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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, 2019

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, 2019 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards (the “**IFRSs**”) promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Interim Results.

I. FINANCIAL HIGHLIGHTS

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)	Year ended December 31,
	2019	2018		2018
Results of operations				
Interest income	7,278.3	7,546.8	(3.6)	15,327.1
Interest expense	(4,406.1)	(3,889.2)	13.3	(8,199.3)
Net interest income	2,872.2	3,657.6	(21.5)	7,127.8
Fee and commission income	158.7	193.2	(17.9)	362.7
Fee and commission expenses	(45.4)	(65.4)	(30.6)	(196.6)
Net fee and commission income	113.3	127.8	(11.3)	166.1
Net trading gains	852.6	434.7	96.1	1,089.2
Net gains arising from investment securities	15.5	2.5	520.0	42.7
Net exchange gains	8.5	168.9	(95.0)	388.2
Other operating (expense)/income, net	(4.2)	11.5	(136.5)	58.2
Operating income	3,857.9	4,403.0	(12.4)	8,872.2
Operating expenses	(941.6)	(987.3)	(4.6)	(2,271.0)
Impairment losses on assets, net of reversals	(2,289.7)	(472.6)	384.5	(1,962.4)
Operating profit	626.6	2,943.1	(78.7)	4,638.8
Share of (loss)/profit of an associate	(2.3)	0.8	(387.5)	(1.0)
Profit before tax	624.3	2,943.9	(78.8)	4,637.8
Income tax expense	(106.0)	(733.5)	(85.5)	(1,198.2)
Profit for the period/year	518.3	2,210.4	(76.6)	3,439.6
Profit for the period/year attributable to:				
– Owners of the Bank	513.7	2,211.4	(76.8)	3,435.3
– Non-controlling interests	4.6	(1.0)	(560.0)	4.3
Profit for the period/year	518.3	2,210.4	(76.6)	3,439.6
Basic earnings per share (RMB)	0.05	0.22	(77.3)	0.35
Diluted earnings per share (RMB)	0.05	0.22	(77.3)	0.35

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

(Expressed in millions of RMB, unless otherwise stated)	As at June 30, 2019	As at December 31, 2018	Percentage change (%)
Major indicators of assets/liabilities			
Total assets	342,791.3	328,622.4	4.3
Of which: total loans and advances to customers	170,826.1	160,885.3	6.2
Total liabilities	318,082.6	303,374.8	4.8
Of which: deposits from customers	235,622.9	210,723.3	11.8
 Total equity	 24,708.7	 25,247.6	 (2.1)
	Six months ended June 30,		Percentage
	2019	2018	change
	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
Profitability indicators			
Return on assets ⁽¹⁾⁽¹⁴⁾	0.31	1.51	(79.5)
Return on equity ⁽²⁾⁽¹⁴⁾	4.15	21.87	(81.0)
Net interest spread ⁽³⁾⁽¹⁴⁾	2.02	2.27	(11.0)
Net interest margin ⁽⁴⁾⁽¹⁴⁾	2.10	2.50	(16.0)
Net fee and commission income to operating income ratio ⁽⁵⁾	2.90	2.90	0.0
Cost-to-income ratio ⁽⁶⁾	23.40	21.61	8.3
	As at	As at	As at
	June 30,	December 31,	June 30,
	2019	2018	2018
	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
Capital adequacy indicators			
Core tier-one capital adequacy ratio ⁽⁷⁾	10.27	11.01	(6.7)
Tier-one capital adequacy ratio ⁽⁸⁾	10.27	11.01	(6.7)
Capital adequacy ratio ⁽⁹⁾	12.24	13.55	(9.7)
Shareholders' equity to total assets ratio	7.21	7.68	(6.1)
Assets quality indicators			
Non-performing loan ratio	2.97	2.29	29.69
Provision coverage ratio ⁽¹⁰⁾	129.60	169.47	(23.53)
Provision to total loan ratio ⁽¹¹⁾⁽¹²⁾	3.84	3.89	(2.31)
Other indicators			
Loan to deposit ratio ⁽¹³⁾	72.50	76.35	(5.04)

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 is required to maintain a minimum provision to total loan ratio of 2.5% by December 31, 2018.
- (13) Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for PRC commercial banks under the amended PRC Commercial Banking Law, which became effective on October 1, 2015.
- (14) The ratio for the six months ended June 30, 2018 and 2019, respectively, is calculated on an annual basis.

II. MANAGEMENT DISCUSSION AND ANALYSIS

1. Environment and Prospect

Since this year, China's economy has been under increasing downward pressure amid an international context marked by sluggish recovery of the global economy, ongoing economic and trade tensions, and increased spillover effects of the policies adopted by developed economies. In the first half of 2019, China's economic operation remained generally stable, but showed weakening signs. Under the impacts of the prolonged trade war between China and the United States and the continuity of China's economic downward cycle, the deviation of finance from economy has become normal, with risks of a real economy continuously emerging. In the first half of the year, China's GDP amounted to RMB45,093.3 billion, representing a year-on-year increase of 6.3%. By industries, the primary industry increased by RMB2,320.7 billion or 3.0% year on year; the secondary industry increased by RMB17,998.4 billion or 5.8% year on year; and the tertiary industry increased by RMB24,774.3 billion or 7.0% year on year. The nationwide per capita disposable income of residents was RMB15,294, up by 6.5% year on year in real terms; the total retail sales of consumer goods reached RMB19,521 billion, up by 6.7% year on year in real terms; and investment in fixed assets across the country (excluding rural households) amounted to RMB29,910 billion, up by 5.8% year on year.

In the first half of 2019, Gansu's government adhered to the underlying principle of seeking progress while maintaining stability and remained committed to the new development philosophy, steadfastly pursuing high-quality development and making all-out efforts to maintain stable growth, advance reform, make structural adjustments, improve living standards, guard against risks, and ensure stability. In the first half of the year, Gansu's GDP amounted to RMB377.18 billion, representing a year-on-year increase of 6.0%. By industries, the primary industry increased by RMB24.38 billion or 5.6% year on year; the secondary industry increased by RMB125.13 billion or 5.2% year on year; and the tertiary industry increased by RMB227.67 billion or 6.5% year on year. As at the end of June 2019, the balances of RMB-denominated and foreign currency-denominated deposits and RMB-denominated and foreign currency-denominated loans of financial institutions across the province were RMB1,996.36 billion and RMB2,038.40 billion, respectively, representing a year-on-year increase of 7.6% and 8.0%, respectively.

Since 2019, the banking industry has advanced ahead steadily amid the complicated economic and financial environments at home and abroad, achieving favorable results. However, with intensifying dislocation of global economic policies, increasing geopolitics and rising trade protectionism, the insufficient demand in the domestic economy emerged, and risks continued to increase. The market environment faced by commercial banks has been undergoing profound changes and adjustments. Due to the increase in leverage ratio of real enterprises, the risk exposure of small and medium-sized banks increased, making it more difficult to prevent and resolve systemic risks.

In 2019, focusing on the seven themes of “development, risk elimination, characteristics, reform, compliance, implementation and learning”, the Bank adhered to the general work principle of “solving problems through promoting development and achieving better development by solving problems”, and made coordinated efforts to stabilize growth, cut non-performing assets, adjust structure, promote reform, solidify foundation and strengthen Party building in pursuit of high-quality development, thus achieving steady business expansion. 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 and adjust its asset structure, strive to reduce non-performing assets, 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. 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 a customer-oriented business operation based on sustainable development, guarantee business safety with risk prevention, drive business growth through capability enhancement and consider serving the real economy as our mission. We will make steady progress while prioritising economic benefits and set off on a path that leads to “differentiated, comprehensive, refined and international” 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) develop mega retail business system to ensure the implementation of the retail transformation strategy; (iii) fully leverage domestic and overseas capital markets to expand capital replenishment channels and secure continuous capital replenishment; (iv) quicken its pace of integrated operation by actively applying for various business licenses in order to enhance its ability to provide comprehensive services; (v) promote the application of Fintech and cross-sector cooperation to expand its service coverage; (vi) optimize its business and management process and improve refined management standards towards the direction of building a refined management system; (vii) adapt to new norms for regulation, hold onto the bottom line of risks and effectively strengthen quality control of assets; (viii) explore new business growth models by leveraging the larger international platform available to the Bank after the listing of its H Shares; and (ix) adhere to talent cultivation with continuous promotion in team cohesion.

3. Overall Business Review

The Bank's total operating income was RMB3,857.9 million for the six months ended June 30, 2019, representing a decrease of 12.4% as compared with RMB4,403.0 million for the six months ended June 30, 2018. The Bank's net profit decreased by 76.6% from RMB2,210.4 million for the six months ended June 30, 2018 to RMB518.3 million for the six months ended June 30, 2019. The year-on-year decrease in the Bank's operating income was mainly attributable to the rise of capital cost caused by the intensive market competitiveness; the year-on-year decrease in net profit was mainly attributable to the increased provisions for credit impairment loss resulting from the decline of assets quality.

As at June 30, 2019, the Bank's total assets amounted to RMB342,791.3 million, representing a year-on-year increase of 4.3%; total loans and advances to customers amounted to RMB170,826.1 million, representing a year-on-year increase of 6.2%; the non-performing loan ratio was 2.97%, representing an increase as compared with the beginning of the year, mainly due to loans and advances more than 90 days past due included in non-performing loans; total deposits from customers amounted to RMB235,622.9 million, representing a year-on-year increase of 11.8%.

