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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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2020

The board of directors (the “**Board**”) of Bank of Gansu Co., Ltd. (the “**Bank**”) is pleased to announce the unaudited interim results (the “**Interim Results**”) of the Bank and its subsidiary (the “**Group**”) for the six months ended June 30, 2020 (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 Interim Results.

I. FINANCIAL HIGHLIGHTS

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

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

(Expressed in millions of RMB, unless otherwise stated)	As at June 30, 2020	As at December 31, 2019	Percentage change (%)
Major indicators of assets/liabilities			
Total assets	338,718.8	335,044.5	1.1
Of which: total loans and advances to customers	173,522.8	170,449.2	1.8
Total liabilities	313,650.3	310,355.5	1.1
Of which: deposits from customers	253,388.5	236,868.7	7.0
Total equity	25,068.5	24,689.0	1.5
	Six months ended June 30, 2020 (%)	2019 (%)	Percentage change (%)
Profitability indicators (%)			
Return on assets ⁽¹⁾⁽¹⁴⁾	0.22	0.31	(29.03)
Return on equity ⁽²⁾⁽¹⁴⁾	2.96	4.15	(28.67)
Net interest spread ⁽³⁾⁽¹⁴⁾	1.76	2.02	(12.87)
Net interest margin ⁽⁴⁾⁽¹⁴⁾	1.78	2.10	(15.24)
Net fee and commission income to operating income ratio ⁽⁵⁾	5.75	2.90	98.28
Cost-to-income ratio ⁽⁶⁾	28.05	23.40	19.87
	As at June 30, 2020 (%)	As at December 31, 2019 (%)	Percentage Change (%)
Capital adequacy indicators (%)			
Core tier-one capital adequacy ratio ⁽⁷⁾	9.86	9.92	(0.60)
Tier-one capital adequacy ratio ⁽⁸⁾	9.86	9.92	(0.60)
Capital adequacy ratio ⁽⁹⁾	11.63	11.83	(1.69)
Shareholders' equity to total assets ratio	7.40	7.37	0.41
Assets quality indicators (%)			
Non-performing loan ratio	2.32	2.45	(5.31)
Provision coverage ratio ⁽¹⁰⁾	131.20	135.87	(3.44)
Provision to total loan ratio ⁽¹¹⁾⁽¹²⁾	3.05	3.33	(8.41)
Other indicators (%)			
Loan to deposit ratio ⁽¹³⁾	68.48	71.96	(4.84)

Notes:

- (1) Calculated by dividing the net profit for a period by the average balance of total assets at the beginning and the end of that period.
- (2) Calculated by dividing the net profit for a period by the average balance of total equity at the beginning and the end of that period.
- (3) Represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average interest-earning assets.
- (5) Calculated by dividing net fee and commission income by operating income.
- (6) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.
- (7) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions)/risk-weighted assets.
- (8) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions)/risk-weighted assets.
- (9) Capital adequacy ratio = (total capital – corresponding capital deductions)/risk-weighted assets.
- (10) Provision coverage ratio = provision for impairment losses on loans/total non-performing loans and advances.
- (11) Provision to total loan ratio = provision for impairment losses on loans/total loans and advances to customers.
- (12) In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank made a provision to total loans at the minimum standard ratio of 2.5%.
- (13) Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for the People's Republic of China (the “**PRC**”) commercial banks under the amended PRC Commercial Banking Law, which became effective on October 1, 2015.
- (14) The ratio for the six months ended June 30, 2019 and 2020, respectively, is calculated on an annual basis.

