse repurchase transactions.

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

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

*(iii) Interest expense*

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

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

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

*(A) Interest expense on deposits from customers*

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

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

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

*(C) Interest expense on debt securities issued*

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

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

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

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

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

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

Net interest spread decreased from 2.07% in 2018 to 1.74% in 2019, primarily due to a decrease in average yield of total interest-earning assets, from 5.09% to 4.96%, primarily due to (i) a decrease in average yield of the loans and advances to customers; (ii) a decrease in the average yield of investment securities and other financial assets, primarily due to lower returns on our investments in non-standard credit assets, as well as our increase investments in debt securities with high liquidity and lower yields was partially offset by an increase in the average cost of total interest-bearing liabilities, from 3.02% to 3.22%, primarily due to higher average cost of customer deposits.

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

(v) **Non-interest income**

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

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

Note:

<sup>(1)</sup> Primarily include guarantee fees and advisory service income.

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

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

*(B) Net trading gains*

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

*(C) Net gains arising from investment securities*

The net gains arising from investment securities and other financial assets included net gains from selling investment securities and other financial assets and revaluation gains arising from the reclassification of other comprehensive income to gains or losses upon the disposal of assets. The net gains arising from investment securities and other financial assets of the Bank was RMB42.7 million in 2018. The net gains arising from investment securities and other financial assets of the Bank was RMB131.2 million in 2019. The increase in the net gains was mainly due to an increase in a transaction amounts.

*(D) Net exchange gains*

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

*(E) Other operating income*

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

**(vi) Operating expenses**

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

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

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

*Note:*

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

(A) *Staff costs*

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

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

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

(B) *Property and equipment expenses*

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

(C) *General management and administrative expenses*

General management and administrative expenses primarily included business promotion fees, administrative fees, transportation fee and repair expenses. General management and administrative expenses increased by 3.1% from RMB429.8 million in 2018 to RMB443.3 million in 2019, mainly due to the business growth.

*(D) Business tax and surcharges*

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges of the Bank decreased by 2.1% from RMB77.7 million in 2018 to RMB76.1 million in 2019, mainly reflecting the implementation of tax and surcharges reduction policies.

*(vii) Impairment losses on credit/assets*

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

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

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

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

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



**(viii) Income tax expense**

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

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

**(i) Assets**

As of December 31, 2019 and 2018, the total assets of the Bank were RMB335,044.5 million and RMB328,622.4 million, respectively. Major components of total assets include (i) loans and advances to customers; (ii) investment securities and other financial assets; (iii) deposits with banks; (iv) cash and deposits with the central bank; and (v) financial assets held under resale agreements. The table below sets forth the components of total assets as of the dates indicated.

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

*Notes:*

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

*(A) Loans and advances to customers*

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate loans	111,292.0	65.3	113,204.1	70.4
Retail loans	34,265.5	20.1	28,025.2	17.4
Discounted bills	24,891.7	14.6	19,656.0	12.2
<b>Total loans and advances to customers</b>	<b>170,449.2</b>	<b>100.0</b>	<b>160,885.3</b>	<b>100.0</b>

Loans and advances to customers are the largest component of total assets. The Bank offers a variety of loan products, all of which are substantially denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 49.2% and 47.1% of total assets as of December 31, 2019 and 2018, respectively.

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

The Bank's retail loans mainly comprise of personal business loans, personal consumption loans and residential and commercial mortgage loans. The Bank's retail loans increased by 22.3% from RMB28,025.2 million as of December 31, 2018 to RMB34,265.5 million as of December 31, 2019, primarily due to (i) the Bank's efforts to support the financing needs of small and medium-sized enterprises (including sole proprietors); (ii) the expansion of the distribution network; and (iii) the adjustment of the Bank's loan portfolio to increase online loans and personal housing mortgage loans.

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Collateralized loans	<b>79,970.4</b>	<b>46.9</b>	77,917.8	48.4
Pledged loans	<b>11,696.2</b>	<b>6.9</b>	10,310.4	6.4
Guaranteed loans	<b>60,326.3</b>	<b>35.4</b>	54,814.5	34.1
Unsecured loans	<b>18,456.3</b>	<b>10.8</b>	17,842.6	11.1
<b>Total loans and advances to customers</b>	<b><u>170,449.2</u></b>	<b><u>100.0</u></b>	<b><u>160,885.3</u></b>	<b><u>100.0</u></b>

As of December 31, 2018 and 2019, collateralized loans, pledged loans and guaranteed loans in the aggregate represented 88.9% and 89.2% of total loans and advances to customers, respectively. Collateralized loans and pledged loans are subject to loan-to-value ratio limits based on the type of collateral. We usually only accept guarantees provided by listed companies or guarantee companies. We evaluate a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

Unsecured loans increased by 3.4% from RMB17,842.6 million as of December 31, 2018 to RMB18,456.3 million as of December 31, 2019. The increase of unsecured loans was primarily due to the successive launching of certain online loan products with lower risk by utilizing big data resources.

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

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

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

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

*(B) Investment securities and other financial assets*

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

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

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

**(ii) Liabilities**

As of December 31, 2019 and 2018, the total liabilities were RMB310,355.5 million and RMB303,374.8 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) deposits from banks and other financial institutions; (iii) financial assets sold under repurchase agreements; (iv) debt securities issued; (v) borrowings from the central bank; (vi) placements from banks and other financial institutions; and (vii) other liabilities. The table below sets forth the components of total liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	236,868.7	76.3	210,723.3	69.5
Deposits from banks and other financial institutions	13,621.9	4.4	15,513.8	5.1
Financial assets sold under repurchase agreements	5,398.6	1.7	11,717.0	3.9
Debt securities issued	39,459.2	12.7	41,576.8	13.7
Borrowings from the central bank	2,316.4	0.7	11,650.9	3.8
Placements from banks and other financial institutions	890.0	0.3	3,300.0	1.1
Other liabilities <sup>(1)</sup>	11,800.7	3.9	8,893.0	2.9
<b>Total liabilities</b>	<b>310,355.5</b>	<b>100.0</b>	<b>303,374.8</b>	<b>100.0</b>

*Note:*

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

**(A) Deposits from customers**

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

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

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

*Note:*

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

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

*(B) Debts securities issued*

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

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

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

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

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

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

From January 1, 2019 to December 31, 2019, the Bank issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB34,310.0 million. These interbank certificates have terms of three months to one year and bear effective interest rates between 2.97% and 3.50% per annum.

***(iii) Shareholders' equity***

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Share capital	10,069.8	40.8	10,069.8	39.9
Capital reserve	4,660.4	18.9	4,658.3	18.5
Defined benefit scheme reserve	(3.4)	–	(4.2)	–
Investment revaluation reserve	219.5	0.9	261.4	1.0
Surplus reserve	1,560.8	6.3	1,510.1	6.0
General reserve	4,471.0	18.1	4,423.1	17.5
Retained earnings	3,678.9	14.9	4,297.8	17.0
Non-controlling interests	32.0	0.1	31.3	0.1
<b>Total equity</b>	<b>24,689.0</b>	<b>100.0</b>	<b>25,247.6</b>	<b>100.0</b>

(c) **Asset quality analysis**

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

The Bank's non-performing loans are classified into substandard, doubtful and loss-making loans and advances to customers. As of December 31, 2019, the Bank's non-performing loans amounted to RMB4,182.1 million. The table below sets forth loans and advances to customers by loan classification as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Normal	157,040.6	92.1	147,789.2	91.9
Special mention	9,226.5	5.4	9,407.3	5.8
Substandard	1,270.1	0.8	1,330.2	0.8
Doubtful	2,609.6	1.5	1,773.2	1.1
Loss	302.4	0.2	585.4	0.4
<b>Total loans and advances to customers</b>	<b>170,449.2</b>	<b>100.0</b>	<b>160,885.3</b>	<b>100.0</b>
<b>Non-performing loans and non- performing loan ratio<sup>(1)</sup></b>	<b>4,182.1</b>	<b>2.45</b>	<b>3,688.8</b>	<b>2.29</b>