(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 (%)
	2019	2018		
Interest income	7,278.3	7,546.8	(268.5)	(3.6)
Interest expense	(4,406.1)	(3,889.2)	(516.9)	13.3
Net interest income	2,872.2	3,657.6	(785.4)	(21.5)
Fee and commission income	158.7	193.2	(34.5)	(17.9)
Fee and commission expenses	(45.4)	(65.4)	20.0	(30.6)
Net fee and commission income	113.3	127.8	(14.5)	(11.3)
Net trading gains	852.6	434.7	417.9	96.1
Net gains arising from investment securities	15.5	2.5	13.0	520.0
Net exchange gains	8.5	168.9	(160.4)	(95.0)
Other operating (expense)/income, net	(4.2)	11.5	(15.7)	(136.5)
Operating income	3,857.9	4,403.0	(545.1)	(12.4)
Operating expenses	(941.6)	(987.3)	45.7	(4.6)
Impairment losses on assets, net of reversals	(2,289.7)	(472.6)	(1,817.1)	384.5
Operating profit	626.6	2,943.1	(2,316.5)	(78.7)
Share of (loss)/profit of an associate	(2.3)	0.8	(3.1)	(387.5)
Profit before tax	624.3	2,943.9	(2,319.6)	(78.8)
Income tax expense	(106.0)	(733.5)	627.5	(85.5)
Profit for the period	518.3	2,210.4	(1,692.1)	(76.6)
Profit for the period attributable to:				
– Owners of the Bank	513.7	2,211.4	(1,697.7)	(76.8)
– Non-controlling interests	4.6	(1.0)	5.6	(560.0)
	<u>518.3</u>	<u>2,210.4</u>	<u>(1,692.1)</u>	<u>(76.6)</u>

For the first half of 2019, the Bank's profit before tax was RMB624.3 million, representing a year-on-year decrease of 78.8%; profit for the period was RMB518.3 million, representing a year-on-year decrease of 76.6%, mainly attributable to the increased provisions for credit impairment loss resulting from the decline of assets quality and the rise of capital cost caused by the intensive market competitiveness.

(i) *Net interest income*

The net interest income was the largest component of the Bank's operating revenue, accounting for 83.1% and 74.4% of the operating income for the six months ended June 30, 2018 and 2019 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 (%)
	2019	2018	Increase or decrease	
Interest income	7,278.3	7,546.8	(268.5)	(3.6)
Interest expenses	(4,406.1)	(3,889.2)	(516.9)	13.3
Net interest income	<u>2,872.2</u>	<u>3,657.6</u>	<u>(785.4)</u>	<u>(21.5)</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, 2019			Six months ended June 30, 2018		
	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)	Average balance ⁽¹⁾	Interest income	Average yield ⁽²⁾ (%)
Interest-earning assets						
Loans and advances to customers	165,709.5	5,059.8	6.11	137,175.1	4,698.9	6.85
Investment securities and other financial assets ⁽³⁾	86,478.9	1,970.2	4.56	84,955.4	1,892.5	4.46
Deposits with banks	9,606.9	167.0	3.48	30,270.8	534.2	3.53
Financial assets held under resale agreements and placements with banks and other financial institutions	18,975.8	234.2	2.47	11,515.9	206.3	3.58
Deposits with the central bank ⁽⁴⁾	25,585.4	196.0	1.53	28,276.9	214.9	1.52
Total interest-earning assets	306,356.5	7,627.2	4.98	292,194.1	7,546.8	5.17
Interest-bearing liabilities						
Deposits from customers	221,963.2	3,109.8	2.80	187,177.4	1,978.9	2.11
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	14,150.8	160.4	2.27	11,492.1	230.1	4.00
Debt securities issued ⁽⁵⁾	42,045.1	822.2	3.91	30,301.7	754.6	4.98
Deposits from banks and other financial institutions	12,157.9	176.8	2.91	32,273.1	804.7	4.99
Borrowings from the central bank	7,585.0	136.9	3.61	6,643.4	120.9	3.64
Total interest-bearing liabilities	297,902.0	4,406.1	2.96	267,887.7	3,889.2	2.90
Net interest income	-	3,221.1	-	-	3,657.6	-
Net interest spread⁽⁶⁾	-	-	2.02	-	-	2.27
Net interest margin⁽⁷⁾	-	-	2.10	-	-	2.50

Notes:

- (1) The average balances of interest-earning assets and interest-bearing liabilities are derived from our unaudited management accounts.
- (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 for the periods indicated. Changes in amount are measured by changes in average balances, and changes in 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, 2019 vs 2018		
	Increase/(decrease) due to		
	Amount ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-earning assets			
Loans and advances to customers	871.7	(507.5)	360.9
Investment securities and other financial assets	34.7	42.5	77.7
Deposits with banks	(359.6)	(7.6)	(367.2)
Financial assets held under resale agreements and placements with banks and other financial institutions	92.1	(63.9)	27.9
Deposits with the central bank	(20.6)	1.4	(18.9)
Change in interest income	352.6	(277.6)	80.4
Interest-bearing liabilities			
Deposits from customers	487.0	645.8	1,130.9
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	30.2	(99.4)	(69.7)
Debt securities issued	229.6	(162.1)	67.6
Deposits from banks and other financial institutions	(292.7)	(335.6)	(627.9)
Borrowings from the central bank	17.0	(1.0)	16.0
Change in interest expense	444.2	80.4	516.9
Change in net interest income	(91.6)	(358.0)	(436.5)

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,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Loans and advances to customers	5,059.8	66.3	4,698.9	62.3
Investment securities and other financial assets ⁽¹⁾	1,970.2	25.8	1,892.5	25.1
Deposits with banks	167.0	2.2	534.2	7.1
Financial assets held under resale agreements and placements with banks and other financial institutions	234.2	3.1	206.3	2.7
Deposits with the central bank	196.0	2.6	214.9	2.8
Total	7,627.2	100.0	7,546.8	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 increased by 1.1% from RMB7,546.8 million for the six months ended June 30, 2018 to RMB7,627.2 million for the six months ended June 30, 2019, primarily in line with the growth of our business. 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 interest rate of loans and advances to customers as a result of the intensive market competitiveness.

(A) Interest income from loans and advances to customers

Interest income from loans and advances to customers represented 62.3% and 66.3% of total interest income for the six months ended June 30, 2018 and 2019, respectively. The table below sets forth the average balance, interest income and average yield of loans and advances to customers of the Bank by product for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,					
	Average balance ⁽¹⁾	2019 Interest income	Average yield (%)	Average balance	2018 Interest income	Average yield (%)
Corporate loans	111,578.4	3,583.8	6.42	100,181.0	3,417.4	6.82
Retail loans	29,770.4	942.0	6.33	19,073.0	743.3	7.79
Discounted bills	24,360.7	534.0	4.38	17,921.1	538.2	6.01
Total loans and advances to customers	165,709.5	5,059.8	6.11	137,175.1	4,698.9	6.85

Note:

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

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

Interest income from investment securities and other financial assets increased by 4.1% from RMB1,892.5 million for the six months ended June 30, 2018 to RMB1,970.2 million for the six months ended June 30, 2019, primarily due to a 1.8% increase in the average balance of investment securities and other financial assets, from RMB84,955.4 million for the six months ended June 30, 2018 to RMB86,478.9 million for the six months ended June 30, 2019, as well as an increase in the average yield of investment securities and other financial assets, from 4.46% for the six months ended June 30, 2018 to 4.56% for the six months ended June 30, 2019. 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 is relatively stable.

(C) Interest income from deposits with banks

Interest income from deposits with banks decreased by 68.7% from RMB534.2 million for the six months ended June 30, 2018 to RMB167.0 million for the six months ended June 30, 2019, primarily due to a 68.3% decrease in the average balance of deposits with banks, from RMB30,270.8 million for the six months ended June 30, 2018 to RMB9,606.9 million for the six months ended June 30, 2019, and a decrease in the average yield of deposits with banks, from 3.53% for the six months ended June 30, 2018 to 3.48% for the six months ended June 30, 2019. The decrease in average balance was due to our decreased investments in deposits with banks based on changes in interbank money market interest rates. The decrease in average yield was primarily due to lower market interest rates, which in turn resulted in a decrease in returns from deposits with banks.

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

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 13.5% from RMB206.3 million for the six months ended June 30, 2018 to RMB234.2 million for the six months ended June 30, 2019, primarily due to a 64.8% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB11,515.9 million for the six months ended June 30, 2018 to RMB18,975.8 million for the six months ended June 30, 2019, and a decrease in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 3.58% for the six months ended June 30, 2018 to 2.47% for the six months ended June 30, 2019. The increase in average balance was primarily due to our increased investment in financial assets held under resale agreements and placements with banks and other financial institutions based on the changes in market interest rates and liquidity factors. The decrease in average yield was primarily due to lower market interest rates, which in turn resulted in a decrease of gain 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 RMB214.9 million for the six months ended June 30, 2018 to RMB196.0 million for the six months ended June 30, 2019, primarily due to a 9.5% decrease in the average balance of deposits with the central bank, from RMB28,276.9 million for the six months ended June 30, 2018 to RMB25,585.4 million for the six months ended June 30, 2019. 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,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	3,109.8	70.6	1,978.9	50.9
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	160.4	3.6	230.1	5.9
Debt securities issued	822.2	18.7	754.6	19.4
Deposits from banks and other financial institutions	176.8	4.0	804.7	20.7
Borrowings from the central bank	136.9	3.1	120.9	3.1
Total	4,406.1	100.0	3,889.2	100.0

Interest expense increased by 13.3% from RMB3,889.2 million for the six months ended June 30, 2018 to RMB4,406.1 million for the six months ended June 30, 2019, primarily due to a 11.2% increase in the average balance of interest-bearing liabilities, from RMB267,887.7 million for the six months ended June 30, 2018 to RMB297,902.0 million for the six months ended June 30, 2019, and an increase in the average cost of interest-bearing liabilities, from 2.90% for the six months ended June 30, 2018 to 2.96% for the six months ended June 30, 2019. The increase in the average balance of interest-bearing liabilities was primarily due to the increase of deposits from customers, debt securities issued and reverse repurchase transactions. The increase in the average cost of interest-bearing liabilities was primarily due to the increase of market interest rates.

(A) Interest expense on deposits from customers

Interest expense on deposits from customers increased by 57.1% from RMB1,978.9 million for the six months ended June 30, 2018 to RMB3,109.8 million for the six months ended June 30, 2019, primarily due to a 18.6% increase in the average balance of deposits from customers, from RMB187,177.4 million for the six months ended June 30, 2018 to RMB221,963.2 million for the six months ended June 30, 2019, as well as an increase in the average cost of deposits from customers, from 2.11% for the six months ended June 30, 2018 to 2.80% for the six months ended June 30, 2019. The increase in the average cost of deposits from customers was primarily due to the rise of market interest rates.