II. MANAGEMENT DISCUSSION AND ANALYSIS

1. ENVIRONMENT AND PROSPECT

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

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

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

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

2. ASSESSMENT ON THE IMPACT OF COVID-19

Since the nationwide outbreak of COVID-19 in January 2020, the prevention and control measures on the epidemic have been taken on a continuous basis across the country. The Bank will firmly implement a series of policies and measures including the Notice on Further Strengthening Financial Support for the Prevention and Control of COVID-19 (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》), the Guidance Opinions on Further Strengthening Financial Services for Small, Medium and Micro Enterprises (《關於進一步強化中小微企業金融服務的指導意見》) (Yin Fa [2020] No. 120), the Notice on Further Implementing the Phased Delay in Repayment of Principal and Interest of Loans for Small, Medium and Micro Enterprise (《關於進一步對中小微企業貸款實施階段性延期還本付息的通知》) (Yin Fa [2020] No. 122) and the Notice on Increasing the Support of Unsecured Loans for Micro and Small

Enterprises (《關於加大小微企業信用貸款支援力度的通知》) (Yin Fa [2020] No. 123) jointly promulgated by the People's Bank of China (the “PBOC”), the Ministry of Finance of the PRC, China Banking and Insurance Regulatory Commission (“CBIRC”) and other ministries and the Notice on Printing and Distributing the Work Plan for “Security in the Six Areas” by the General Office of the People's Government of Gansu Province of the Gansu Province Committee of CPC (《中共甘肅省委辦公廳甘肅省人民政府辦公廳關於印發「六保」工作方案的通知》) (Gan Ban Fa [2020] No. 16), so as to support entity enterprises to resume work and production, ensure employment, and strengthen financial support for the prevention and control of the pandemic.

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

3. DEVELOPMENT STRATEGY

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

To achieve the aforesaid goals, the Bank plans to: (i) advance internal reforms to optimize organizational structure and enhance the corporate governance standards and fundamental management capability of the Bank; (ii) fully leverage domestic and overseas capital markets to expand capital replenishment channels and secure continuous capital replenishment; (iii) adapt to new norms for economy and regulation, hold onto the bottom line of risks and effectively strengthen quality control of assets; (iv) develop

a mega retail business system to ensure the implementation of the retail transformation strategy; (v) improve wholesale business service systems to lay a solid foundation for business growth; (vi) promote the application of Fintech and cross-sector cooperation and take the mobile end as a priority to expand its service coverage; (vii) optimize its business and management process and improve refined management standards towards the direction of building a refined management system; and (viii) adhere to talent cultivation with continuous promotion in team cohesion and comprehensive ability.

4. OVERALL BUSINESS REVIEW

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

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

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

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

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

(i) *Net interest income*

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

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

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

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

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

Notes:

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

- (5) Primarily includes interbank certificates and tier-two capital bonds.
- (6) Represents the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.
- (7) Calculated by dividing net interest income by the average balance of interest-earning assets.

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

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

Notes:

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

(ii) Interest income

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

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

Note:

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

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

(A) Interest income from loans and advances to customers

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

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

Note:

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

(C) Interest income from deposits with banks

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

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

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

(E) Interest income from deposits with the central bank

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

(iii) Interest expense

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

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

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

(A) Interest expense on deposits from customers

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

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

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

(C) Interest expense on debt securities issued

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

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

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

(E) Interest expense on borrowings from the central bank

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

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

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

(v) *Non-interest income*

(A) Net fee and commission income

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

Note:

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

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

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

(B) Net trading gains

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

(C) Net gains arising from investment securities

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

(D) Net exchange gains

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

(E) Other operating expense

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

(vi) *Operating expenses*

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

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

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 cost for the periods indicated.

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

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

(B) Premises and equipment expenses

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

(C) General management and administrative expenses

General management and administrative expenses primarily included business promotion fees, administrative fees, transportation fee and repair expenses. General management and administrative expenses increased by 12.5% from RMB157.4 million for the six months ended June 30, 2019 to RMB177.1 million for the six months ended June 30, 2020. The general management and administrative expenses was due to the increase in rigid expenses of the Bank.

(D) Business tax and surcharges

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges increased steadily due to business growth, which were RMB37.6 million and RMB48.5 million for the six months ended June 30, 2019 and 2020, respectively.

(vii) Impairment losses on credit/assets

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

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

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

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

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

(viii) Income tax expense

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

(b) Analysis of the Consolidated Statement of Financial Position

(i) Assets

As of June 30, 2020 and December 31, 2019, the total assets of the Bank were RMB338,718.8 million and RMB335,044.5 million, respectively. Major components of total assets include (i) loans and advances to customers; (ii) investment securities and other financial assets; (iii) deposits with banks; (iv) cash and deposits with the central bank; and (v) financial assets held under resale agreements. The table below sets forth the components of total assets as of the dates indicated.