*Note:*

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

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



**(ii) Concentration of loans**

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019				As of December 31, 2018			
	Loan amount	% of total (%)	Non- performing loan amount	Non- performing loan ratio (%)	Loan amount	% of total (%)	Non- performing loan amount	Non- performing loan ratio (%)
<b>Corporate loans</b>								
Wholesale and retail	17,757.9	10.4	821.1	4.62	24,169.5	15.0	1,468.5	6.08
Manufacturing	21,036.0	12.3	759.2	3.61	20,197.2	12.6	583.3	2.89
Agriculture, forestry, animal husbandry and fishing	7,605.1	4.5	257.7	3.39	8,204.6	5.1	524.0	6.39
Construction	10,461.0	6.1	122.2	1.17	9,129.2	5.7	369.8	4.05
Real estate	14,860.1	8.7	0.0	0.00	13,124.8	8.2	–	–
Mining	7,279.4	4.3	358.9	4.93	8,534.1	5.3	88.2	1.03
Water, environment and public facility management	3,078.7	1.8	0.0	0.00	6,051.4	3.7	–	–
Culture, sports and entertainment	2,914.5	1.7	14.8	0.51	2,898.1	1.8	19.3	0.67
Leasing and business services	8,815.5	5.2	13.5	0.15	7,157.6	4.4	16.4	0.23
Electricity, heating power, gas and water production and supply	3,512.3	2.1	399.5	11.37	2,509.8	1.6	4.5	0.18
Transportation, storage and postal services	3,247.8	1.9	11.0	0.34	2,328.9	1.4	47.7	2.05
Education	1,591.8	0.9	0.0	0.00	1,634.6	1.0	6.0	0.37
Accommodation and catering	2,666.9	1.6	42.5	1.59	2,689.4	1.7	32.0	1.19
Financial	2,996.5	1.8	–	–	1,000.0	0.6	–	–
Health and social services	1,876.5	1.1	4.8	0.26	1,846.2	1.2	–	–
Residents and other services	555.1	0.3	1.1	0.20	622.6	0.4	16.1	2.59
Scientific research, technical service and geological prospecting	913.1	0.5	–	–	927.1	0.6	–	–
Information transmission, computer service and software	103.8	0.1	3.0	2.89	159.0	0.1	28.0	17.61
Public administration, social security and social organizations	20.0	0.0	–	–	20.0	–	–	–
<b>Retail loans</b>	<b>34,265.5</b>	<b>20.1</b>	<b>1,372.8</b>	<b>4.01</b>	<b>28,025.2</b>	<b>17.4</b>	<b>485.0</b>	<b>1.73</b>
<b>Discounted bills</b>	<b>24,891.7</b>	<b>14.6</b>	<b>–</b>	<b>–</b>	<b>19,656.0</b>	<b>12.2</b>	<b>–</b>	<b>–</b>
<b>Total amount</b>	<b>170,449.2</b>	<b>100.0</b>	<b>4,182.1</b>	<b>2.45</b>	<b>160,885.3</b>	<b>100.0</b>	<b>3,688.8</b>	<b>2.29</b>

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

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

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

*(B) Borrower concentration*

Indicators of concentration

<b>Major regulatory indicators</b>	<b>Regulatory standard</b>	<b>As of December 31, 2019</b>	<b>As of December 31, 2018</b>
Loan concentration ratio for the largest single customer (%)	≤ 10	<b>10.3</b>	4.22
Loan concentration ratio for the top ten customers (%)	≤ 50	<b>46.2</b>	31.00

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

## Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of December 31, 2019 and the balances of loans to these borrowers, all of which were classified as normal.

(Expressed in millions of RMB, unless otherwise stated)

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

(C) *Non-performing loans by product*

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019			As of December 31, 2018		
	Loan amount	Non-performing loan amount	Non-performing loan ratio <sup>(1)</sup> (%)	Loan amount	Non-performing loan amount	Non-performing loan ratio <sup>(1)</sup> (%)
<b>Corporate loans</b>						
Working capital loans	70,930.1	1,390.0	1.96	72,527.7	3,117.9	4.30
Fixed asset loans	39,192.4	284.7	0.73	38,615.8	45.0	0.12
Others <sup>(2)</sup>	1,169.5	1,134.6	97.02	2,060.6	40.9	1.98
<b>Sub-total</b>	<b>111,292.0</b>	<b>2,809.3</b>	<b>2.52</b>	<b>113,204.1</b>	<b>3,203.8</b>	<b>2.83</b>
<b>Retail loans</b>						
Personal business loans	6,997.9	985.4	14.08	7,580.1	361.4	4.77
Personal consumption loans	10,196.9	196.4	1.93	7,647.7	68.5	0.90
Residential and commercial mortgage loans	17,070.7	191.0	1.12	12,797.4	55.1	0.43
<b>Sub-total</b>	<b>34,265.5</b>	<b>1,372.8</b>	<b>4.01</b>	<b>28,025.2</b>	<b>485.0</b>	<b>1.73</b>
<b>Discounted bills</b>	<b>24,891.7</b>	<b>-</b>	<b>-</b>	<b>19,656.0</b>	<b>-</b>	<b>-</b>
<b>Total non-performing loans</b>	<b>170,449.2</b>	<b>4,182.1</b>	<b>2.45</b>	<b>160,885.3</b>	<b>3,688.8</b>	<b>2.29</b>

*Notes:*

- (1) Calculated by dividing non-performing loans by loans and advances to customers of each product category.
- (2) Primarily consist of advances for bank acceptance bill.

The non-performing loan ratio of corporate loans decreased by 0.31 percentage point from 2.83% as of December 31, 2018 to 2.52% as of December 31, 2019.

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

*(D) Loan aging schedule*

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
<b>Loans not overdue</b>	<u>154,803.3</u>	<u>90.8</u>	<u>149,847.3</u>	<u>93.2</u>
<b>Loans past due for:</b>				
1 to 90 days	11,689.7	6.9	6,013.6	3.7
91 days to 1 year	3,068.4	1.8	3,800.7	2.4
1 to 3 years	720.9	0.4	1,018.1	0.6
3 years or more	<u>166.9</u>	<u>0.1</u>	<u>205.6</u>	<u>0.1</u>
<b>Subtotal</b>	<u>15,645.9</u>	<u>9.2</u>	<u>11,038.0</u>	<u>6.8</u>
<b>Total loans and advances to customers</b>	<u><u>170,449.2</u></u>	<u><u>100.0</u></u>	<u><u>160,885.3</u></u>	<u><u>100.0</u></u>

(d) Segments information

(i) *Summary of business segment*

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

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking	3,238.4	44.8	4,643.1	52.3
Retail banking	1,461.4	20.2	1,026.0	11.6
Financial market operations	2,438.1	33.7	2,748.2	31.0
Others <sup>(1)</sup>	95.4	1.3	454.9	5.1
<b>Total operating income</b>	<b>7,233.3</b>	<b>100.0</b>	<b>8,872.2</b>	<b>100.0</b>

Note:

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

(ii) *Summary of geographical segment information*

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

(e) **Off-balance sheet commitments**

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

<b>(Expressed in millions of RMB, unless otherwise stated)</b>	<b>As of December 31, 2019</b>	<b>As of December 31, 2018</b>
<b>Credit commitments:</b>		
Bank acceptances <sup>(1)</sup>	22,576.5	26,418.1
Letters of guarantee <sup>(2)</sup>	1,510.5	721.5
Letters of credit	40.4	–
Unused credit card commitments	872.4	359.2
<b>Subtotal</b>	<b>24,999.8</b>	<b>27,498.8</b>
<b>Operating lease commitments</b>	<b>–</b>	<b>320.1</b>
<b>Capital commitments</b>	<b>16.0</b>	<b>38.7</b>
<b>Total</b>	<b>25,015.8</b>	<b>27,857.6</b>

*Notes:*

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

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

(f) **Miscellaneous**

During the Reporting Period, the Bank launched the business related to the sub-loan (“**ADB Sub-loan**”) of Asian Development Bank (“**ADB**”). ADB Sub-loan refers to the RMB denominated loans extended by the Bank to the final borrowers who meet the requirements of the ADB and the Bank

leveraging on the capital funded by the ADB to the Chinese government, which shall be used to satisfy the production and operation needs of such borrowers. The ADB Sub-loan consists of two parts, with one part directly channeled from ADB funds and the other supported by the self-owned capital of the Bank. As of December 31, 2019, the Group has granted a total of RMB20.7 million ADB Sub-loan. Currently, it has applied for 4 reimbursement withdrawals totaling US\$3,144,800.

## **Business Review**

### ***(a) Corporate banking***

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

In addition, the Bank commits to seeking to develop long-term relationships with customers by closely monitoring their financial needs and by offering tailored financial solutions. As of December 31, 2019, the Bank had over 3,682 corporate borrowers with total loans of RMB111,292.0 million, and more than 74,175 corporate deposit customers with total deposits of RMB72,028.5 million. In 2018 and 2019, operating income from the Bank's corporate banking business accounted for 52.3% and 44.8% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's corporate banking for the periods indicated.