(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 30.3% from RMB230.1 million for the six months ended June 30, 2018 to RMB160.4 million for the six months ended June 30, 2019, primarily due to a 23.1% increase in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB11,492.1 million for the six months ended June 30, 2018 to RMB14,150.8 million for the six months ended June 30, 2019, and a decrease in

the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 4.00% for the six months ended June 30, 2018 to 2.27% for the six months ended June 30, 2019. The increase in average balance was primarily because we entered into more reverse repurchase transactions to diversify our financing channels. 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 increased by 9.0% from RMB754.6 million for the six months ended June 30, 2018 to RMB822.2 million for the six months ended June 30, 2019, primarily due to a 38.8% increase in the average balance of debt securities issued, from RMB30,301.7 million for the six months ended June 30, 2018 to RMB42,045.1 million for the six months ended June 30, 2019 and a decrease in the average cost of debt securities issued, from 4.98% for the six months ended June 30, 2018 to 3.91% for the six months ended June 30, 2019. The increase in average balance was primarily due to the issuance of interbank certificates. 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 decreased by 78.0% from RMB804.7 million for the six months ended June 30, 2018 to RMB176.8 million for the six months ended June 30, 2019, primarily due to a 62.3% decrease in the average balance of deposits from banks and other financial institutions, from RMB32,273.1 million for the six months ended June 30, 2018 to RMB12,157.9 million for the six months ended June 30, 2019, primarily because fund raising through deposits from banks and other financial institutions was reduced as a result of increased deposits from customers and our issuance of interbank certificates.

For the six months ended June 30, 2018 and 2019, due to the decrease of interest rates of deposits from banks and other financial institutions, and the average cost of deposits from banks and other financial institutions decreased from 4.99% to 2.91%.

(E) Interest expense on borrowings from the central bank

Interest expense on borrowings from the central bank increased by 13.2% from RMB120.9 million for the six months ended June 30, 2018 to RMB136.9 million for the six months ended June 30, 2019, primarily due to a 14.2% increase in the average balance of borrowings from the central bank, from RMB6,643.4 million for the six months ended June 30, 2018 to RMB7,585.0 million for the six months ended June 30, 2019, primarily due to the additional borrowings from the central bank applied by the Bank. The average cost of borrowings from the central bank decreased from 3.64% to 3.61% for the six months ended June 30, 2018 and 2019, remaining at a stable level.

(iv) Net interest spread and net interest margin

Net interest spread decreased from 2.27% for the six months ended June 30, 2018 to 2.02% for the six months ended June 30, 2019, primarily due to a decrease in average yield of total interest-earning assets, from 5.17% to 4.98%, primarily due to the decrease of interest rates of loans and advances. The average cost of total interest-bearing liabilities increased from 2.90% to 2.96%, primarily due to the higher market interest rates of deposits from customers.

Net interest margin decreased from 2.50% for the six months ended June 30, 2018 to 2.10% for the six months ended June 30, 2019, primarily attributable to the growth in the daily average balance of interest-earning assets, which outpaced the net interest income.

(v) *Non-interest income*

(A) Net fee and commission income

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019	2018	Increase or decrease	Percentage change (%)
Fee and commission income				
Wealth management service fees	17.7	26.3	(8.6)	(32.7)
Agency service fees	83.6	95.9	(12.3)	(12.8)
Settlement and clearing fees	36.1	45.2	(9.1)	(20.1)
Bank acceptance bill service fees	10.3	12.2	(1.9)	(15.6)
Letters of guarantee fees	0.3	0.1	0.2	200.0
Others ⁽¹⁾	10.7	13.5	(2.8)	(20.7)
Subtotal	158.7	193.2	(34.5)	(17.9)
Fee and commission expenses	(45.4)	(65.4)	20.0	(30.6)
Net fee and commission income	113.3	127.8	(14.5)	(11.3)

Note:

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

Net fee and commission income decreased by 11.3% from RMB127.8 million for the six months ended June 30, 2018 to RMB113.3 million for the six months ended June 30, 2019, primarily due to the decrease of agency and settlement services fees as a result of the decreased agency and settlement services provided as affected by the economic downturn.

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 30.6% from RMB65.4 million for the six months ended June 30, 2018 to RMB45.4 million for the six months ended June 30, 2019, primarily due to the decrease of fee and commission expenses as a result of the decreased intermediary business provided as affected by the economic downturn.

(B) Net trading gains

Net trading gains primarily included gains from selling, and the fair value changes of, financial assets held for trading. We had net gains of RMB434.7 million for the six months ended June 30, 2018 and net gains of RMB852.6 million for the six months ended June 30, 2019, primarily due to the increase in trading volume of financial assets held for trading during the period, which made the gains increase as compared with the same period of last year.

(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 gains or losses upon the disposal of assets. The Bank had net gains arising from investment securities and other financial assets of RMB2.5 million for the six months ended June 30, 2018, and RMB15.5 million for the six months ended June 30, 2019.

(D) Net exchange gains

Net exchange gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. We had net exchange gains of RMB168.9 million for the six months ended June 30, 2018 and net exchange gains of RMB8.5 million for the six months ended June 30, 2019, primarily due to the year-on-year decrease in assets dominated in foreign currencies, which affected the net exchange gains or losses.

(E) Other operating (expense)/income

Other operating (expense)/income mainly included net amount of government subsidies and the short-term leasing and disposal income from fixed assets and mortgaged assets after deducting non-operating expenses. For the six months ended June 30, 2018, other operating income of the Bank amounted to RMB11.5 million. For the six months ended June 30, 2019, the Bank recorded other operating expense of RMB4.2 million, which was mainly due to the larger operating expenses, which led to the other operating loss for the period.

(vi) Operating expenses

Operating expenses decreased by 4.6% from RMB987.3 million for the six months ended June 30, 2018 to RMB941.6 million for the six months ended June 30, 2019, which was mainly due to the decrease of performance-linked remuneration resulting from the decline of assets quality. 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,			
	2019	2018	Increase or decrease	Percentage change (%)
Staff costs	480.5	565.9	(85.4)	(15.1)
Property and equipment expenses	266.1	243.7	22.4	9.2
General management and administrative expenses	157.4	141.7	15.7	11.1
Business tax and surcharge	37.6	36.0	1.6	4.4
Total	941.6	987.3	(45.7)	(4.6)
Cost-to-income ratio ⁽¹⁾ (%)	23.43	21.61	1.79	8.28

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,			
	2019	2018	Increase or decrease	Percentage change (%)
Salaries and bonuses	346.3	449.8	(103.5)	(23.0)
Social insurance	79.3	70.6	8.7	12.3
Housing allowances	32.0	27.3	4.7	17.2
Labour union and staff education expenses	10.0	8.8	1.2	13.6
Staff welfares	11.9	9.0	2.9	32.2
Others	1.0	0.4	0.6	150.0
Total staff costs	480.5	565.9	(85.4)	(15.1)

Staff costs decreased by 15.1% from RMB565.9 million for the six months ended June 30, 2018 to RMB480.5 million for the six months ended June 30, 2019, primarily reflecting the decrease of performance-linked remuneration resulting from the decline of assets quality.

(B) Property and equipment expenses

Property and equipment expenses increased by 9.2% from RMB243.7 million for the six months ended June 30, 2018 to RMB266.1 million for the six months ended June 30, 2019. The increase in property and equipment expenses mainly reflected the addition of property and equipment and the increase of depreciation and amortisation expenses.

(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 11.1% from RMB141.7 million for the six months ended June 30, 2018 to RMB157.4 million for the six months ended June 30, 2019. The increase in the general management and administrative expenses mainly reflected the increase in expenses arising from the growth of businesses.

(D) Business tax and surcharges

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges of the Bank remained relatively stable, which were RMB36.0 million and RMB37.6 million for the six months ended June 30, 2018 and 2019, respectively.

(vii) Impairment losses on assets/credit

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019	2018	Increase or decrease	Percentage change (%)
Loans and advances to customers	2,165.4	492.0	1,673.4	340.1
Investment assets	130.5	(36.7)	167.2	(455.6)
Other assets	7.0	2.4	4.6	191.7
Impairment losses of acceptance bill & letter of guarantee	(13.2)	14.9	(28.1)	(188.6)
Total impairment losses on assets	<u>2,289.7</u>	<u>472.6</u>	<u>1,817.1</u>	<u>384.5</u>

Impairment losses on assets increased by 384.5% from RMB472.6 million for the six months ended June 30, 2018 to RMB2,289.7 million for the six months ended June 30, 2019 mainly due to increases in provisions for impairment of loans and advances to customers resulting from the decline of assets quality.

Credit impairment losses on loans and advances to customers increased by 340.1% from RMB492.0 million for the six months ended June 30, 2018 to RMB2,165.4 million for the six months ended June 30, 2019, mainly due to increase in provisions for impairment of loans and advances to customers resulting from the decline of assets quality.

Credit impairment losses of investment assets decreased by 455.6% from reversal of RMB36.7 million for the six months ended June 30, 2018 to RMB130.5 million for the six months ended June 30, 2019. It is mainly due to provisions made by us for impairment losses as a result of the newly acquired investment assets for the period.

(viii) Income tax expense

Income tax expense decreased by 85.5% from RMB733.5 million for the six months ended June 30, 2018 to RMB106.0 million for the six months ended June 30, 2019. The decrease in income tax expense was mainly due to the decreases in the Bank's operating income and profit. Effective tax rates were 24.9% and 17.0% for the six months ended June 30, 2018 and 2019, respectively.

(b) Analysis of the Consolidated Statement of Financial Position

(i) Assets

As of June 30, 2019 and December 31, 2018, the total assets of the Bank were RMB342,791.3 million and RMB328,622.4 million, respectively. Major components of total assets include (i) loans and advances to customers; (ii) investment securities and other financial assets; (iii) deposits with banks; (iv) cash and deposits with the central bank; and (v) financial assets held under resale agreements. The table below sets forth the components of total assets as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Assets				
Loans and advances to customers, gross	170,826.1	49.8	160,885.3	49.0
Provision for impairment losses	(6,565.9)	(1.9)	(6,251.5)	(1.9)
Loans and advances to customers, net	164,260.2	47.9	154,633.9	47.1
Investment securities and other financial assets ⁽¹⁾	112,347.3	32.8	102,876.4	31.3
Deposits with banks	6,714.2	2.0	12,927.7	3.9
Cash and deposits with the central bank	30,028.8	8.8	31,536.9	9.6
Financial assets held under resale agreements	18,244.6	5.3	19,523.8	5.9
Other assets ⁽²⁾	11,196.2	3.2	7,123.7	2.2
Total assets	342,791.3	100.0	328,622.4	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, 2019, the total loans and advances to customers of the Bank were RMB170,826.1 million, representing an increase of 6.2% as compared with December 31, 2018. Net loans and advances to customers accounted for 47.9% of the total assets of the Bank, which has little change as compared with the same period of last year.