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

Notes:

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

(A) Loans and advances to customers

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

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

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

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

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

The Bank's retail loans mainly comprise of personal business loans, personal consumption loans and residential and commercial mortgage loans. The Bank's retail loans increased by 5.6% from RMB34,265.5 million as of December 31, 2019 to RMB36,186.3 million as of June 30, 2020, primarily due to (i) the increased personal housing mortgage loans; and (ii) the increased personal consumption loans.

Loans and advances to customers by type of collateral

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

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

As of June 30, 2020 and December 31, 2019, collateralized loans, pledged loans and guaranteed loans in aggregate represented 88.2% and 89.2% of total loans and advances to customers, respectively. Collateralized loans and pledged loans are subject to loan-to-value ratio limits based on the type of collateral. The Bank usually only accepts guarantees provided by listed companies, guarantee companies or guarantor with strong guarantee capacity and in compliance with guarantee conditions. The Bank evaluates a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

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

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

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

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

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

(B) Investment securities and other financial assets

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

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

(ii) Liabilities

As of June 30, 2020 and December 31, 2019, the total liabilities of the Bank were RMB313,650.3 million and RMB310,355.5 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) deposits from banks and other financial institutions; (iii) financial assets sold under repurchase agreements; (iv) debt securities issued; (v) borrowings from the central bank; (vi) placements from banks and other financial institutions; and (vii) other liabilities. The table below sets forth the components of total liabilities as of the dates indicated.

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

Note:

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

(A) Deposits from customers

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

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

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

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

(B) Debts securities issued

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

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

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

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

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

(iii) Shareholders' equity

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

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

(c) Asset quality analysis

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

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

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

Note:

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

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

(ii) *Concentration of loans*

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

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

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

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

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

(B) Borrower concentration

Loans to the 10 largest single borrowers

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

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

(C) Non-performing loans by product

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

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

Notes:

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

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

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

(D) Loan aging schedule

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total (%)	Amount	% of total (%)
Loans not overdue	<u>165,781.2</u>	<u>95.5</u>	<u>154,803.3</u>	<u>90.8</u>
Loans past due for:				
1 to 90 days	3,911.2	2.3	11,689.7	6.9
91 days to 1 year	2,413.5	1.4	3,068.4	1.8
1 to 3 years	1,233.7	0.7	720.9	0.4
3 years or more	<u>183.2</u>	<u>0.1</u>	<u>166.9</u>	<u>0.1</u>
Subtotal	<u>7,741.6</u>	<u>4.5</u>	<u>15,645.9</u>	<u>9.2</u>
Total loans and advances to customers	<u><u>173,522.8</u></u>	<u><u>100.0</u></u>	<u><u>170,449.2</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)	Six months ended June 30,			
	2020		2019	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking	1,558.5	48.1	2,039.6	52.9
Retail banking	623.6	19.2	757.2	19.6
Financial market operations	968.4	29.8	1,047.1	27.1
Others ⁽¹⁾	92.9	2.9	14.0	0.4
Total operating income	3,243.4	100.0	3,857.9	100.0

Note:

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

(ii) Summary of geographical segment information

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

(e) Off-balance sheet commitments

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

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

Notes:

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

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

(f) Miscellaneous

During the interim Reporting Period, the Bank launched the business related to the sub-loan (“**ADB Sub-loan**”) of Asian Development Bank (“**ADB**”). ADB Sub-loan refers to the RMB denominated loans extended by the Bank to the final borrowers who meet the requirements of the ADB and the Bank leveraging on the capital funded by the ADB to the Chinese government, which shall be used to satisfy the production and operation needs of such borrowers. The ADB Sub-loan consists of two parts, with one part directly channeled from ADB funds and the other supported by the self-owned capital of the Bank. As of June 30, 2020, the Group has granted a total of RMB20.7 million ADB Sub-loan. Currently, it has applied for 4 reimbursement withdrawals totaling US\$3,144,800.