(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percentage change (%)
	2019	2018	
External interest income, net <sup>(1)</sup>	4,977.2	5,264.4	(5.5)
Inter-segment interest expenses, net <sup>(2)</sup>	(1,874.0)	(708.3)	164.6
Net interest income	3,103.2	4,556.1	(31.9)
Net fees and commission income	135.2	87.0	55.4
<b>Operating income</b>	<b>3,238.4</b>	<b>4,643.1</b>	<b>(30.3)</b>
Operating expenses	(1,055.0)	(1,190.3)	(11.4)
Impairment losses on assets	(3,193.4)	(1,386.2)	130.4
<b>Operating (loss)/profit</b>	<b>(1,010.0)</b>	<b>2,066.6</b>	<b>(148.9)</b>
<b>(Loss)/profit before tax</b>	<b>(1,010.0)</b>	<b>2,066.6</b>	<b>(148.9)</b>

Notes:

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

*(i) Corporate loans*

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

*(ii) Discounted bills*

The Bank purchases bank and commercial acceptance bills with remaining maturities of up to one year at discounted prices to satisfy the short-term funding needs of banks and corporate customers. As of December 31, 2019 and 2018, discounted bills totaled RMB24,891.7 million and RMB19,656.0 million, accounting for 14.6% and 12.2% of the Bank's total loans and advances to customers, respectively.

*(iii) Corporate deposits*

The Bank accepts demand and time deposits denominated in Renminbi and major foreign currencies (including USD, HKD and EUR) from corporate customers. As of December 31, 2019 and 2018, corporate deposits totaled RMB72,082.5 million and RMB72,439.9 million, accounting for 30.4% and 34.4% of the Bank's total customer deposits, respectively.

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

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

*(A) Wealth management services*

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

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

*(B) Entrusted loans*

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

The Bank charges agency fees based on the principal amount of entrusted loans. The Bank's corporate customers bear the risk of default associated with these loans. In 2019 and 2018, service fees charged to corporate customers for entrusted loans totaled RMB26.1 million and RMB96.7 million, respectively.

(C) Settlement services

The Bank offers corporate customers domestic and international settlement services.

**Domestic Settlement Services.** The Bank provides domestic settlement services in the form of Bank acceptance bills, collections and telegraphic transfers. In 2018 and 2019, the Bank's total domestic settlement transaction volumes were approximately RMB842.93 billion and RMB762.741 billion, respectively.

**International Settlement Services.** The Bank obtained approval to provide international settlement services in January 2014. The Bank's international settlement services primarily include remittance, collection, letters of credit and letters of guarantee.

We established cooperative relationships with twenty overseas corporate customers. In 2018 and 2019, the Bank's international settlement transaction volumes were US\$1,085 million and US\$129 million.

(D) Consultation and financial advisory services

The Bank structures financial solutions and offers advisory services with respect to the economy, financial markets and industry trends for corporate customers. There were no business occurred during 2018 and 2019.

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

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

**(b) Retail banking**

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

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

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

As of December 31, 2019, the Bank had over 200,400 wealthy customers and over 1,691 private banking customers. The Bank continues to grow our wealthy customer and private banking customer base by expanding its product and service portfolio. The table below sets forth the financial performance of its retail banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,		Percentage change (%)
	2019	2018	
External interest expenses, net <sup>(1)</sup>	<b>(2,568.0)</b>	(1,232.0)	108.4
Inter-segment interest income, net <sup>(2)</sup>	<b>3,963.1</b>	2,238.8	77.0
Net interest income	<b>1,395.1</b>	1,006.8	38.6
Net fee and commission income	<b>66.3</b>	19.2	245.3
<b>Operating income</b>	<b>1,461.4</b>	1,026.0	42.4
Operating expenses	<b>(476.1)</b>	(262.9)	81.1
Impairment losses on assets	<b>(404.8)</b>	(287.7)	40.7
<b>Operating profit</b>	<b>580.5</b>	475.4	22.1
<b>Profit before tax</b>	<b>580.5</b>	475.4	22.1

*Notes:*

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

*(i) Retail loans*

The Bank offers retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of December 31, 2019 and 2018, total retail loans were RMB34,265.5 million and RMB28,025.2 million, accounting for 20.1% and 17.4% of the Bank's total loans and advances to customers, respectively.

*(ii) Retail deposits*

The Bank accepts demand and time deposits denominated in Renminbi and major foreign currencies from retail customers. As of December 31, 2019 and 2018, retail deposits totaled RMB136,460.6 million and RMB107,133.1 million, accounting for 57.6% and 50.8% of the Bank's total customer deposits, respectively.

*(iii) Bank card services*

*(A) Debit cards*

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

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

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

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

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

(B) Credit cards

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

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

(C) POS settlement services

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

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

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

(A) Wealth management services

The Bank offers retail customers wealth management products under its Huifu ( 匯福 ) series based on their risk and return preferences. The Bank invests funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products. In 2019 and 2018, wealth management products sold to retail customers totaled RMB39,546.09 million and RMB34,914.99 million, respectively. As of December 31, 2019, the Bank had over 284,021 retail wealth management clients and the return rate of its retail wealth management products was between 3.90% and 5.00% in 2019.

(B) Agency services

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

Insurance Products: As of December 31, 2019, the Bank had entered into agency agreements with six nationwide insurance companies to promote and distribute their insurance products.

Precious Metal Products: the Bank received approval to distribute precious metals in China in August 2015. In 2019 and 2018, the Bank sold an aggregate of RMB105 million and RMB90 million of precious metal products, respectively.

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

(C) Payroll and payment agency services

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

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



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

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

(c) **Financial market operations**

The Bank's financial market operations primarily include money market transactions, investment business and wealth management business, are one of its most important revenue sources. In 2019 and 2018, operating income from financial market operations accounted for 33.7% and 31.0% of its total operating income, respectively. The table below sets forth the financial performance of the Bank's treasury operations for the periods indicated.

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

Notes:

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

(i) *Money market transactions*

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

(A) Interbank deposits

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

As of December 31, 2019 and 2018, deposits from banks and other financial institutions totaled RMB13,621.9 million and RMB15,513.8 million, and deposits of the Bank at banks and other financial institutions (original value without deducting provisions for impairment) totaled RMB3,967.5 million and RMB12,927.7 million, respectively.

(B) Interbank placements

The balance of our placements with banks and other financial institutions as of December 31, 2019 and 2018 were both nil. As of the same dates, placements from banks and other financial institutions totaled RMB890.0 million and RMB3,300.0 million, respectively.

(C) Repurchase and reverse repurchase transactions

The securities underlying the Bank's repurchase and reverse repurchase transactions are mainly RMB-denominated PRC government bonds and policy financial bonds. As of December 31, 2019 and 2018, financial assets held under resale agreements totaled RMB16,264.0 million and RMB19,523.8 million, and financial assets sold under repurchase agreements totaled RMB5,398.6 million and RMB11,717.0 million, respectively.

(ii) *Investment securities and other financial assets*

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

(A) Security investment by holding purpose

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

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

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

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

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

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

*Note:*

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

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

(C) Holding of government bonds

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

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

(D) Holding of financial bonds

As of December 31, 2019, the balance of face value of the financial bonds (mainly the financial bonds issued by policy banks, commercial banks and other financial institutions) held by the Bank amounted to RMB20,700.00 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of December 31, 2019.

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

**(d) Distribution network**

*(i) Physical outlets*

As of December 31, 2019, the Bank had 1 head office operational department, 12 branches, 190 sub-branches, 5 micro-to-small sub-branches and 2 community sub-branches. The Bank branch network covered all of Gansu's cities and prefectures and approximately 93% of its counties and districts.

(ii) *Electronic banking business*

(A) Internet banking

Through the Internet, the Bank offers customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of December 31, 2019, the Bank had over 999,600 Internet banking customers, consisting of 41,104 corporate customers and over 958,500 retail customers. As of December 31, 2019, the Bank's corporate customers conducted over 2.74 million online transactions with a total transaction amount of approximately RMB415,714 million, while retail customers conducted approximately 1.02 million online transactions with a total transaction amount of approximately RMB34,161 million.

(B) Direct banking platform

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

(C) Mobile phone banking

The Bank provides customers with various financial services, such as account inquiries and management, transfers, payments and loan management. As of December 31, 2019, the Bank had approximately 2,284,900 mobile phone banking customers that had conducted approximately 8.62 million transactions through mobile phones, with total transaction amounts of approximately RMB100,828.67 million.