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate loans	113,224.3	66.3	113,204.1	70.4
Retail loans	32,421.0	19.0	28,025.2	17.4
Discounted bills	25,180.8	14.7	19,656.0	12.2
Total loans and advances to customers	170,826.1	100.0	160,885.3	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 47.9% and 47.1% of total assets as of June 30, 2019 and December 31, 2018, respectively.

The Bank's corporate loans increased from RMB113,204.1 million as of December 31, 2018 to RMB113,224.3 million as of June 30, 2019, basically maintaining a comparable level as compared with last 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 15.7% from RMB28,025.2 million as of December 31, 2018 to RMB32,421.0 million as of June 30, 2019, primarily due to (i) the Bank's efforts to support the financing needs of small and medium-sized enterprises (including sole proprietors); and (ii) the increased personal housing mortgage loans.

Loans and advances to customers by type of collateral

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Collateralized loans	81,102.8	47.5	77,917.8	48.4
Pledged loans	12,766.5	7.5	10,310.4	6.4
Guaranteed loans	59,670.0	34.9	54,814.5	34.1
Unsecured loans	17,286.8	10.1	17,842.6	11.1
Total loans and advances to customers	170,826.1	100.0	160,885.3	100.0

As of June 30, 2019 and December 31, 2018, collateralized loans, pledged loans and guaranteed loans in the aggregate represented 89.9% and 88.9% of total loans and advances to customers, respectively. Collateralized loans and pledged loans are subject to loan-to-value ratio limits based on the type of collateral. We usually only accept guarantees provided by listed companies, guarantee companies or guarantor with strong guarantee capacity and in compliance with guarantee conditions. We evaluate a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

Unsecured loans decreased by 3.1% from RMB17,842.6 million as of December 31, 2018 to RMB17,286.8 million as of June 30, 2019. The balance of unsecured loans were relatively stable.

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, 2019	As of December 31, 2018
As at the beginning of the reporting period	6,251.5	5,029.0
Implement new standard adjustment	-	52.2
Charge for the period/year	2,165.3	1,994.4
Write-off and others for the period/year	(1,851.9)	(824.8)
Reversal of write-offs for the previous years	1.0	0.7
As of June 30/December 31	<u>6,565.9</u>	<u>6,251.5</u>

Provisions for impairment losses on loans and advances increased by 5.0% from RMB6,251.5 million as of December 31, 2018 to RMB6,565.9 million as of June 30, 2019, primarily due the increase in the Bank's provision for impairment losses to counter against macroeconomic operation.

(B) Investment securities and other financial assets

As of June 30, 2019 and December 31, 2018, the Bank's investment securities and other financial assets (original value without deducting provisions for impairment) were RMB115,206.8 million and RMB105,605.8 million, representing 33.6% and 32.1% 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 increased by RMB9,601.0 million from RMB105,605.8 million as of December 31, 2018 to RMB115,206.8 million as of June 30, 2019. This increase primarily reflected the adjustment of our investment portfolio based on market conditions and other factors.

(ii) Liabilities

As of June 30, 2019 and December 31, 2018, the total liabilities of the Bank were RMB318,082.6 million and RMB303,374.8 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) debt securities issued; (iii) financial assets sold under repurchase agreements; and (iv) deposits from banks and other financial institutions. 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, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Deposits from customers	235,622.9	74.1	210,723.3	69.5
Deposits from banks and other financial institutions	13,925.7	4.4	15,513.8	5.1
Financial assets sold under repurchase agreements	5,135.5	1.6	11,717.0	3.9
Debt securities issued	43,436.9	13.7	41,576.8	13.7
Borrowings from the central bank	6,183.8	1.9	11,650.9	3.8
Placements from banks and other financial institutions	3,010.0	0.9	3,300.0	1.1
Other liabilities ⁽¹⁾	10,767.8	3.4	8,893.0	2.9
Total liabilities	318,082.6	100.0	303,374.8	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, 2018 and June 30, 2019, deposits from customers represented 69.5% and 74.1% of the total liabilities, respectively.

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate deposits				
Demand deposits	56,783.5	24.1	54,381.4	25.8
Time deposits	21,721.2	9.2	18,058.5	8.6
Subtotal	78,504.7	33.3	72,439.9	34.4
Retail deposits				
Demand deposits	23,871.0	10.1	24,114.6	11.4
Time deposits	103,848.9	44.2	83,018.5	39.4
Subtotal	127,719.9	54.3	107,133.1	50.8
Pledged deposits	15,851.2	6.7	16,500.1	7.8
Others⁽¹⁾	13,547.1	5.7	14,650.2	7.0
Total deposits from customers	235,622.9	100.0	210,723.3	100.0

Note:

⁽¹⁾ Deposits raised from other investment vehicles.

Total deposits from customers increased by 11.8% from RMB210,723.3 million as of December 31, 2018 to RMB235,622.9 million as of June 30, 2019. The increases in deposits from customers were primarily attributable to our enhanced marketing efforts to grow retail deposits.

(B) Debts securities issued

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

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

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

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

In August 2017, we 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, we issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.87% per annum.

From January 1, 2019 to June 30, 2019, we issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB20,350.0 million. These interbank certificates have terms of six months to one year and bear effective interest rates between 3.35% and 5.35% 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, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Share capital	10,069.8	40.8	10,069.8	39.9
Capital reserve	4,659.4	18.9	4,658.3	18.5
Defined benefit scheme reserve	(2.8)	0.0	(4.2)	–
Investment revaluation reserve	231.2	0.9	261.4	1.0
Surplus reserve	1,510.1	6.1	1,510.1	6.0
General reserve	4,423.1	17.9	4,423.1	17.5
Retained earnings	3,782.1	15.3	4,297.8	17.0
Non-controlling interests	35.8	0.1	31.3	0.1
Total equity	24,708.7	100.0	25,247.6	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, 2019, the Bank's non-performing loans amounted to RMB5,066.2 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, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Normal	154,488.8	90.5	147,789.2	91.9
Special mention	11,271.1	6.6	9,407.3	5.8
Sub-standard	3,959.2	2.3	1,330.2	0.8
Doubtful	880.5	0.5	1,773.2	1.1
Loss	226.5	0.1	585.4	0.4
Total loans and advances to customers	170,826.1	100.0	160,885.3	100.0
Non-performing loans and non- performing loan ratio⁽¹⁾	5,066.2	2.97	3,688.8	2.29

Note:

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

As of June 30, 2019 and December 31, 2018, the non-performing loan ratios of the Bank were 2.97% and 2.29%, respectively. The increase in non-performing loans was primarily due to the decline of loans and advances quality as a result of the environment of economic downturn.

(ii) *Concentration of loans*

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

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019				As of December 31, 2018			
	Loan amount	% of total (%)	Non- performing loan amount	Non- performing loan ratio (%)	Loan amount	% of total (%)	Non- performing loan amount	Non- performing loan ratio (%)
Corporate loans								
Wholesale and retail	20,168.9	11.8	269.4	1.34	24,169.5	15.0	1,468.5	6.08
Manufacturing	23,555.9	13.8	1,909.9	8.11	20,197.2	12.6	583.3	2.89
Agriculture, forestry, animal husbandry and fishing	7,479.8	4.4	182.8	2.44	8,204.6	5.1	524.0	6.39
Construction	9,601.8	5.6	60.2	0.63	9,129.2	5.7	369.8	4.05
Real estate	15,358.0	9.0	-	-	13,124.8	8.2	-	-
Mining	8,155.6	4.8	12.2	0.15	8,534.1	5.3	88.2	1.03
Water, environment and public facility management	3,586.7	2.1	6.7	0.19	6,051.4	3.7	-	-
Culture, sports and entertainment	2,738.9	1.6	19.5	0.71	2,898.1	1.8	19.3	0.67
Leasing and business services	7,656.3	4.5	1.8	0.02	7,157.6	4.4	16.4	0.23
Electricity, heating power, gas and water production and supply	3,416.3	2.0	-	-	2,509.8	1.6	4.5	0.18
Transportation, storage and postal services	2,570.9	1.5	5.0	0.19	2,328.9	1.4	47.7	2.05
Education	1,655.0	1.0	-	-	1,634.6	1.0	6.0	0.37
Accommodation and catering	2,619.7	1.5	17.3	0.66	2,689.4	1.7	32.0	1.19
Financial	1,000.0	0.6	-	-	1,000.0	0.6	-	-
Health and social services	1,845.2	1.1	-	-	1,846.2	1.2	-	-
Residents and other services	740.5	0.4	1.1	0.15	622.6	0.4	16.1	2.59
Scientific research, technical service and geological prospecting	923.4	0.5	1.5	0.16	927.1	0.6	-	-
Information transmission, computer service and software	131.4	0.1	3.0	2.28	159.0	0.1	28.0	17.61
Public administration, social security and social organizations	20.0	-	-	-	20.0	-	-	-
Retail loans	32,421.0	19.0	975.8	3.01	28,025.2	17.4	485.0	1.73
Discounted bills	25,180.8	14.7	1,600.0	6.35	19,656.0	12.2	-	-
Total amount	170,826.1	100.0	5,066.2	2.97	160,885.3	100.0	3,688.8	2.29

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 mining industries represented the largest components of the Bank's corporate loan portfolio. Loans to these industries accounted for 66.4% and 67.87% of total corporate loans as of December 31, 2018 and June 30, 2019, respectively.

As of June 30, 2019, non-performing loans of the Bank's corporate loans were mainly concentrated in the manufacturing industry with a non-performing loan ratio of 8.11%.

(B) Borrower concentration

Indicators of concentration

Major regulatory indicators	Regulatory standard	As of June 30, 2019	As of December 31, 2018
Loan concentration ratio for the largest single customer (%)	≤ 10	7.20	4.22
Loan concentration ratio for the top ten customers (%)	≤ 50	39.20	31.00

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

Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of June 30, 2019 and the balances of loans to these borrowers. All of these loans were classified as normal, except those granted to two borrowers which were classified as below normal.