5. BUSINESS REVIEW

(a) Corporate banking

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

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

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

Notes:

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

(i) Corporate loans

Corporate loans constituted the largest component of the Bank's loan portfolio. As of June 30, 2020 and December 31, 2019, corporate loans amounted to RMB111,501.1 million and RMB111,292.0 million, accounting for 64.2% and 65.3% of the Bank's total loans and advances to customers, respectively.

(ii) Discounted bills

The Bank purchases bank and commercial acceptance bills with remaining maturities of up to one year at discounted prices to satisfy the short-term funding needs of banks and corporate customers. As of June 30, 2020 and December 31, 2019, discounted bills totaled RMB25,835.4 million and RMB24,891.7 million, accounting for 14.9% and 14.6% of the Bank's total loans and advances to customers, respectively.

(iii) Corporate deposits

The Bank accepts demand and time deposits denominated in Renminbi and major foreign currencies (including HK dollars, U.S. dollars and Euros) from corporate customers. As of June 30, 2020 and December 31, 2019, corporate deposits totaled RMB87,495.3 million and RMB72,028.5 million, accounting for 34.5% and 30.4% of the Bank's total customer deposits, respectively.

(iv) Fees and commission-based products and services

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

(A) Wealth management services

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

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

(B) Entrusted loans

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

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

(C) Settlement services

The Bank offers corporate customers domestic and international settlement services.

Domestic Settlement Services: The Bank provides domestic settlement services in the form of bank acceptance bills, collections and telegraphic transfers. As of June 30, 2020 and December 31, 2019, the Bank's total domestic settlement transaction volumes were approximately RMB372.394 billion and RMB762.741 billion, respectively.

International Settlement Services: The Bank obtained approval to provide international settlement services in January 2014. The Bank's international settlement services primarily include remittance, collection, letters of credit and letters of guarantee. As of June 30, 2020 and December 31, 2019, the Bank's international settlement transaction volumes were US\$98 million and US\$129 million, respectively.

(D) Consultation and financial advisory services

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

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

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

(b) *Retail banking*

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

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

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

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

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

Notes:

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

(i) Retail loans

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

(ii) Retail deposits

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

(iii) Bank card services

(A) Debit cards

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

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

- Social Security Card (社會保障卡): The Bank works with the Department of Human Resources and Social Security of Gansu Province (甘肅省人力資源和社會保障廳) to issue Social Security Cards, which can be used for making social security contributions and social security information inquiries.
- Housing Provident Fund Co-branded Card (公積金聯名卡): The Bank works with the local housing provident fund management center to issue Housing Provident Fund Co-branded Cards, which can be used for withdrawal and transfer of housing provident funds, loan distribution and account inquiries.

- Longyuan Transportation Card (隴原交通卡): The Bank works with the Gansu Provincial Expressway Administration to issue IC financial cards, which can be used for paying expressway tolls electronically.
- Veteran Card (退役軍人保障卡): The IC financial cards issued by the Bank in partnership with Gansu Provincial Veterans Affairs Office, which targets veterans and soldiers' dependents in the province, providing exclusive financial management, savings products, exclusive guarantees, and exclusive VIP services for cardholders.

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

As of June 30, 2020, the Bank had issued approximately 8.18 million debit cards. As of June 30, 2020 and December 31, 2019, holders of these debit cards conducted transactions of approximately RMB8,788 million and RMB18,015.0 million, respectively.

(B) Credit cards

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

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

(C) POS settlement services

As a payment settlement service provider, the Bank provides selected merchants with transaction fund settlement services. As of June 30, 2020, the Bank had 82,446 merchant customers for settlement services and 92,408 terminals.

(iv) Fees and commission-based products and services

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

(A) Wealth management services

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

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

(B) Agency services

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

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

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

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

(C) Payroll and payment agency services

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

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

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

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

(c) Financial market operations

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

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

Notes:

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

(i) Money market transactions

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

(A) Interbank deposits

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

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

(B) Interbank placements

As of June 30, 2020 and December 31, 2019, the Bank did not make any placements with banks and other financial institutions. As of the same dates, placements from banks and other financial institutions totaled RMB450.0 million and RMB890.0 million, respectively.