(D) Telephone banking

The Bank provides customers with loan and deposit account inquiries, personal debit card account transfers, bill inquiries, lost declarations and business inquiry services through an interactive self-service voice system and live customer service. As of December 31, 2019, the Bank had 386,768 registered telephone banking customers, which were all individual customers.

(E) Self-service banking

The Bank provides convenient banking services to customers at lower operating costs through self-service facilities. The Bank's self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of December 31, 2019, the Bank had 210 outlets, 150 off-bank self-service zones and 1,059 self-service facilities.

(F) WeChat banking

WeChat has become an important channel that provides value-added services to retail customers. Through WeChat banking, customers can access the Bank's products and services; account management, transaction inquiries, payment and convenience services; and the Bank's outlet location inquiry service. As of December 31, 2019, the Bank had over 499,900 WeChat banking customers.

(G) E-commerce platform

In April 2018, the Bank formally launched its e-commerce platform "Longyin Commerce", which provides merchants with comprehensive services. These services include purchasing, sales and inventory management, and online B2B and B2C transactions. As of December 31, 2019, the platform had 866 merchants and 244,500 users.

**(e) Information on the subsidiary**

*Jingning Chengji Rural Bank*

In September 2008, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with 4 other legal entities and 7 individuals. As of December 31, 2019, the Bank held an approximately 62.7% equity interest in Jingning Chengji Rural Bank.

Jingning Chengji Rural Bank carries out its business in the PRC, primarily engaging in offering financial products and services, including loans, deposits and fee and commission-based products and services to local corporate and retail customers.



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

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

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

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

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

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

The Bank was granted the Certification of ISO 20000 – Information Technology Service Management System Standard in June 2018, signaling that it has built an IT service management system applicable to the circumstance of the Bank.

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

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

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

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

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

## **Risk Management**

### ***(a) Risk management of the Bank***

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

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

#### ***(i) Credit risk management***

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

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

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

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

## Industries

## Credit Policies

- |  |  |
|--|--|
| Warehouse and logistics, transportation, tourism, education, health care, agriculture, hydropower, public infrastructure and energy saving and environment industries (“ <b>active support</b> ” industries) | • prioritize credit allocation and increase credit exposure to borrowers in these industries.  |
| IT, Internet, clean energy, power, logistics, pharmaceutical manufacturing, food & beverage, accommodation and catering, culture and sporting industries (“ <b>moderate support</b> ” industries)            | • selectively distribute credit to borrowers in these industries.  |
| Real estate, construction, iron and steel, coal, mining and wholesale and retail industries (“ <b>caution</b> ” industries)  | • focus on preventing risks by granting loans to high-quality customers and adjusting the proportion of loans to borrowers in these industries.  |
| Steel trading, coal trading, over-capacity and commodity trading industries (“ <b>exit</b> ” industries)   | • focus on minimizing risks by moderately reducing the amount of new loans to borrowers in these industries by no less than 20%, and enhancing the implementation of post-lending management measures. |

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

### ***(ii) Market risk management***

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

*(A) Interest rate risk management*

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

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

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

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

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

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

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

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

*Notes:*

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

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

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

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

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



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

*(B) Exchange rate risk management*

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

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

*(iii) Operational risk management*

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

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

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

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

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

**(iv) *Liquidity risk***

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

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

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

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

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

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

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

*(B) Liquidity risk analysis*

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>							
Cash and deposits with the central bank	20,334.8	4,939.5	-	-	-	-	25,274.3
Deposits with banks	-	3,895.8	71.7	-	-	-	3,967.5
Financial assets held under resale agreements	-	-	16,264.0	-	-	-	16,264.0
Financial assets at fair value through profit or loss	-	-	14,657.9	3,193.2	17,991.7	887.1	36,729.9
Interest receivable	27.1	26.1	626.5	1,031.2	398.4	92.8	2,202.1
Loans and advances to customers	4,075.2	4,996.6	19,538.1	63,138.2	50,620.1	22,398.6	164,766.8
Financial assets at fair value through other comprehensive income	-	-	495.7	2,832.2	7,667.0	4,086.5	15,081.4
Financial assets at amortised costs	4,646.6	760.0	6,393.2	12,529.4	34,533.5	2,834.7	61,697.4
Others <sup>(1)</sup>	5,569.8	-	-	-	3,491.3	-	9,061.1
<b>Total assets</b>	<b>34,653.5</b>	<b>14,618.0</b>	<b>58,047.1</b>	<b>82,724.2</b>	<b>114,702.0</b>	<b>30,299.7</b>	<b>335,044.5</b>

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2019						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Liabilities</b>							
Borrowings from the central bank	-	-	1,903.0	413.4	-	-	2,316.4
Deposits from banks and other financial institutions	-	601.9	6,630.0	6,390.0	-	-	13,621.9
Placements from banks and other financial institutions	-	-	580.0	310.0	-	-	890.0
Financial assets sold under repurchase agreements	-	-	5,398.6	-	-	-	5,398.6
Deposits from customers	-	82,717.2	10,021.7	24,280.8	119,848.9	-	236,868.6
Interest payable	-	8,381.7	135.5	155.1	35.2	54.0	8,761.5
Debt securities issued	-	-	10,030.3	23,732.9	999.5	4,696.5	39,459.2
Others <sup>(2)</sup>	26.4	1,994.2	734.8	101.4	180.4	2.1	3,039.3
<b>Total liabilities</b>	<b>26.4</b>	<b>93,695.0</b>	<b>35,433.9</b>	<b>55,383.6</b>	<b>121,064.0</b>	<b>4,752.6</b>	<b>310,355.5</b>
<b>New working capital</b>	<b>34,627.1</b>	<b>(79,077.0)</b>	<b>22,613.2</b>	<b>27,340.6</b>	<b>(6,362.0)</b>	<b>25,547.1</b>	<b>24,689.0</b>

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>							
Cash and deposits with the central bank	24,717.0	6,819.9	-	-	-	-	31,536.9
Deposits with banks	-	4,038.6	4,864.8	4,024.3	-	-	12,927.7
Financial assets held under resale agreements	-	-	19,523.8	-	-	-	19,523.8
Financial assets at fair value through profit or loss	-	-	24,428.9	8,262.8	8,654.1	1,215.2	42,561.0
Interest receivable	-	13.3	558.9	1,214.6	104.4	-	1,891.2
Loans and advances to customers	3,586.3	2,191.6	18,517.1	65,564.8	46,074.4	18,699.7	154,633.9
Financial assets at fair value through other comprehensive income	-	-	299.7	8,451.7	6,497.7	-	15,249.1
Financial assets at amortised costs	-	-	7,420.5	13,034.7	23,385.8	1,225.3	45,066.3
Others <sup>(1)</sup>	<u>5,053.4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179.1</u>	<u>-</u>	<u>5,232.5</u>
<b>Total assets</b>	<b><u>33,356.7</u></b>	<b><u>13,063.4</u></b>	<b><u>75,613.7</u></b>	<b><u>100,552.9</u></b>	<b><u>84,895.5</u></b>	<b><u>21,140.2</u></b>	<b><u>328,622.4</u></b>

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2018						Total
	Indefinite	Repayable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	
<b>Liabilities</b>							
Borrowings from the central bank	-	-	4,835.9	6,815.0	-	-	11,650.9
Deposits from banks and other financial institutions	-	1,093.8	4,750.0	9,170.0	500.0	-	15,513.8
Placements from banks and other financial institutions	-	-	-	3,300.0	-	-	3,300.0
Financial assets sold under repurchase agreements	-	-	11,717.0	-	-	-	11,717.0
Deposits from customers	-	81,896.5	17,606.4	20,943.0	85,410.8	4,866.6	210,723.3
Interest payable	-	5,873.3	124.0	400.4	21.2	-	6,418.9
Debt securities issued	-	-	10,516.2	21,869.8	5,993.7	3,197.1	41,576.8
Others <sup>(2)</sup>	61.5	1,093.0	1,319.6	-	-	-	2,474.1
<b>Total liabilities</b>	<b>61.5</b>	<b>89,956.6</b>	<b>50,869.1</b>	<b>62,498.2</b>	<b>91,925.7</b>	<b>8,063.7</b>	<b>303,374.8</b>
<b>New working capital</b>	<b>33,295.2</b>	<b>(76,893.2)</b>	<b>24,744.6</b>	<b>38,054.7</b>	<b>(7,030.2)</b>	<b>13,076.5</b>	<b>25,247.6</b>

*Notes:*

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

**The Bank's liquidity coverage ratio**

	<b>December 31, 2019</b>	December 31, 2018
Liquidity coverage ratio (%)	<b>199.59</b>	198.28

Net stable funding ratio

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

**(v) Reputational risk management**

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

**(vi) Legal compliance risk management**

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

**(vii) IT risk management**

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

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

***(viii) Anti-money laundering management***

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

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

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

***(ix) Internal audits***

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

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

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

**ANALYSIS ON CAPITAL ADEQUACY RATIO**

The Bank is required to comply with the CBIRC's capital adequacy ratio requirements. It has calculated and disclosed capital adequacy ratios in accordance with the 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 December 31, 2019 and 2018.