(Expressed in millions of RMB,
unless otherwise stated)

Customers	Industries involved	As of June 30, 2019		
		Amount	% of total loans (%)	% of regulatory capital (%)
Borrower A	Manufacturing	2,100.0	1.2	7.2
Borrower B	Manufacturing	1,594.8	0.9	5.5
Borrower C	Financial	1,000.0	0.6	3.4
Borrower D	Leasing and business services	1,000.0	0.6	3.4
Borrower E	Manufacturing	996.5	0.6	3.4
Borrower F	Real estate	980.0	0.6	3.4
Borrower G	Manufacturing	970.0	0.6	3.3
Borrower H	Mining	950.0	0.6	3.3
Borrower I	Real estate	925.5	0.5	3.2
Borrower J	Electricity, heating power, gas and water production and supply	920.0	0.5	3.2
Total		11,436.8	6.7	39.2

(C) Non-performing loans by product

The table below sets forth 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, 2019			As of December 31, 2018		
	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	39,925.5	-	-	38,615.8	45.0	0.12
Working capital loans	69,985.2	609.5	0.87	72,527.7	3,117.9	4.30
Others ⁽²⁾	3,313.6	1,880.9	56.76	2,060.6	40.9	1.98
Sub-total	113,224.3	2,490.4	2.20	113,204.1	3,203.8	2.83
Retail loans						
Personal business loans	7,646.2	756.6	9.90	7,580.1	361.4	4.77
Personal consumption loans	9,075.8	116.7	1.29	7,647.7	68.5	0.90
Residential and commercial mortgage loans	15,699.0	102.5	0.65	12,797.4	55.1	0.43
Sub-total	32,421.0	975.8	3.01	28,025.2	485.0	1.73
Discounted bills	25,180.8	1,600.0	6.35	19,656.0	-	-
Total non-performing loans	170,826.1	5,066.2	2.97	160,885.3	3,688.8	2.29

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 2.83% as of December 31, 2018 to 2.2% as of June 30, 2019, representing a decrease of 0.63 percentage point.

The non-performing loan ratio of retail loans increased from 1.73% as of December 31, 2018 to 3.01% as of June 30, 2019, representing an increase of 1.28 percentage points.

(D) Loan aging schedule

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

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Loans not overdue	<u>156,465.1</u>	<u>91.6</u>	<u>149,847.3</u>	<u>93.2</u>
Loans past due for:				
1 to 90 days	9,294.9	5.4	6,013.6	3.7
91 days to 1 year	4,354.1	2.6	3,800.7	2.4
1 to 3 years	597.8	0.3	1,018.1	0.6
3 years or more	<u>114.2</u>	<u>0.1</u>	<u>205.6</u>	<u>0.1</u>
Subtotal	<u>14,361.0</u>	<u>8.4</u>	<u>11,038.0</u>	<u>6.8</u>
Total loans and advances to customers	<u><u>170,826.1</u></u>	<u><u>100.0</u></u>	<u><u>160,885.3</u></u>	<u><u>100.0</u></u>

(d) Segments information

(i) Summary of business segment

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

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,			
	2019		2018	
	Amount	% of total (%)	Amount	% of total (%)
Corporate banking	2,039.6	52.9	2,183.6	49.6
Retail banking	757.2	19.6	487.5	11.1
Financial market operations	1,047.1	27.1	1,548.6	35.1
Others ⁽¹⁾	14.0	0.4	183.3	4.2
Total operating income	3,857.9	100.0	4,403.0	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, operating lease commitments and capital commitments. The table below sets forth our contractual amounts of off-balance sheet commitments as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of June 30, 2019	As of December 31, 2018
Credit commitments:		
Bank acceptances ⁽¹⁾	26,374.9	26,418.1
Letters of guarantee ⁽²⁾	1,153.0	721.5
Unused credit card commitments	381.7	359.2
	<hr/>	<hr/>
Subtotal	27,909.6	27,498.8
	<hr/>	<hr/>
Operating lease commitments	34.3	320.1
Capital commitments	9.4	38.7
	<hr/>	<hr/>
Total	27,953.3	27,857.6
	<hr/> <hr/>	<hr/> <hr/>

Notes:

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

Off-balance sheet commitments increase by 0.3% from RMB27,857.6 million as of December 31, 2018 to RMB27,953.3 million as of June 30, 2019. The off-balance sheet commitments remained relatively stable.

4. Business Review

(a) Corporate banking

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

In addition, we committed to seeking to develop long-term relationships with customers by closely monitoring their financial needs and offering tailored financial solutions. As of June 30, 2019, we had 4,122 corporate borrowers with total loans of RMB113,224.3 million, and 72,454 corporate deposit customers with total deposits of RMB78,504.7 million. For the six months ended June 30, 2018 and 2019, operating income from our corporate banking business accounted for 49.6% and 52.9% of our total operating income, respectively. The table below sets forth the financial performance of our corporate banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		
	2019	2018	Percentage change (%)
External interest income, net ⁽¹⁾	2,549.8	2,744.3	(7.1)
Inter-segment interest expenses, net ⁽²⁾	(585.8)	(615.4)	(4.8)
Net interest income	1,964.0	2,128.9	(7.7)
Net fees and commission income	75.6	54.7	38.2
Operating income	2,039.6	2,183.6	(6.6)
Operating expenses	(496.9)	(423.3)	17.4
Impairment losses on assets	(1,848.6)	(319.8)	478.0
Operating (loss)/profit	(305.9)	1,440.5	(121.2)
(Loss)/Profit before tax	(305.9)	1,440.5	(121.2)

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 our loan portfolio. As of June 30, 2019 and December 31, 2018, corporate loans amounted to RMB113,224.3 million and RMB113,204.1 million, accounting for 66.3% and 70.4% of our total loans and advances to customers, respectively.

(ii) Discounted bills

We purchase 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, 2019 and December 31, 2018, discounted bills totaled RMB25,180.8 million and RMB19,656 million, accounting for 14.7% and 12.2% of our total loans and advances to customers, respectively.

(iii) Corporate deposits

We accept demand and time deposits denominated in Renminbi and major foreign currencies (including USD, HKD and EUR) from corporate customers. As of June 30, 2019 and December 31, 2018, corporate deposits totaled RMB78,504.7 million and RMB72,439.9 million, accounting for 33.3% and 34.4% of our total customer deposits, respectively.

(iv) Fees and commission-based products and services

We offer 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

We offer corporate customers a broad range of wealth management products based on their risk and return preferences. We invest 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, 2019 and 2018, wealth management products sold to corporate customers totaled RMB595.7 million and RMB586.1 million, respectively.

(B) Entrusted loans

We provide loans to borrowers designated by corporate customers, who determine the use of proceeds, principal amount and interest rates for these loans. We monitor the use of entrusted loans by borrowers and assist corporate customers in recovering these loans.

We charge agency fees based on the principal amount of entrusted loans. Our corporate customers bear the risk of default associated with these loans. For the six months ended June 30, 2019 and 2018, service fees charged to corporate customers for entrusted loans totaled RMB8.09 million and RMB63.3 million, respectively.

(C) Settlement services

We offer corporate customers domestic and international settlement services.

Domestic Settlement Services. We provide domestic settlement services in the form of bank acceptance bills, collections and telegraphic transfers. As of June 30, 2019 and December 31, 2018, our total domestic settlement transaction volumes were approximately RMB6,184.3 billion and RMB8,429.3 billion, respectively.

International Settlement Services. We obtained approval to provide international settlement services in January 2014. Our international settlement services primarily include remittance, collection, letters of credit and letters of guarantee.

As of June 30, 2019 and December 31, 2018, our international settlement transaction volumes were US\$61.7 million and US\$1,085 million, respectively.

(D) Consultation and financial advisory services

We structure financial solutions and offer advisory services with respect to the economy, financial markets and industry trends for corporate customers.

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

We offer other fees and commission-based products and services to corporate customers, such as guarantee and foreign exchange services.

(b) Retail banking

We offer retail customers a wide range of financial products and services, including loans, deposits, bank card services and fees and commission-based products and services. We have a large retail customer base.

As of June 30, 2019, we had 141,176 retail borrowers with total loans of RMB32,421.0 million and over 6 million retail deposit customers with total deposits of RMB127,719.9 million. For the six months ended June 30, 2019 and 2018, operating income from our retail banking business accounted for 19.6% and 11.1% of our total operating income, respectively.

We categorize 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, 2019, we had 183,604 wealthy customers and 1,697 private banking customers. We continue to grow our wealthy customer and private banking customer base by expanding our product and service portfolio. The table below sets forth the financial performance of our retail banking for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2019	2018	
External interest expenses, net ⁽¹⁾	(1,133.7)	(562.5)	101.5
Inter-segment interest income, net ⁽²⁾	<u>1,873.2</u>	<u>1,038.2</u>	<u>80.4</u>
Net interest income	<u>739.5</u>	<u>475.7</u>	<u>55.5</u>
Net fee and commission income	<u>17.7</u>	<u>11.8</u>	<u>50.0</u>
Operating income	<u>757.2</u>	<u>487.5</u>	<u>55.3</u>
Operating expenses	(184.5)	(90.7)	103.4
Impairment losses on assets	(113.5)	(172.2)	(34.1)
Operating profit	<u>459.2</u>	<u>224.6</u>	<u>104.5</u>
Profit before tax	<u>459.2</u>	<u>224.6</u>	<u>104.5</u>

Notes:

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

(i) Retail loans

We offer retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of June 30, 2019 and December 31, 2018, total retail loans were RMB32,421.0 million and RMB28,025.2 million, accounting for 19.0% and 17.4% of our total loans and advances to customers, respectively.

(ii) Retail deposits

We accept demand and time deposits denominated in Renminbi and major foreign currencies from retail customers. As of June 30, 2019 and December 31, 2018, retail deposits totaled RMB127,719.9 million and RMB107,133.1 million, accounting for 54.3% and 50.8% of our total customer deposits, respectively.

(iii) Bank card services

(A) Debit cards

We issue debit cards denominated in Renminbi to retail customers holding deposit accounts with us. 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. We provide 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 our customer base and service scope, we issue the following debit cards in cooperation with government agencies and public organizations:

- Social Security Card (社會保障卡): We work 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 debit cards, which can be used for making social security contributions and social security information inquiries.
- Housing Provident Fund Co-branded Cards (公積金聯名卡): We work with the local housing provident fund management center to issue debit cards, which can be used for withdrawal and transfer of housing provident funds, loan distribution and account inquiries.
- Longyuan Transportation Cards (隴原交通卡): We work with the Gansu Provincial Expressway Administration to issue IC financial cards, which can be used for paying expressway tolls electronically.

In addition, to enhance our brand recognition, we cooperate 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). We also cooperate 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 High School Student Aid Card (天水高中生資助卡) and Qingyang Traffic Police Co-branded Card (慶陽交警聯名卡).

As of June 30, 2019, we had issued approximately 7.27 million debit cards. As of June 30, 2019 and December 31, 2018, holders of these debit cards conducted transactions of approximately RMB901.2 million and RMB17,026.6 million, respectively.