(C) Repurchase and reverse repurchase transactions

The securities underlying the Bank's repurchase and reverse repurchase transactions are mainly RMB-denominated PRC government bonds and policy financial bonds. As of June 30, 2020 and December 31, 2019, financial assets held under resale agreements totaled RMB18,749.0 million and RMB16,264.0 million, respectively, and financial assets sold under repurchase agreements totaled RMB3,860.7 million and RMB5,398.6 million, respectively.

(ii) *Investment securities and other financial assets*

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

(A) Security investment by holding purpose

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

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

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

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

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

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

Note:

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

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

(C) Holding of government bonds

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

Name of the bond	Face value (in millions of RMB)	Interest rate per annum (%)	Maturity date
19 Interest-bearing treasury bond 09 (19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)	2,070.00	2.69	March 7, 2022
20 Gansu bond 16 (20甘肅 債16)	1,420.00	3.57	May 29, 2040
18 Gansu bond 01 (18甘肅 債01)	1,040.00	3.39	April 24, 2023
19 Interest-bearing treasury bond 11 (19附息國債11)	1,020.00	2.75	August 8, 2022
20 Gansu bond 14 (20甘肅 債14)	850.00	3.57	May 29, 2040
19 Interest-bearing treasury bond 04 (19附息國債04)	750.00	3.19	April 11, 2024
18 Gansu 02 (18甘肅02)	700.00	3.79	June 15, 2023
16 Gansu Targeted 02 (16甘肅定向02)	677.60	3.26	April 21, 2023
19 Gansu bond 01 (19甘肅 債01)	610.00	3.32	January 31, 2026

(D) Holding of financial bonds

As of June 30, 2020, the balance of face value of the financial bonds (mainly the financial bonds issued by policy banks, commercial banks and other financial institutions) held by the Bank amounted to RMB20,370 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of June 30, 2020.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum (%)	Maturity date
17 CDB bond 09 (17國開09)	1,470.00	4.14	September 11, 2020
18 ADBC bond 01 (18農發 01)	1,110.00	4.98	January 12, 2025
18 CDB bond 08 (18國開08)	1,100.00	4.07	April 27, 2021
18 ADBC bond 08 (18農發 08)	1,080.00	4.37	May 25, 2023
18 ADBC bond 09 (18農發 09)	1,080.00	4.24	June 1, 2021
15 CDB bond 16 (15國開16)	750.00	3.94	July 10, 2022
19 EIBC bond 05 (19進出05)	650.00	3.28	February 11, 2024
19 CDB bond 15 (19國開15)	550.00	3.45	September 20, 2029
16 EIBC bond 02 (16進出02)	550.00	3.07	February 22, 2021
14 CDB bond 21 (14國開21)	500.00	5.10	August 7, 2021

(d) *Distribution network*

(i) *Physical outlets*

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

(ii) *Electronic banking business*

(A) Internet banking

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

(B) Direct banking platform

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

(C) Mobile phone banking

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

(D) Telephone banking

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

(E) Self-service banking

The Bank provides convenient banking services to customers at lower operating costs through self-service facilities. The Bank's self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of June 30, 2020, the Bank had 212 outlets, 141 off-bank self-service zones and 783 self-service facilities.

(F) WeChat banking

WeChat has become an important channel that provides value-added services to retail customers. Through WeChat banking, customers can access the Bank's products and services; manage accounts, transaction inquiries, payment and convenience services; and search for the Bank's outlet locations. As of June 30, 2020, the Bank had over 630,448 WeChat banking customers.

(G) E-commerce platform

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

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

Jingning Chengji Rural Bank

In September 2008, Pingliang City Commercial Bank Co., Ltd. established Jingning Chengji Rural Bank with 4 other legal entities and 7 individuals. As of June 30, 2020, the Bank held an approximately 62.7% equity interest in Pingliang Jingning Chengji Rural Bank Co., Ltd. (the "**Jingning Chengji Rural Bank**"). Jingning Chengji Rural Bank, a joint stock company with limited liability incorporated in the PRC, carries out its business in the PRC, primarily engaging in offering financial products and services, including loans, deposits and fees and commission-based products and services to local corporate and retail customers.