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

Notes:

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

## 4. ISSUE OF SECURITIES AND BONDS

### 4.1 Non-Public Issuance of Offshore Preference Shares

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

As of the date of this announcement, the Bank has not issued any offshore preference shares. The Bank will make timely disclosure on the latest development of the non-public issuance of offshore preference shares in accordance with the relevant laws and regulation and the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Hong Kong Listing Rules**").

### 4.2 Issuance of Bonds

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

#### *Interbank certificates*

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

#### *Financial bonds*

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

As of the date of this announcement, 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 (the “**Shareholders**”) and potential investors in a prompt manner.

## 5. OTHER INFORMATION

### 5.1 Corporate Governance

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

The Bank has established a modern corporate governance structure in line with the requirements of the articles of association of the Bank (the “**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 structure. The Board of Directors has established committees to perform specified functions consisting of the strategy and development committee, audit committee, nomination and remuneration committee, related party transactions and risk management committee. The board of supervisors is accountable to the Shareholders as a whole and has the responsibility and power to supervise the directors and senior management and oversee the Group’s financial activities, risk management and internal control.

The Bank has incorporated the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by the CBRC (the “**Guidelines**”) into the Bank’s governance structure and polices. 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 and form 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 governance systems according to Corporate Governance Code and Guidelines. The directors believe during the Reporting Period, the Bank has complied with all compulsory code provisions contained in the Corporate Governance Code. The Bank has also strictly complied with the provisions regarding management of inside information required by applicable laws and regulations and the Hong Kong Listing Rules.

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

## **5.2 Securities Transactions by Directors, Supervisors and Senior Management**

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

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

## **5.3 Profits and Dividend**

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

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

#### **5.4 Annual General Meeting and Book Closure Date**

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

#### **5.5 Purchase, Sale and Redemption of Listed Securities of the Bank**

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

#### **5.6 Event after the Reporting Period**

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

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

## 6. FINANCIAL REPORT

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

	<i>Notes</i>	<b>2019</b> <b>RMB'000</b>	2018 RMB'000
Interest income		<b>14,379,993</b>	15,327,061
Interest expenses		<b>(9,092,094)</b>	(8,199,277)
Net interest income	4	<b>5,287,899</b>	7,127,784
Fee and commission income		<b>357,626</b>	362,673
Fee and commission expenses		<b>(104,370)</b>	(196,618)
Net fee and commission income	5	<b>253,256</b>	166,055
Net trading gains	6	<b>1,489,821</b>	1,089,241
Net gains arising from investment securities	7	<b>131,183</b>	42,689
Net exchange gains		<b>68,888</b>	388,230
Other operating income, net	8	<b>2,275</b>	58,240
		<b>1,692,167</b>	1,578,400
Operating income		<b>7,233,322</b>	8,872,239
Operating expenses	9	<b>(2,356,503)</b>	(2,271,097)
Impairment losses on assets, net of reversals	10	<b>(4,311,984)</b>	(1,962,374)
Operating profit		<b>564,835</b>	4,638,768
Share of result of an associate		<b>(68)</b>	(960)
Profit before tax		<b>564,767</b>	4,637,808
Income tax expense	11	<b>(53,393)</b>	(1,198,164)
<b>Profit for the year</b>		<b>511,374</b>	3,439,644

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

	<i>Note</i>	<b>2019</b> <b><i>RMB'000</i></b>	2018 <i>RMB'000</i>
<b>Total comprehensive income for the year attributable to:</b>			
– Owners of the Bank		<b>467,910</b>	3,680,591
– Non-controlling interests		<b>2,263</b>	4,366
		<b>470,173</b>	3,684,957
Earnings per share			
Basic and diluted ( <i>RMB cents</i> )	12	<b>5.06</b>	34.52



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT DECEMBER 31, 2019**

		<b>2019</b>	2018
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Assets</b>			
Cash and deposits with the central bank		<b>25,274,278</b>	31,536,912
Deposits with banks		<b>3,967,542</b>	12,927,702
Financial assets held under resale agreements		<b>16,263,996</b>	19,523,812
Financial assets at amortised cost	13	<b>61,697,396</b>	45,066,288
Interests receivables		<b>2,202,105</b>	1,891,235
Loans and advances to customers	14	<b>164,766,836</b>	154,633,858
Financial assets at fair value through profit or loss	15	<b>36,729,899</b>	42,560,973
Financial assets at fair value through other comprehensive income	16	<b>15,081,447</b>	15,249,097
Interest in an associate		<b>8,902</b>	8,970
Property and equipment		<b>2,825,257</b>	3,006,860
Right-of-use assets		<b>345,173</b>	–
Deferred tax assets		<b>1,643,070</b>	1,719,546
Other assets		<b>4,238,584</b>	497,118
		<hr/>	<hr/>
<b>Total assets</b>		<b><u>335,044,485</u></b>	<b><u>328,622,371</u></b>

	<i>Note</i>	<b>2019</b> <b>RMB'000</b>	2018 RMB'000
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Borrowings from the central bank		<b>2,316,353</b>	11,650,851
Deposits from banks and other financial institutions		<b>13,621,889</b>	15,513,772
Placements from banks and other financial institutions		<b>890,000</b>	3,300,000
Financial assets sold under repurchase agreements		<b>5,398,580</b>	11,716,985
Deposits from customers		<b>236,868,657</b>	210,723,317
Accrued staff costs		<b>505,487</b>	478,344
Taxes payable		<b>2,969</b>	491,170
Interests payable		<b>8,761,501</b>	6,418,933
Debts securities issued	17	<b>39,459,173</b>	41,576,773
Deferred tax liabilities		<b>97,243</b>	135,263
Lease liabilities		<b>283,931</b>	–
Other liabilities		<b>2,149,700</b>	1,369,372
<b>Total liabilities</b>		<b>310,355,483</b>	303,374,780
<b>Equity</b>			
Share capital		<b>10,069,791</b>	10,069,791
Capital reserve		<b>4,660,417</b>	4,658,314
Defined benefit plan reserve		<b>(3,399)</b>	(4,156)
Investment revaluation reserve		<b>219,469</b>	261,427
Surplus reserve		<b>1,560,835</b>	1,510,052
General reserve		<b>4,471,044</b>	4,423,117
Retained earnings		<b>3,678,816</b>	4,297,780
Total equity attributable to the owners of the Bank		<b>24,656,973</b>	25,216,325
Non-controlling interests		<b>32,029</b>	31,266
<b>Total equity</b>		<b>24,689,002</b>	25,247,591
<b>Total liabilities and equity</b>		<b>335,044,485</b>	328,622,371

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

	Attributable to owners of the Bank								Non-controlling interests	Total
	Share Capital	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At January 1, 2019	10,069,791	4,658,314	(4,156)	261,427	1,510,052	4,423,117	4,297,780	25,216,325	31,266	25,247,591
Profit for the year	-	-	-	-	-	-	509,111	509,111	2,263	511,374
Other comprehensive income/(expenses) for the year	-	-	757	(41,958)	-	-	-	(41,201)	-	(41,201)
Total comprehensive income/(expenses) for the year	-	-	757	(41,958)	-	-	509,111	467,910	2,263	470,173
Shareholders' injection	-	2,103	-	-	-	-	-	2,103	-	2,103
Appropriation of profits										
- Appropriation to surplus reserve	-	-	-	-	50,783	-	(50,783)	-	-	-
- Appropriation to general reserve	-	-	-	-	-	47,927	(47,927)	-	-	-
Dividends paid	-	-	-	-	-	-	(1,029,365)	(1,029,365)	-	(1,029,365)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,500)	(1,500)
At December 31, 2019	<u>10,069,791</u>	<u>4,660,417</u>	<u>(3,399)</u>	<u>219,469</u>	<u>1,560,835</u>	<u>4,471,044</u>	<u>3,678,816</u>	<u>24,656,973</u>	<u>32,029</u>	<u>24,689,002</u>