(B) Credit cards

In August 2013, we obtained approval to issue the Official Financial and Business Card (財政公務卡) to employees that work in budgetary institutions in Gansu Province, mainly to cover their daily official expenses, reimbursements and personal consumption needs.

We obtained approval to issue credit cards in June 2016.

(C) POS settlement services

As a payment settlement service provider, we provide selected merchants with transaction fund settlement services. As of June 30, 2019, we had 10,134 selected merchant customers for POS settlement services and 11,977 POS terminals.

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

We offer 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

We offer retail customers wealth management products under our Huifu (匯 福) series based on their risk and return preferences. We invest 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, 2019 and 2018, wealth management products sold to retail customers totaled RMB17,300.5 million and RMB17,862.5 million, respectively. As of June 30, 2019, we had 270,317 retail wealth management clients and the return rate of our retail wealth management products was between 4.10% and 5.05% for the six months ended June 30, 2019.

(B) Agency services

We sell insurance and precious metal products to retail customers as an agent.

Insurance Products: as of June 30, 2019, we had entered into agency agreements with 6 nationwide insurance companies to promote and distribute their insurance products.

Precious Metal Products: we received approval to distribute precious metals in China in August 2015. For the six months ended June 30, 2019 and 2018, we sold an aggregate of RMB52.66 million and RMB191.5 million of precious metal products, respectively.

In October 2016, Dunhuang Research Academy granted us an exclusive license to jointly develop and sell precious metal products featuring Mogao Grottoes. In addition, we have completed the development of a fund agent system and fund qualification training for our employees.

(C) Payroll and payment agency services

Payroll Services: we provide payroll services to governmental agencies, public organizations and enterprises customers. As of June 30, 2019, we had over 8,448 payroll customers. For the six months ended June 30, 2019 and 2018, we paid, in the role of paying agent, average monthly salaries of approximately RMB1,621.2 million and RMB1,983.8 million, respectively.

Payment Agency Services: we offer customers payment agency services related to daily living expenses (such as utilities costs) through our broad distribution network.

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

We offer other fees and commission-based products and services to retail customers, such as fund transfer, remittance and acceptance services.

(c) Financial market operations

Our financial market operations, which primarily include money market transactions, investment business and wealth management business, are one of our most important revenue sources. For the six months ended June 30, 2019 and 2018, operating income from financial market operations accounted for 27.1% and 35.1% of our total operating income, respectively. The table below sets forth the financial performance of the Bank's treasury operations for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Six months ended June 30,		Percentage change (%)
	2019	2018	
External interest income, net ⁽¹⁾	1,456.1	1,475.8	(1.3)
Inter-segment interest expenses, net ⁽²⁾	<u>(1,287.3)</u>	<u>(422.8)</u>	204.5
Net interest income	168.8	1,053.0	(84.0)
Net fee and commission income	10.2	58.4	(82.5)
Net trading gains	852.6	434.7	96.1
Net gains arising from investment securities	<u>15.5</u>	<u>2.5</u>	520.0
Operating income	<u>1,047.1</u>	<u>1,548.6</u>	(32.4)
Operating expenses	(255.0)	(451.4)	(43.5)
Impairment (losses)/reversed on assets	(333.9)	36.7	(1,009.8)
Operating profit	<u>458.2</u>	<u>1,133.9</u>	(59.6)
Profit before tax	<u>458.2</u>	<u>1,133.9</u>	(59.6)

Notes:

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

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

(i) *Money market transactions*

We adjust our liquidity using various monetary market instruments and earn interest income from money market transactions. Money market transactions primarily include (i) interbank deposits; (ii) interbank placements; and (iii) repurchase and reverse repurchase transactions.

(A) Interbank deposits

We deposit and withdraw funds from banks and other financial institutions to manage our assets and liabilities. We accept deposits from banks and other financial institutions and deposit money in banks and other financial institutions, and also engage in other interbank transactions with certain of these banks and financial institutions.

As of June 30, 2019 and December 31, 2018, deposits from banks and other financial institutions totaled RMB13,925.7 million and RMB15,513.8 million, and our deposits at banks and other financial institutions (original value without deducting provisions for impairment) totaled RMB6,718.9 million and RMB12,932.4 million, respectively.

(B) Interbank placements

As of June 30, 2019 and December 31, 2018, we did not make any placements with banks and other financial institutions. As of the same dates, placements from banks and other financial institutions totaled RMB3,010.0 million and RMB3,300 million, respectively.

(C) Repurchase and reverse repurchase transactions

The securities underlying our repurchase and reverse repurchase transactions are mainly RMB-denominated PRC government bonds and policy financial bonds. As of June 30, 2019 and December 31, 2018, financial assets held under resale agreements totaled RMB18,244.6 million and RMB19,523.8 million, and financial assets sold under repurchase agreements totaled RMB5,135.5 million and RMB11,717.0 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, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Financial assets at fair value through profit or loss	41,190.5	36.7	42,561.0	41.4
Financial assets at amortised costs	54,988.7	48.9	45,066.3	43.8
Financial assets at fair value through other comprehensive income	16,168.1	14.4	15,249.1	14.8
Total amount of investment securities and other financial assets	112,347.3	100.0	102,876.4	100.0

Total amount of investment securities and other financial assets increased from RMB102,876.4 million as of December 31, 2018 to RMB112,347.3 million as of June 30, 2019, representing an increase of 9.2%.

(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, 2019		As of December 31, 2018	
	Amount	% of total (%)	Amount	% of total (%)
Repayable on demand	-	-	-	-
Due in three months or less	34,828.3	31.0	32,149.1	31.2
Due between three months and one year	18,564.5	16.5	29,749.3	28.9
Due between one year and five years	48,742.0	43.4	38,537.5	37.5
Due over five years	10,212.5	9.1	2,440.5	2.4
Indefinite ⁽¹⁾	-	-	-	-
Total	112,347.3	100.0	102,876.4	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, 2019, the balance of face value of government bonds held by the Bank amounted to RMB13,976.30 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of June 30, 2019.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum (%)	Maturity date
18 Gansu bond 01 (18甘肅債01)	1,040	3.3900	2023/4/24
16 Interest-bearing treasury bond 22 (16附息國債22)	1,000	2.2900	2019/10/27
19 Discounting treasury bond 10 (19貼現國債10)	700	2.2600	2019/9/9
18 Gansu 02 (18甘肅02)	700	3.7900	2023/6/15
16 Gansu Targeted 02 (16甘肅定向02)	677.6	3.2600	2023/4/21
19 Interest-bearing treasury bond 03 (19附息國債03)	650	2.6900	2022/3/7
19 Gansu bond 01 (19甘肅債01)	610	3.3200	2026/1/31
19 Gansu bond 07 (19甘肅債07)	580	3.4300	2024/4/15
16 Interest-bearing treasury bond 07 (16附息國債07)	560	2.5800	2021/4/14
17 Interest-bearing treasury bond 16 (17附息國債16)	500	3.4600	2020/7/27

(D) Holding of financial bonds

As of June 30, 2019, the balance of face value of the financial bonds (mainly the financial bonds issued by policy banks, commercial banks and other financial institutions) held by the Bank amounted to RMB30,200.00 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of June 30, 2019.

Name of the bond	Face value (in millions of RMB)	Interest rate per annum (%)	Maturity date
18 ADBC bond 06 (18農發06)	1,480	4.6500	2028/5/11
17 CDB bond 09 (17國開09)	1,470	4.1400	2020/9/11
18 ADBC bond 05 (18農發05)	1,200	4.1300	2020/4/11
18 ADBC bond 01 (18農發01)	1,110	4.9800	2025/1/12
18 CDB bond 08 (18國開08)	1,100	4.0700	2021/4/27
18 ADBC bond 08 (18農發08)	1,080	4.3700	2023/5/25
18 ADBC bond 09 (18農發09)	1,080	4.2400	2021/6/1
15 ADBC bond 15 (15農發15)	1,000	3.7300	2020/5/22
15 CDB bond 16 (15國開16)	750	3.9400	2022/7/10
17 ADBC bond 02 (17農發02)	700	3.5400	2020/1/6

(d) **Distribution network**

(i) *Physical outlets*

As of June 30, 2019, we had 1 head office operational department, 12 branches, 189 sub-branches, 5 micro-to-small sub-branches, 3 community sub-branches. Our branch network covered all of Gansu's cities and prefectures and approximately 86% of its counties and districts.

(ii) *Electronic banking business*

(A) Internet banking

Through the Internet, we offer customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of June 30, 2019, we had over 1,056,000 Internet banking customers, consisting of 46,535 corporate customers and over 1,009,000 retail customers. As of June 30, 2019, our corporate customers conducted over 6.9 million online transactions with a total transaction amount of approximately RMB1,369,840.1 million, while retail customers conducted approximately 6.7 million online transactions with a total transaction amount of approximately RMB236,208.5 million.

(B) Direct banking platform

We launched our direct banking platform in August 2016. Through the platform, our customers can achieve electronic account management, smart saving, investment and financing, and purchases of financial products and services. As of June 30, 2019, our direct banking platform had over 1,108,000 registered users with total transaction amounts of RMB15,369.0 million. The sales volume of direct banking platform products exceeded RMB4,040.0 million.

(C) Mobile phone banking

We provide customers with various financial services, such as account inquiries and management, transfers, payments and loan management. As of June 30, 2019, we had approximately 204.8 million mobile phone banking customers that had conducted approximately 19.4 million transactions through mobile phones, with total transaction amounts of approximately RMB237,959.6 million.

(D) Telephone banking

We provide 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, 2019, we had 351,983 telephone banking customers, including 351,968 individual customers and 15 corporate customers.

(E) Self-service banking

We provide convenient banking services to customers at lower operating costs through self-service facilities. Our self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of June 30, 2019, we had 210 outlets, 161 off-bank self-service zones and 810 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 our products and services; manage accounts, transaction inquiries, payment and convenience services; and search for our outlet locations. As of June 30, 2019, we had over 476,817 WeChat banking customers.

(G) E-commerce platform

In April 2017, we formally launched our 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, 2019, the platform had 845 merchants and 197,219 users.

(e) Information on the subsidiary

Jingning Chengji Rural Bank

In September 2008, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with other 4 legal entities and 7 individuals. As of June 30, 2019, we held an approximately 62.73% equity interest in Jingning Chengji Rural Bank.