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

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

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

(f) *Operation and safety of IT systems*

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

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

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

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

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

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

6. RISK MANAGEMENT

(a) Risk management of the Bank

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

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

(i) Credit risk management

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

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

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

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

Industries	Credit Policies
Pharmaceutical manufacturing, health industry, education, advanced manufacturing industry, expressway, environmental treatment industry, power supply and internet-related fields ("aggressive growth" industries)	<ul style="list-style-type: none">• prioritize credit allocation and increase credit exposure to borrowers in these industries.

Industries

Modern Logistics, modern agriculture, catering industry, retail industry, general equipment manufacturing industry, accommodation industry, food & beverage and culture and art industry (“selective growth” industries)

Real estate, construction, black metal smelting and rolling processing industry, automobile manufacturing industry, mining and wholesale industries (“presence maintaining” industries)

Coking, flat glass, iron alloy smelting, calcium carbide, electrolytic aluminum, solar power generation and high pollution, high energy-consumption and over-capacity industries (“shrinking exit” industries)

Credit Policies

- selectively distribute credit to borrowers in these industries.
- focus on preventing risks by granting loans to high-quality customers and adjusting the proportion of loans to borrowers in these industries.
- strictly prohibit new credit extension and gradually compress existing businesses.

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

(ii) Market risk management

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

(A) Interest rate risk management

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

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

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

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

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

(B) Exchange rate risk management

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

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

(iii) Operational risk management

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

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

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

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

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

(iv) Liquidity risk

(A) Liquidity risk management

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

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

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

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

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

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

(B) Liquidity risk analysis

The Bank's liquidity coverage ratio

	June 30, 2020	December 31, 2019
Liquidity coverage ratio (%)	<u>216.43</u>	<u>199.59</u>

The Bank's net stable funding ratio

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

(v) *Reputation risk management*

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

(vi) Legal compliance risk management

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

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

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

- formulating our rules, systems and annual plans, and leading and urging the formulation and amendment thereof;
- enhancing the compliance review mechanism to identify and evaluate compliance risks associated with our business activities;
- developing, coordinating, reviewing and incorporating the Bank's operation authorization plans and revised plans and putting them into implementation;
- uniformly managing standard contracts and other legal documents;
- managing and tracking our legal proceedings;
- formulating an annual compliance management plan, stipulating the focus for annual compliance work;
- managing related parties and connected transactions to control connected transactions in advance;

- optimizing the management mechanism for rectifications upon inspection, and enhancing the supervision and management of our rectifications upon inspection;
- closely monitoring regulatory changes and reporting compliance information and risks to our senior management and the relevant business lines; and
- enhancing internal training on legal and compliance, and issuing compliance alerts and reminders to employees through compliance proposals and internal publications.

(vii) IT risk management

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

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

(viii) Anti-money laundering management

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

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

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

The anti-money laundering leadership group at its head office leads and coordinates the bank-wide anti-money laundering efforts. It is primarily responsible for:

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

This leadership group is led by the chairman of the Bank and the office is set up at the legal and compliance department. The group consists of responsible persons from our planning and financial department, risk management department, corporate business department, individual business department, inclusive finance department and information technology department, etc.

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

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

(ix) Internal audits

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

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

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

7. ANALYSIS ON CAPITAL ADEQUACY RATIO

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

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

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

Notes:

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

III. ISSUE OF SECURITIES AND BONDS

1 Non-public Issuance of Offshore Preference Shares

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

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

2 Non-public Issuance of Domestic Shares and Non-public Issuance of H Shares

To continue to comply with regulatory requirements, enhance the Bank's resilience to shocks, shore up market confidence and optimize its equity structure, the Bank intends to replenish core tier 1 capital through issuance of additional shares. At the meeting of the Board convened on March 30, 2020, the proposals on non-public issuance of domestic shares and H shares were approved, and the proposals were considered and approved at the extraordinary general meeting, the 2020 first domestic shareholders class meeting and the 2020 first H shareholders class meeting convened on June 3, 2020. To ensure that the minimum public float requirement for the Bank under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") (the

“**Hong Kong Listing Rules**”) is satisfied upon the issuance of additional H shares, the Board will ensure that the issuance of additional H shares will be completed before or currently with the issuance of domestic shares. In the event the issuance of H shares is terminated due to disapproval of shareholders or regulatory authorities or any other reason, the issuance of domestic shares shall also be terminated.