	Attributable to owners of the Bank								Non-controlling interests	Total
	Share Capital	Capital reserve	Defined benefit plan reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At January 1, 2018 (Audited)	7,525,991	1,767,659	(744)	(125,323)	892,953	3,631,670	2,889,067	16,581,273	31,766	16,613,039
Change in accounting policy	-	-	-	138,025	(61,310)	-	(556,709)	(479,994)	(2,916)	(482,910)
At January 1, 2018	7,525,991	1,767,659	(744)	12,702	831,643	3,631,670	2,332,358	16,101,279	28,850	16,130,129
Profit for the year	-	-	-	-	-	-	3,435,278	3,435,278	4,366	3,439,644
Other comprehensive (expenses)/income for the year	-	-	(3,412)	248,725	-	-	-	245,313	-	245,313
Total comprehensive (expenses)/income for the year	-	-	(3,412)	248,725	-	-	3,435,278	3,680,591	4,366	3,684,957
Shareholders' injection	-	500	-	-	-	-	-	500	-	500
Change in share capital										
- Capital contributed by equity shareholders	2,543,800	3,058,642	-	-	-	-	-	5,602,442	-	5,602,442
- Share issue expenses	-	(168,487)	-	-	-	-	-	(168,487)	-	(168,487)
Appropriation of profits										
- Appropriation to surplus reserve	-	-	-	-	678,409	-	(678,409)	-	-	-
- Appropriation to general reserve	-	-	-	-	-	791,447	(791,447)	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,950)	(1,950)
At December 31, 2018	<u>10,069,791</u>	<u>4,658,314</u>	<u>(4,156)</u>	<u>261,427</u>	<u>1,510,052</u>	<u>4,423,117</u>	<u>4,297,780</u>	<u>25,216,325</u>	<u>31,266</u>	<u>25,247,591</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED DECEMBER 31, 2019

	<b>2019</b>	2018
	<b>RMB'000</b>	<i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	<b>564,767</b>	4,637,808
Adjustments for:		
Depreciation of property and equipment	<b>386,957</b>	329,589
Depreciation of right-of-use assets	<b>113,443</b>	–
Amortisation of intangible assets	<b>4,379</b>	1,241
Amortisation of long term deferred expenses and land use rights	–	12,370
Impairment losses on assets, net of reversals	<b>4,311,984</b>	1,962,374
Interest expense on lease liabilities	<b>6,617</b>	–
Interest expense on debts securities issued	<b>1,579,603</b>	1,566,339
Loss on disposal of property and equipment	<b>2,703</b>	159
Unrealised losses/(gains) from debt securities	<b>95,160</b>	(262,821)
Net gains arising from investment securities	<b>(131,183)</b>	(42,689)
Government grants	<b>(5,708)</b>	(23,775)
Interest income on investments	<b>(3,320,437)</b>	(3,812,326)
Share of result of an associate	<b>68</b>	960
	<b>3,608,353</b>	4,369,229
Changes in operating assets		
Net decrease in deposits with the central bank	<b>4,382,237</b>	353,157
Net decrease in deposits with banks	<b>4,129,000</b>	23,296,018
Net decrease/(increase) in financial assets at fair value through profit or loss	<b>6,535,998</b>	(32,268,292)
Net increase in loans and advances to customers	<b>(14,560,604)</b>	(31,425,805)
Net increase in other operating assets	<b>(6,416,006)</b>	(2,595,100)
	<b>(5,929,375)</b>	(42,640,022)

	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Changes in operating liabilities		
Net (decrease)/increase in borrowings from central bank	<b>(9,334,498)</b>	6,360,441
Net decrease in deposits and placements from banks and other financial institutions	<b>(4,301,883)</b>	(2,414,601)
Net (decrease)/increase in financial assets sold under repurchase agreements	<b>(6,318,405)</b>	5,899,459
Net increase in deposits from customers	<b>26,145,340</b>	18,492,714
Net increase in other operating liabilities	<b>3,169,950</b>	2,720,516
	<b><u>9,360,504</u></b>	<u>31,058,529</u>
Cash generated from/(used in) operations	<b>7,039,482</b>	(7,212,264)
Income tax paid	<b>(489,940)</b>	(1,323,896)
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>	<b><u>6,549,542</u></b>	<u>(8,536,160)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal and redemption of investments	<b>67,179,777</b>	135,094,122
Interest income received from financial investments	<b>2,972,680</b>	3,538,423
Proceeds from disposal of property and equipment	<b>79,895</b>	3,756
Payments on acquisition of investments	<b>(81,558,348)</b>	(132,123,913)
Payments on acquisition of property and equipment and intangible assets	<b>(296,213)</b>	(1,401,927)
Deposit paid for acquisition of premises	<b>(45,689)</b>	(200,087)
<b>NET CASH (USED IN)/FROM INVESTING ACTIVITIES</b>	<b><u>(11,667,898)</u></b>	<u>4,910,374</u>

	<b>2019</b>	2018
	<b>RMB'000</b>	<b>RMB'000</b>
<b>FINANCING ACTIVITIES</b>		
Shareholders' injection	<b>2,103</b>	500
Government grants received	<b>5,708</b>	23,775
Proceeds from capital contribution by equity shareholders	–	5,602,442
Shares issue expense	–	(168,487)
Net proceeds from issue of new debt securities	<b>33,992,480</b>	45,922,603
Repayment of debt securities issued	<b>(36,560,000)</b>	(28,740,000)
Repayment of lease liabilities	<b>(147,051)</b>	–
Interest paid on debts securities issued	<b>(1,130,619)</b>	(1,086,709)
Interest paid on lease liabilities	<b>(6,617)</b>	–
Dividends paid	<b>(1,012,230)</b>	(141)
Dividends paid to non-controlling interests	<b>(1,500)</b>	(1,950)
<b>NET CASH (USED IN)/FROM FINANCING ACTIVITIES</b>	<b><u>(4,857,726)</u></b>	<u>21,552,033</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b><u>(9,976,082)</u></b>	<u>17,926,247</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b><u>35,147,129</u></b>	<u>17,220,882</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b><u><u>25,171,047</u></u></b>	<u><u>35,147,129</u></u>
Interest received	<b><u><u>14,718,402</u></u></b>	<u><u>15,242,101</u></u>
Interest paid (excluding interest expense on debts securities issued and lease liabilities)	<b><u><u>(5,162,370)</u></u></b>	<u><u>(6,591,231)</u></u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2019

**1. GENERAL**

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

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

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

As at December 31, 2019, the Bank has a head office, 12 branches, 190 sub-branches, 5 micro-to-small enterprise sub-branches, 2 community sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (hereinafter collectively referred to as the “**Group**”) are the provision of corporate and retail deposits, loans and advances, payment and settlement services, as well as other banking services as approved by the CBRC. The Group operates in Mainland China.

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

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

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

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

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

The adoption of IFRS 16 resulted in changes in the Group’s accounting policies and adjustments to the amounts recognised in the consolidated financial statements as summarised below.

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

### 2.1 Impacts on adoption of IFRS 16 Leases

#### *IFRS 16 Lease*

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The Group has applied IFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at January 1, 2019. Comparative information has not been restated and continues to be reported under IAS 17 Leases.



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

#### *The Group as lessee*

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

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

#### *The Group as lessor*

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

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

		As at December 31, 2018	Impact on adoption of IFRS 16	As at <b>January 1, 2019</b>
	<i>Notes</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Right-of-use assets	(a) (b)	–	277,820	<b>277,820</b>
Lease liabilities	(a)	–	250,186	<b>250,186</b>
Other assets	(b)	497,118	(27,634)	<b>469,484</b>

- a) As at January 1, 2019, right-of-use assets were measured at an amount of approximately RMB250,186,000, represented leased premises which is equal to the lease liabilities included in the “Lease liabilities” line item of approximately RMB250,186,000. There is no impact to the opening balance of retained earnings.

- b) Land use rights included in the “Right-of-use assets” line item of approximately RMB27,634,000 as at December 31, 2018 were reclassified to right-of-use assets which represented the upfront payments for leasehold lands in the PRC as at January 1, 2019. There is no impact to the opening balance of retained earnings.

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

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

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

## 2.2 Practical expedients applied

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

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC– Interpretation 4 Determining whether an arrangement contains a Lease.
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics, and

- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

***New and revised IFRSs issued but not yet effective***

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

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

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2020.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2021.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2022.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

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

<sup>6</sup> The new standard is currently mandatorily effective for annual periods beginning on or after January 1, 2021, however in June 2019, IASB deferred the effective date for annual period beginning on or after January 1, 2023.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

### 4. NET INTEREST INCOME

	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest income arising from		
– Deposits with the central bank	<b>392,837</b>	434,322
– Deposits with banks	<b>244,144</b>	692,630
– Placements with banks and other financial institutions	<b>25</b>	4,778
– Loans and advances to customers:		
Corporate loans and advances	<b>7,103,516</b>	7,194,282
Personal loans and advances	<b>1,888,784</b>	1,757,676
Discounted bills	<b>978,435</b>	1,019,428
– Financial assets held under resale agreements	<b>451,815</b>	411,619
– Financial assets at fair value through other comprehensive income	<b>663,302</b>	506,749
– Financial assets at amortised cost	<b>2,657,135</b>	3,305,577
	<b><u>14,379,993</u></b>	<u>15,327,061</u>
Less: Interest expenses arising from		
– Borrowings from the central bank	<b>(177,173)</b>	(261,055)
– Deposits from banks and other financial institutions	<b>(483,009)</b>	(1,017,503)
– Placements from banks and other financial institutions	<b>(71,817)</b>	(194,796)
– Deposits from customers:		
Corporate customers	<b>(2,126,295)</b>	(1,933,660)
Individual customers	<b>(4,456,770)</b>	(2,989,641)
– Financial assets sold under repurchase agreements	<b>(190,810)</b>	(236,283)
– Debts securities issued	<b>(1,579,603)</b>	(1,566,339)
– Lease liabilities	<b>(6,617)</b>	–
	<b><u>(9,092,094)</u></b>	<u>(8,199,277)</u>
	<b><u><u>5,287,899</u></u></b>	<u><u>7,127,784</u></u>

## 5. NET FEE AND COMMISSION INCOME

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Fee and commission income		
– Wealth management service fees	36,251	48,020
– Bank acceptance bills service fees	27,567	19,812
– Agency services fees	120,624	207,307
– Settlement and clearing fees	146,431	68,399
– Letter of guarantee service fees	2,480	4,333
– Others	24,273	14,802
	<u>357,626</u>	<u>362,673</u>
Fee and commission expenses		
– Settlement and clearing fees	(13,060)	(5,470)
– Bank card service fees	(63,345)	(184,852)
– Others	(27,965)	(6,296)
	<u>(104,370)</u>	<u>(196,618)</u>
	<u><u>253,256</u></u>	<u><u>166,055</u></u>

## 6. NET TRADING GAINS

	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Financial assets at FVTPL		
– Realised gains from debt securities	<b>935,702</b>	277,313
– Unrealised (losses)/gains from debt securities	<b>(95,160)</b>	262,821
Interest income arising from financial asset at FVTPL	<b>649,279</b>	549,107
	<b><u>1,489,821</u></b>	<u>1,089,241</u>

## 7. NET GAINS ARISING FROM INVESTMENT SECURITIES

	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Net gains on disposal of financial assets at fair value through other comprehensive income	<b>131,183</b>	42,689

## 8. OTHER OPERATING INCOME, NET

	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Government grants	<b>5,708</b>	23,775
Loss on disposal of property and equipment	<b>(2,703)</b>	(159)
Rental income	<b>7,804</b>	40,791
Other operating expenses	<b>(8,534)</b>	(6,167)
	<b><u>2,275</u></b>	<u>58,240</u>

## 9. OPERATING EXPENSES

	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Staff costs (including directors' and supervisors' emoluments)		
– Salaries and bonuses	<b>905,229</b>	909,916
– Staff welfares	<b>49,857</b>	35,467
– Social insurance	<b>218,995</b>	209,234
– Housing allowances	<b>67,057</b>	57,057
– Labor union and staff education expenses	<b>22,541</b>	23,466
– Long term staff welfare expenses	<b>552</b>	510
– Others	<b>7,883</b>	4,873
	<u><b>1,272,114</b></u>	<u>1,240,523</u>
Premises and equipment expenses		
– Depreciation of property and equipment	<b>386,957</b>	329,589
– Depreciation of right-of-use assets	<b>113,443</b>	–
– Amortisation of long term deferred expenses	–	11,058
– Amortisation of land use rights	–	1,312
– Amortisation of intangible assets	<b>4,379</b>	1,241
– Rental and property management expenses	<b>60,207</b>	179,866
	<u><b>564,986</b></u>	<u>523,066</u>
Business tax and surcharges	<b>76,069</b>	77,684
Other general and administrative expenses (Note)	<b>443,334</b>	429,824
	<u><b>2,356,503</b></u>	<u>2,271,097</u>

*Note:* Auditor's remuneration for the year ended December 31, 2019 was approximately RMB3,300,000 (2018: approximately RMB3,000,000).

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Impairment losses, net of reversals on:		
Financial assets at FVTOCI	1,513	(45,198)
Financial assets at amortised cost	675,784	(11,962)
Other receivables	76,229	7,507
Loans and advances to customers	3,598,267	1,994,432
Deposits with banks	(4,709)	254
Financial assets held under resale agreements	–	(62)
Bank acceptances and letters of guarantees	(35,100)	17,403
	<u>4,311,984</u>	<u>1,962,374</u>

## 11. INCOME TAX EXPENSE

### Income tax:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current tax:		
– PRC Enterprise Income Tax	<u>1,739</u>	<u>1,242,210</u>
Deferred tax		
– Current year	<u>51,654</u>	<u>(44,046)</u>
	<u>53,393</u>	<u>1,198,164</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%. Pingliang Jingning Chengji Rural Bank Co., Ltd. (平涼市靜寧成紀村鎮銀行股份有限公司, “**Jingning Chengji Rural Bank**”), a subsidiary of the Bank, obtained approvals from tax authorities to adopt the preferential income tax rate of 15% for the year ended December 31, 2019 and 2018.



## 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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Profit for the year attributable to owners of the Bank ( <i>RMB'000</i> )	<u>509,111</u>	<u>3,435,278</u>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ( <i>'000</i> )	<u>10,069,791</u>	<u>9,951,313</u>

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year ended December 31, 2019 and 2018.

## 13. FINANCIAL ASSETS AT AMORTISED COST

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Financial asset measured at amortised cost</b>		
Debt securities issued by the following institutions in Mainland China		
– Government	14,906,774	5,238,228
– Banks and other financial institutions	11,937,294	7,348,088
– Corporations	4,385,172	5,831,434
Trust plans	17,786,844	11,977,738
Asset management plans	13,948,670	17,020,474
Asset-backed securities issued by bank and other institutions	<u>59,527</u>	<u>379,726</u>
	63,024,281	47,795,688
<b>Less: Provision for impairment losses</b>	<u>(1,326,885)</u>	<u>(2,729,400)</u>
	<u>61,697,396</u>	<u>45,066,288</u>
Analysed as:		
Listed outside Hong Kong	34,155,923	18,321,494
Unlisted outside Hong Kong	<u>27,541,473</u>	<u>26,744,794</u>
	<u>61,697,396</u>	<u>45,066,288</u>
Fair value	<u>62,143,647</u>	<u>45,163,984</u>

## 14. LOANS AND ADVANCES TO CUSTOMERS

### Analysed by nature

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Gross loans and advances to customers</b>		
Corporate loans and advances	<u>111,292,030</u>	<u>113,204,179</u>
Personal loans and advances		
– Personal business loans	6,997,942	7,580,060
– Personal consumption loans	10,196,924	7,647,686
– Residential and commercial mortgage loans	<u>17,070,660</u>	<u>12,797,435</u>
	<u>34,265,526</u>	<u>28,025,181</u>
Discounted bills	<u>24,891,685</u>	<u>19,655,952</u>
	<u>170,449,241</u>	<u>160,885,312</u>
<b>Less: Provision for impairment losses</b>	<u>(5,682,405)</u>	<u>(6,251,454)</u>
	<u><u>164,766,836</u></u>	<u><u>154,633,858</u></u>

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Financial assets held for trading ( <i>Note (i)</i> )	1,210,450	8,811,736
Trust plans	4,305,588	263,294
Asset management plans	24,013,317	25,341,432
Investment funds	6,887,405	6,970,953
Other debt securities ( <i>Note (ii)</i> )	<u>313,139</u>	<u>1,173,558</u>
	<u><b>36,729,899</b></u>	<u><b>42,560,973</b></u>
Analysed as:		
Listed outside Hong Kong	1,210,450	8,811,736
Unlisted outside Hong Kong	<u>35,519,449</u>	<u>33,749,237</u>
	<u><b>36,729,899</b></u>	<u><b>42,560,973</b></u>

*Notes:*

(i) Financial assets held for trading:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Debt securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	1,160,051	8,556,552
– Corporations	<u>50,399</u>	<u>255,184</u>
	<u><b>1,210,450</b></u>	<u><b>8,811,736</b></u>

As at December 31, 2019, no financial assets at FVTPL were subject to material restrictions on the realisation (2018: nil).