(1) Non-public issuance of Domestic Shares

The Bank intends to issue no more than 3.75 billion domestic shares to no more than 10 eligible domestic institutional investors. The actual issue number of shares to be issued is to be determined by regulatory authorities.

(2) Non-public issuance of H Shares

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

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

3 Issuance of Debt Securities

Interbank certificates

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

Financial bonds

At the meeting of the Board convened on March 27, 2019, the Board 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, the authorizing resolution shall be valid for 36 months from the date of approval at the annual general meeting (i.e. June 3, 2019).

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

As of the 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 and potential investors in a prompt manner.

IV. OTHER INFORMATION

1 Corporate Governance

The Bank has established and improved the corporate governance structure and established a series of corporate governance system according to the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by the former China Banking Regulatory Commission (“**Guidelines**”). Our directors believe that during the Reporting Period, the Bank has complied with all compulsory code provisions contained in the Corporate Governance Code. The Bank has also strictly complied with the provisions regarding management of inside information required under applicable laws and regulations and the Hong Kong Listing Rules.

2 Securities Transactions by Directors, Supervisors and Senior Management

The Bank has adopted, in respect of securities transactions by directors, supervisors and senior management, a code of conduct on terms no less exacting than the required standards set out in 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 senior management of the Bank, the Bank confirmed that they had complied with the Model Code during the Reporting Period.

3 Profits and Dividend

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

(1) 2019 final dividend

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

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

(2) 2020 interim dividend

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

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

4 Purchase, Sale and Redemption of Listed Securities of the Bank

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

5 Other Events after the Reporting Period

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

6 Review of Interim Financial Statements

The financial statements disclosed in this interim results announcement have not been audited. The interim financial statements of the Bank for the six months ended June 30, 2020 were prepared in accordance with IFRSs issued by the International Accounting Standards Board. The Board and its audit committee have reviewed and approved the Group's unaudited consolidated interim financial data for the six months ended June 30, 2020.

V. FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2020

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2020

		At June 30, 2020	At December 31, 2019
	Notes	RMB'000 (Unaudited)	RMB'000 (Audited)
Assets			
Cash and deposits with the central bank		22,920,342	25,274,278
Deposits with banks		2,318,578	3,967,542
Financial assets held under resale agreements		18,749,015	16,263,996
Financial assets at amortised cost	12	65,330,540	61,697,396
Interests receivables		3,116,693	2,202,105
Loans and advances to customers	13	168,236,607	164,766,836
Financial assets at fair value through profit or loss	14	33,380,443	36,729,899
Financial assets at fair value through other comprehensive income	15	13,717,272	15,081,447
Interest in an associate		9,519	8,902
Property and equipment		2,905,489	2,825,257
Right-of-use assets		341,069	345,173
Deferred tax assets		1,608,476	1,643,070
Other assets		6,084,750	4,238,584
Total assets		338,718,793	335,044,485

		At June 30, 2020 <i>RMB'000</i> (Unaudited)	At December 31, 2019 <i>RMB'000</i> (Audited)
	<i>Note</i>		
Liabilities and equity			
Liabilities			
Borrowings from the central bank		1,698,958	2,316,353
Deposits from banks and other financial institutions		7,031,537	13,621,889
Placements from banks and other financial institutions		450,000	890,000
Financial assets sold under repurchase agreements		3,860,656	5,398,580
Deposits from customers		253,388,463	236,868,657
Accrued staff costs		347,290	505,487
Taxes payable		3,342	2,969
Interests payable		8,411,705	8,761,501
Debts securities issued	16	35,900,521	39,459,173
Deferred tax liabilities		92,470	97,243
Lease liabilities		292,793	283,931
Other liabilities		2,172,604	2,149,700
Total liabilities		313,650,339	310,355,483
Equity			
Share capital		10,069,791	10,069,791
Capital reserve		4,660,999	4,660,417
Defined benefit plan reserve		(3,451)	(3,399)
Investment revaluation reserve		229,862	219,469
Surplus reserve		1,560,835	1,560,835
General reserve		4,471,044	4,471,044
Retained earnings		4,044,999	3,678,816
Total equity attributable to owners of the Bank		25,034,079	24,656,973
Non-controlling interests		34,375	32,029
Total equity		25,068,454	24,689,002
Total liabilities and equity		338,718,793	335,044,485