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

(ii) Other debt securities

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

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Debt instruments classified at FVTOCI</b>		
Debt securities issued by the following institutions in Mainland China		
– Government	4,186,930	4,869,958
– Banks and other financial institutions	10,231,910	10,037,993
– Corporations	347,513	341,146
	<u>14,766,353</u>	<u>15,249,097</u>
<b>Unlisted equity investments designated at FVTOCI</b>	<u>315,094</u>	–
	<u><u>15,081,447</u></u>	<u><u>15,249,097</u></u>
 Analysed as:		
Listed in Hong Kong	347,513	–
Listed outside Hong Kong	14,418,840	15,249,097
Unlisted outside Hong Kong	315,094	–
	<u>15,081,447</u>	<u>15,249,097</u>

## 17. DEBT SECURITIES ISSUED

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Fixed rates financial bonds	5,998,191	5,996,352
Fixed rate tier-two capital bonds issued	3,197,198	3,194,430
Interbank deposits	30,263,784	32,385,991
	<u>39,459,173</u>	<u>41,576,773</u>

## 18. DIVIDENDS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
2018 final dividend ( <i>Note</i> )	<u>1,029,365</u>	<u>–</u>

*Note:*

Pursuant to the resolution of the shareholders meeting held on June 4, 2019, the Bank declared final cash dividends in respect of the year ended December 31, 2018 of approximately RMB0.1022 per share (tax included) based on approximately 10,069,791,000 shares held amounting to approximately RMB1,029,365,000 during the year ended December 31, 2019.

Subsequent to the end of the reporting period, no final dividend in respect of the year ended December 31, 2019 has been proposed by the directors of the Bank.

## 19. SEGMENT REPORTING

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

### **Corporate banking**

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

### **Retail banking**

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

## **Financial market operations**

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

## **Others**

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

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

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

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

## Segment results, assets and liabilities

	Year ended December 31, 2019				Total RMB'000
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	
Operating income					
External net interest income/ (expense)	4,977,220	(2,567,987)	2,878,666	-	5,287,899
Internal net interest (expense)/ income	(1,874,016)	3,963,142	(2,089,126)	-	-
Net interest income	3,103,204	1,395,155	789,540	-	5,287,899
Net fee and commission income	135,165	66,251	27,567	24,273	253,256
Net trading gains	-	-	1,489,821	-	1,489,821
Net gains arising from investment securities	-	-	131,183	-	131,183
Net exchange gains	-	-	-	68,888	68,888
Other operating income, net	-	-	-	2,275	2,275
Operating income	3,238,369	1,461,406	2,438,111	95,436	7,233,322
Operating expenses	(1,055,020)	(476,108)	(794,306)	(31,069)	(2,356,503)
Impairment losses on assets	(3,193,421)	(404,847)	(677,298)	(36,418)	(4,311,984)
Operating (loss)/profit	(1,010,072)	580,451	966,507	27,949	564,835
Share of result of associate	-	-	-	(68)	(68)
(Loss)/profit before tax	<u>(1,010,072)</u>	<u>580,451</u>	<u>966,507</u>	<u>27,881</u>	<u>564,767</u>
Segment assets	110,799,219	34,861,870	187,318,644	421,682	333,401,415
Deferred tax assets	-	-	-	1,643,070	1,643,070
Total assets	<u>110,799,219</u>	<u>34,861,870</u>	<u>187,318,644</u>	<u>2,064,752</u>	<u>335,044,485</u>
Segment liabilities	87,806,823	144,295,260	78,092,012	38,450	310,232,545
Deferred tax liabilities	-	-	-	97,243	97,243
Dividend payable	-	-	-	25,695	25,695
Total liabilities	<u>87,806,823</u>	<u>144,295,260</u>	<u>78,092,012</u>	<u>161,388</u>	<u>310,355,483</u>
Other segment information					
- Depreciation and amortisation	166,577	50,478	282,676	5,048	504,779
- Capital expenditure	97,750	29,621	165,879	2,963	296,213

	Year ended December 31, 2018				
	Corporate banking RMB'000	Retail banking RMB'000	Financial market operations RMB'000	Others RMB'000	Total RMB'000
Operating income					
External net interest income/ (expense)	5,264,351	(1,231,966)	3,095,399	–	7,127,784
Internal net interest (expense)/ income	(708,266)	2,238,762	(1,530,496)	–	–
Net interest income	4,556,085	1,006,796	1,564,903	–	7,127,784
Net fee and commission income	87,028	19,222	51,338	8,467	166,055
Net trading gains	–	–	1,089,241	–	1,089,241
Net gains arising from investment securities	–	–	42,689	–	42,689
Net exchange gains	–	–	–	388,230	388,230
Other operating income, net	–	–	–	58,240	58,240
Operating income	4,643,113	1,026,018	2,748,171	454,937	8,872,239
Operating expenses	(1,190,262)	(262,898)	(702,142)	(115,795)	(2,271,097)
Impairment losses on assets	(1,386,171)	(287,740)	(263,360)	(25,103)	(1,962,374)
Operating profit	2,066,680	475,380	1,782,669	314,039	4,638,768
Share of result of associate	–	–	–	(960)	(960)
Profit before tax	<u>2,066,680</u>	<u>475,380</u>	<u>1,782,669</u>	<u>313,079</u>	<u>4,637,808</u>
Segment assets	110,549,327	27,819,221	188,347,517	186,760	326,902,825
Deferred tax assets	–	–	–	1,719,546	1,719,546
Total assets	<u>110,549,327</u>	<u>27,819,221</u>	<u>188,347,517</u>	<u>1,906,306</u>	<u>328,622,371</u>
Segment liabilities	92,065,313	112,244,596	98,802,812	118,236	303,230,957
Deferred tax liabilities	–	–	–	135,263	135,263
Dividend payable	–	–	–	8,560	8,560
Total liabilities	<u>92,065,313</u>	<u>112,244,596</u>	<u>98,802,812</u>	<u>262,059</u>	<u>303,374,780</u>
Other segment information					
– Depreciation and amortisation	188,760	44,616	106,392	3,432	343,200
– Capital expenditure	880,655	208,157	496,370	16,009	1,601,191



## 20. 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.

	<b>2019</b>	2018
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Bank acceptances	<b>22,576,503</b>	26,418,071
Letters of guarantees	<b>1,510,474</b>	721,547
Unused credit card commitment	<b>872,439</b>	359,224
Letters of credit	<b>40,387</b>	–
	<b><u>24,999,803</u></b>	<u>27,498,842</u>

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

**(b) Operating lease commitments**

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

**The Group as lessee**

	<b>2018</b> <i>RMB'000</i>
Within one year	142,223
In the second to fifth years inclusive	165,992
Over five years	<u>11,847</u>
	<u><u>320,062</u></u>

**(c) Capital commitments**

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

**The Group**

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Purchase of property and equipment – Contracted for but not provided	<u><u>15,979</u></u>	<u><u>38,655</u></u>

## **7. PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This results announcement has been published on the HKExnews website of Hong Kong Stock Exchange (www.hkexnews.hk) and website of the Bank (www.gsbankchina.com). The 2019 Annual Report of the Bank prepared in accordance with the IFRSs will be published on the HKExnews website of Hong Kong Stock Exchange (www.hkexnews.hk) and website of the Bank (www.gsbankchina.com) and will be despatched to the H Shareholders of the Bank in due course.

By Order of the Board  
**Bank of Gansu Co., Ltd.\***  
**Liu Qing**  
*Chairman*

Lanzhou, Gansu  
March 30, 2020

*As at the date of this announcement, the Board of Directors comprises Mr. LIU Qing and Mr. WANG Wenyong as executive directors; Ms. WU Changhong, Ms. ZHANG Hongxia, Mr. GUO Jirong, Mr. ZHANG Youda and Mr. LIU Wanxiang\*\* as non-executive directors; and Ms. TANG Xiuli, Ms. LUO Mei, Mr. WONG Sincere and Mr. DONG Ximiao as independent non-executive directors.*

\* *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.*

\*\* *The qualification of Mr. LIU Wanxiang as director is subject to approval of the competent regulatory authority.*