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

1. GENERAL

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

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

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

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

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

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

2. BASIS OF PREPARATION

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

4. NET INTEREST INCOME

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

5. NET FEE AND COMMISSION INCOME

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

6. NET TRADING GAINS

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

7. NET GAINS ARISING FROM INVESTMENT SECURITIES

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

8. OPERATING EXPENSES

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

9. IMPAIRMENT LOSSES ON ASSETS, NET OF REVERSALS

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

10. INCOME TAX EXPENSE

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

11. EARNINGS PER SHARE

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

	Six months ended June 30,	
	2020	2019
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Bank (<i>RMB'000</i>)	<u>366,183</u>	<u>513,718</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>10,069,791</u>

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

12. FINANCIAL ASSETS AT AMORTISED COST

	At	At
	June 30,	December 31,
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Financial asset measured at amortised cost		
Debt securities issued by the following institutions in Mainland China		
– Government	19,537,532	14,906,774
– Banks and other financial institutions	11,911,863	11,937,294
– Corporations	4,440,707	4,385,172
Trust plans	18,221,800	17,786,844
Asset management plans	12,820,421	13,948,670
Asset-backed securities issued by bank and other institutions	<u>50,000</u>	<u>59,527</u>
	66,982,323	63,024,281
Less: Provision for impairment losses	<u>(1,651,783)</u>	<u>(1,326,885)</u>
	<u>65,330,540</u>	<u>61,697,396</u>

	At June 30, 2020 <i>RMB'000</i> (Unaudited)	At December 31, 2019 <i>RMB'000</i> (Audited)
Analysed as:		
Listed outside Hong Kong	32,145,406	27,541,473
Unlisted outside Hong Kong	33,185,134	34,155,923
	65,330,540	61,697,396
Fair value	65,565,470	62,143,647

13. LOANS AND ADVANCES TO CUSTOMERS

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

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Notes:

(i) Financial assets held for trading:

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

As at June 30, 2020, no financial assets at FVTPL were subject to material restrictions on the realisation (2019: nil).

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

(ii) **Other debt securities**

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

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

16. DEBT SECURITIES ISSUED

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

17. DIVIDENDS

	June 30, 2020 <i>RMB'000</i> (Unaudited)	June 30, 2019 <i>RMB'000</i> (Unaudited)
2018 final dividend (<i>Note (a)</i>)	<u>–</u>	<u>1,029,365</u>

Note:

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

18. SEGMENT REPORTING

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

Corporate banking

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

Retail banking

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

Financial market operations

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

Others

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

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

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

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

(a) Segment results, assets and liabilities

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

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

	As at December 31, 2019				
	Corporate banking <i>RMB'000</i> (Audited)	Retail banking <i>RMB'000</i> (Audited)	Financial market operations <i>RMB'000</i> (Audited)	Others <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
Segment assets	110,799,219	34,861,870	187,318,644	421,682	333,401,415
Deferred tax assets	–	–	–	1,643,070	1,643,070
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
Dividend payable	–	–	–	25,695	25,695
Deferred tax liabilities	–	–	–	97,243	97,243
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>

(b) Geographical information

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

(c) Information about major customers

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

19. COMMITMENTS

(a) Credit commitments

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

The Group provides letters of guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers.

The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. The amounts disclosed in respect of unused credit card commitments are under the assumption that the amounts will be fully advanced.

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

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

(b) Capital commitments

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

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

VI. PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2020 INTERIM REPORT

This interim 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 2020 Interim Report of the Bank prepared in accordance with the Hong Kong Listing Rules and 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 dispatched 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 Province
August 21, 2020

*As at the publication date of this announcement, the Board of the Bank 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 a director is subject to approval of the competent regulatory authority.*