Jingning Chengji Rural Bank offers 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, 2019, Jingning Chengji Rural Bank had 24 corporate loan customers, 590 corporate deposit customers, 4,110 retail loan customers and 66,167 retail deposit customers. As of June 30, 2019, Jingning Chengji Rural Bank had 12 outlets and 108 employees.

As of June 30, 2019, Jingning Chengji Rural Bank had total assets of RMB1,311.5 million, total deposits of RMB1,170.7 million and total loans of RMB708.91 million. For the six months ended June 30, 2018 and 2019, the Bank didn't receive any operating income from Jingning Chengji Rural Bank.

We assist Jingning Chengji Rural Bank by providing strategic guidance and employee training. We also dispatch 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

We regularly optimize and upgrade our IT system and increase our investment in IT each year to support the operation and management of our businesses. For the six months ended June 30, 2018 and 2019, investments in our IT system totaled RMB53.5 million and RMB69.5 million, respectively.

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

We were granted the Certification of ISO20000 – Information Technology Service Management System Standard in June 2018, signaling that we have built an IT service management system applicable to the circumstance of the Bank.

We place a high priority on business continuity and information security. We have 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. Our 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, we have made important application systems both active locally, which has greatly improved our business continuity.

We have 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, we did not suffer any material IT system failures.

5. Risk Management

(a) Risk management of the Bank

We are primarily exposed to credit risk, market risk, operational risk and liquidity risk in our business. We are also exposed to other risks such as reputational risk, information technology risk, money-laundering risk and legal and compliance risk.

Since our inception, we have implemented comprehensive risk management strategies to enhance our 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. Our credit risks arise mainly from loans, investments, guarantees, commitments and other on- or off-balance-sheet credit risks exposures.

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

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

We categorize 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
Modern agriculture, tourism, education and health care industries (“active support” industries)	<ul style="list-style-type: none">• prioritize credit allocation and increase credit exposure to borrowers in these industries.
IT, utilities, warehouse and logistics, culture-related and pharmaceutical industries (“moderate support” industries)	<ul style="list-style-type: none">• selectively distribute credit to borrowers in these industries.

Industries

Real estate, construction, metal ores mining, iron and steel, and wholesale and retail industries (“caution” industries)

Steel trading, coal trading, over-capacity and bulk commodity trading industries (“exit” industries)

Credit Policies

- focus on preventing risks by granting loans to high-quality customers and adjusting the proportion of loans to borrowers in these industries.
- focus on minimizing risks by moderately reducing the amount of new loans to borrowers in these industries by no less than 20%, and enhancing the implementation of post-lending management measures.

We have 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. We generally update these policies on an annual basis.

(ii) Market risk management

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

(A) Interest rate risk management

Interest rate risk is the exposure of our financial condition to adverse movements in interest rates. Our 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. We are exposed to interest rate risk through our day-to-day lending and deposit-taking activities and our financial market operations.

We place great emphasis on analyzing the general economic situation and policies, particularly the changes in currency policies. We formulate and adjust interest rates based on studies and forecasts of interest rate trends in financial markets, in order to better control interest rate risks and reduce losses arising from interest rate fluctuations.

We manage the interest rate risk exposure of our RMB-denominated assets and liabilities on our balance sheet primarily by adjusting interest rates and optimizing the maturity profile of our assets and liabilities. We seek to reduce maturity mismatches by adjusting repricing frequency and establishing a pricing structure for corporate deposits.

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

(B) Exchange rate risk management

We are 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. We manage exchange rate risks by matching the sources and uses of funds.

We seek to keep the adverse impact of exchange rate fluctuations within an acceptable range by managing risk exposure limits and the currency structure of our assets and liabilities. In addition, we endeavor 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.

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

Our senior management is responsible for coordinating operational risk management through its risk management and internal control committee.

Our risk and credit management department formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of our Board and senior management. Our 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.

We have established a GRC system for managing internal control and operational risks. Through the system, we utilize operational risk management tools to identify, measure and monitor operational risks.

(iv) Liquidity risk

(A) Liquidity risk management

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

The organizational framework of our liquidity risk management 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 our liquidity risk management, the Board of Directors assumes ultimate responsibility for our liquidity risk management.

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

The objective of our liquidity risk management is, by establishing timely, reasonable and effective liquidity risk management mechanisms, to identify, measure, monitor and control liquidity risks, meet the liquidity needs of our 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, we continually improve liquidity risk management, strictly implement regulatory rules, closely monitor liquidity indicators, enhance maturity management of our cash flows, formulate emergency plans and enhance liquidity risk management and stress tests.

We manage 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, 2019	December 31, 2018
Liquidity coverage ratio (%)	<u>185.82</u>	<u>198.28</u>

The Bank's net stable funding ratio

(Expressed in millions of RMB, unless otherwise stated)	June 30, 2019	March 31, 2019	December 31, 2018
Closing amount of available stable funding	224,177.9	230,553.6	209,292.6
Closing amount of required stable funding	177,007.4	176,446.9	161,072.4
Net stable funding ratio (%)	<u>126.6</u>	<u>130.7</u>	<u>129.9</u>

(iii) *Reputation risk management*

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

(iv) *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. We have a three-tier legal and compliance risk management structure at our head office, branches and sub-branches.

(v) *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. Our IT risk management aims to identify, measure, monitor and control IT risks through the development of effective systems.

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

(vi) Anti-money laundering management

We have 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.

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

We have established anti-money laundering steering groups at our head office, branches and sub-branches.

(vii) Internal audits

We believe internal audits are essential to our stable operations and achievement of business objectives. We conduct internal audits to monitor the compliance with laws and regulations and the implementation of our internal policies and procedures, with the objective of controlling risks at an acceptable level.

We also aim to conduct effective risk management as well as optimize internal control compliance and our corporate governance structure, in an effort to improve our operations. We adhere to the principles of independence, importance, prudence, objectiveness and relevance for internal audits.

We have adopted an independent and vertical internal audit management system, consisting of the audit committee of our Board of Directors, the audit committee of our Board of Supervisors and the audit department of our head office.

6. Analysis On Capital Adequacy Ratio

We are required to comply with the CBIRC's capital adequacy ratio requirements. We have 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 our capital adequacy ratio as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	June 30, 2019	December 31, 2018
Core capital		
Paid-up capital	10,069.8	10,069.8
Qualifying portion of capital reserve	4,659.4	4,658.3
Defined benefit plan reserve	(2.8)	(4.2)
Investment revaluation reserve	231.2	261.4
Surplus reserve	1,510.1	1,510.1
General risk reserve	4,423.1	4,423.1
Retained earnings	3,782.1	4,297.8
Qualifying portion of non-controlling interest	17.6	17.2
Core tier-one capital deductions ⁽¹⁾	<u>(216.8)</u>	<u>(225.0)</u>
Net core tier-one capital	<u>24,473.7</u>	<u>25,008.5</u>
Other tier-one capital ⁽²⁾	<u>2.3</u>	<u>2.3</u>
Net tier-one capital	<u>24,476.0</u>	<u>25,010.8</u>
Tier-two capital		
Instruments issued and share premium	3,195.8	3,194.4
Surplus reserve for loan impairment	1,499.7	2,562.7
Eligible portion of non-controlling interest	<u>4.7</u>	<u>4.7</u>
Net capital base	<u>29,176.2</u>	<u>30,772.6</u>
Total risk-weighted assets	<u>238,308.6</u>	<u>227,144.1</u>
Core tier-one capital adequacy ratio	10.27	11.01
Tier-one capital adequacy ratio	10.27	11.01
Capital adequacy ratio	<u>12.24</u>	<u>13.55</u>

Notes:

- (1) Primarily include other intangible assets excluding land use rights, goodwill and deferred tax recognized as tax losses.
- (2) Primarily includes tier-one capital instruments such as preference shares and their premiums.

III. ISSUE AND LISTING OF SECURITIES AND BONDS

1 Non-Public Issuance of Offshore Preference Shares

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

2 Issuance of Debt Securities

- (1) For the six months ends June 30, 2019, the debt securities issued by the Bank are as follows:

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

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

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

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

In August 2017, we 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, we issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.87% per annum.

From January 1, 2019 to June 30, 2019, we issued several tranches of zero-coupon interbank certificates in an aggregate face value of RMB20,350.0 million. These interbank certificates have terms of six months to one year and bear effective interest rates between 3.35% and 5.35% per annum.

(2) Issuance of financial bonds

At the meeting of the Board of the Bank convened on March 27, 2019, the Board advised the Bank to issue capital bonds with non-fixed terms 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 of the shareholders convened on June 3, 2019.

As of the 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 concrete progress of issuing financial bonds to its Shareholders and potential investors in a timely 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, 2019 and the Bank’s financial position as of the same date are set out in the interim financial statements of this announcement.

(1) 2018 final dividend

As considered and approved at the 2018 annual general meeting of the shareholders, the Bank would distribute the 2018 final dividend to Shareholders in cash in an aggregate amount of RMB1,029,363,510.73 (tax inclusive), representing RMB0.1022 per share (tax inclusive).

The Bank has distributed the 2018 final dividend on Friday, August 2, 2019 to all Shareholders on register as at Saturday, June 15, 2019.

(2) 2019 interim dividend

The Board does not recommend the distribution of any 2019 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

No material event of the Group occurred after the Reporting Period.

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, 2019 were prepared in accordance with IFRSs issued by the International Accounting Standards Board. The Board of Directors and its audit committee have reviewed and approved the Group's unaudited consolidated interim financial data for the six months ended June 30, 2019.

V. FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2019

		Six months ended June 30,	
		2019	2018
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Interest income		7,278,319	7,546,738
Interest expenses		(4,406,117)	(3,889,181)
Net interest income	5	2,872,202	3,657,557
Fee and commission income		158,742	193,193
Fee and commission expenses		(45,415)	(65,364)
Net fee and commission income	6	113,327	127,829
Net trading gains	7	852,617	434,740
Net gains arising from investment securities	8	15,457	2,442
Net exchange gains		8,467	168,943
Other operating (expense) income, net		(4,141)	11,521
Operating income		3,857,929	4,403,032
Operating expenses	9	(941,593)	(987,295)
Impairment losses on assets, net of reversals	10	(2,289,679)	(472,643)
Operating profit		626,657	2,943,094
Share of (loss)/profit of an associate		(2,314)	820
Profit before tax		624,343	2,943,914
Income tax expense	11	(106,001)	(733,487)
Profit for the period		518,342	2,210,427
Earnings per share			
– Basic and diluted (RMB cents)	12	5.10	22.49

	Six months ended June 30,	
	2019	2018
<i>Notes</i>	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	518,342	2,210,427
Other comprehensive income/(expenses) for the period:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
– Remeasurement of defined benefit obligations	1,820	(1,280)
– Income tax relating to remeasurement of defined benefit obligations that will not be reclassified subsequently	(455)	320
	1,365	(960)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Debt instrument at fair value through other comprehensive income		
– Amounts reclassified to/(from) other comprehensive income in respect of impairment losses	402	(5,150)
– Change in fair value recognised in investment revaluation reserve	(40,231)	64,490
– Income tax relating to item that may be reclassified subsequently	9,555	(16,123)
	(30,274)	43,217
Other comprehensive (expenses) income for the period, net of income tax	(28,909)	42,257
Total comprehensive income for the period	489,433	2,252,684
Profit for the period attributable to:		
– Owners of the Bank	513,718	2,211,388
– Non-controlling interests	4,624	(961)
	518,342	2,210,427
Total comprehensive income for the period attributable to:		
– Owners of the Bank	484,809	2,253,645
– Non-controlling interests	4,624	(961)
	489,433	2,252,684

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2019

		At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Assets			
Cash and deposits with the central bank		30,028,786	31,536,912
Deposits with banks		6,714,240	12,927,702
Financial assets held under resale agreements		18,244,627	19,523,812
Financial assets at amortised cost	13	54,988,698	45,066,288
Interests receivables		2,372,692	1,891,235
Loans and advances to customers	14	164,260,230	154,633,858
Financial assets at fair value through profit or loss	15	41,190,526	42,560,973
Debt instruments at fair value through other comprehensive income	16	16,168,068	15,249,097
Interest in an associate		6,656	8,970
Property and equipment		2,793,826	3,006,860
Right-of-use assets		308,169	–
Deferred tax assets		2,023,530	1,719,546
Tax recoverable		39,869	–
Other assets		3,651,414	497,118
Total assets		<u><u>342,791,331</u></u>	<u><u>328,622,371</u></u>

	At June 30, 2019	At December 31, 2018
<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
Liabilities and equity		
Liabilities		
Borrowings from the central bank	6,183,770	11,650,851
Deposits from banks and other financial institutions	13,925,658	15,513,772
Placements from banks and other financial institutions	3,010,000	3,300,000
Financial assets sold under repurchase agreements	5,135,453	11,716,985
Deposits from customers	235,622,916	210,723,317
Accrued staff costs	293,306	478,344
Taxes payable	–	491,170
Interests payable	7,020,730	6,418,933
Debts securities issued	17 43,436,871	41,576,773
Deferred tax liabilities	100,333	135,263
Other liabilities	3,353,577	1,369,372
Total liabilities	318,082,614	303,374,780
Equity		
Share capital	10,069,791	10,069,791
Capital reserve	4,659,372	4,658,314
Defined benefit plan reserve	(2,791)	(4,156)
Investment revaluation reserve	231,153	261,427
Surplus reserve	1,510,052	1,510,052
General reserve	4,423,117	4,423,117
Retained earnings	3,782,133	4,297,780
Total equity attributable to owners of the Bank	24,672,827	25,216,325
Non-controlling interests	35,890	31,266
Total equity	24,708,717	25,247,591
Total liabilities and equity	342,791,331	328,622,371

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019

	Attributable to owners of the Bank							Non-controlling interests RMB'000	Total RMB'000	
	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
At January 1, 2019 (Audited)	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

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, 2018 (Audited)	7,525,991	1,767,659	(744)	12,702	831,643	3,631,670	2,332,358	16,101,279	28,850	16,130,129
Profit for the period	-	-	-	-	-	-	2,211,388	2,211,388	(961)	2,210,427
Other comprehensive (expenses)/income for the period	-	-	(960)	43,217	-	-	-	42,257	-	42,257
Total comprehensive (expenses)/income for the period	-	-	(960)	43,217	-	-	2,211,388	2,253,645	(961)	2,252,684
Change in share capital										
- Capital contributed by equity shareholders	2,543,800	3,058,642	-	-	-	-	-	5,602,442	-	5,602,442
Share Issue expenses	-	(168,487)	-	-	-	-	-	(168,487)	-	(168,487)
Appropriation of profits	-	-	-	-	335,288	-	(335,288)	-	-	-
- Appropriation to surplus reserve	-	-	-	-	-	-	-	-	-	-
At June 30, 2018 (Unaudited)	10,069,791	4,657,814	(1,704)	55,919	1,166,931	3,631,670	4,208,458	23,788,879	27,889	23,816,768

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2019

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before tax	624,343	2,943,914
Adjustments for:		
Depreciation of property and equipment	180,821	147,027
Depreciation of right-of-use assets	45,381	–
Amortisation of long term deferred expenses, land use rights and intangible assets	2,189	8,120
Impairment losses on assets	2,289,679	472,643
Interest expense on lease liabilities	3,806	–
Interest expense on debts securities issued	822,227	754,577
Loss/(gain) on disposal of property and equipment	3,768	(108)
Net unrealised trading losses (gains)	99,489	(142,416)
Net gains arising from investment securities	(15,457)	(2,442)
Government grants	(4,854)	(15,847)
Interest income on financial investments	(1,621,307)	(1,892,463)
Share of (loss)/profit of an associate	2,314	(820)
	2,432,399	2,272,185
Changes in operating assets		
Net decrease/(increase) in deposits with the central bank	1,391,649	(35,886)
Net decrease in deposits with the banks	542,103	23,895,749
Net decrease/(increase) in financial assets at fair value through profit or loss	1,270,958	(20,656,788)
Net increase in loans and advances to customers	(11,791,685)	(20,342,290)
Net (increase)/decrease in other operating assets	(3,492,533)	371,513
	(12,079,508)	(16,767,702)
Changes in operating liabilities		
Net (decrease)/increase in borrowing from the central bank	(5,467,081)	4,336,488
Net (decrease)/increase in deposits and placements from banks and other financial institutions	(1,878,114)	16,058,647
Net decrease in financial assets sold under repurchase agreements	(6,581,532)	(3,894,099)
Net increase in deposits from customers	24,899,599	6,018,070
Net increase in other operating liabilities	1,096,281	1,630,955
	12,069,153	24,150,061

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash generated from operations	2,422,044	9,654,544
Income tax paid	(966,854)	(983,461)
NET CASH FROM OPERATING ACTIVITIES	1,455,190	8,671,083
INVESTING ACTIVITIES		
Proceeds from disposal of investments	7,588,729	60,560,587
Interest income received from financial investments	1,441,666	1,922,426
Proceeds from disposal of property and equipment	76,100	475
Payments on acquisition of investments	(18,585,000)	(59,782,800)
Payments on acquisition of property and equipment and intangible assets	(48,077)	(1,161,772)
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(9,526,582)	1,538,916
FINANCING ACTIVITIES		
Government grants received	4,854	15,847
Proceeds from capital contribution by equity shareholders	1,058	5,602,442
Shares issue expense	–	(168,487)
Proceeds from issue of new debt securities	20,350,000	23,705,588
Repayment of debt securities issued	(18,500,000)	(13,480,000)
Repayment of lease liabilities	(46,969)	–
Interest paid on debts securities issued	(804,545)	(143,708)
Dividends paid	(27)	(75)
NET CASH FROM FINANCING ACTIVITIES	1,004,371	15,531,607
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(7,067,021)	25,741,606
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	35,147,129	17,220,882
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	28,080,108	42,962,488
Interest received	6,796,862	7,111,028
Interest paid (excluding interest expense on debts securities issued)	(2,995,969)	(2,139,588)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Six Months Ended June 30, 2019

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, 2019, the Bank has a head office, 12 branches, 189 sub-branches, 5 micro-to-small enterprise sub-branches, 3 community sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (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 statement of the Group for the six months ended June 30, 2019 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 34 “Interim Financial Reporting” (“IAS 34”), 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 2018 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.

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2019 are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2018.

Application of new and amendments to IFRSs

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

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

The adoption of IFRS 16 resulted in changes in the Group’s accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. The new accounting policies are set out in note 4 below. The application of other new and 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 the condensed consolidated financial statements.

3.1 Impacts on adoption of IFRS 16 Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 4. The Group has applied IFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at January 1, 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 17 Leases.

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

The major impacts of the adoption of IFRS 16 on the Group's condensed consolidated financial statements are described below.

The Group as lessee

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

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

The Group as Lessor

The Group leases some of the properties. The accounting policies applicable to the Group as lessor are not different from those under IAS 17.

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

	Notes	As at December 31, 2018 <i>RMB'000</i> (Audited)	Impact on adoption of IFRS 16 <i>RMB'000</i>	As at January 1, 2019 <i>RMB'000</i> (Unaudited)
Right-of-use assets	(a) (b)	–	277,820	277,820
Other liabilities	(a)	1,369,372	250,186	1,619,558
Other assets	(b)	497,118	(27,634)	469,484

- a) As at January 1, 2019, right-of-use assets were measured at an amount of approximately RMB277,820,000, included leased premises amount of approximately RMB250,186,000 which is equal to the lease liabilities included in “other liabilities” of approximately RMB250,186,000. There is no impact on retained earnings.
- b) Land use right included in “other assets” of approximately RMB27,634,000 as at December 31, 2018 were adjusted to right-of-use assets which represent the upfront payments for leasehold lands in the PRC as at January 1, 2019.

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

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

3.2 Practical expedients applied

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

- Not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Int-4 Determining whether an arrangement contains a Lease.
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics, and
- The accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.

4. CHANGE IN ACCOUNTING POLICIES

Leases

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments).

The lease liability is presented as included in “other liabilities” on the condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the “Property and equipment” policy as stated in the Group’s annual consolidated financial statements for the year ended December 31, 2018.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

5. NET INTEREST INCOME

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income arising from		
– Deposits with the central bank	195,962	214,883
– Deposits with banks	166,952	534,152
– Placements with banks and other financial institutions	–	2,496
– Loans and advances to customers:		
Corporate loans and advances	3,583,824	3,417,438
Personal loans and advances	942,050	743,256
Discounted bills	534,004	538,248
– Financial assets held under resale agreements	234,220	203,802
– Investments	1,621,307	1,892,463
	7,278,319	7,546,738
Less: Interest expenses arising from		
– Borrowing from the central bank	(136,931)	(120,897)
– Deposits from banks and other financial institutions	(172,933)	(804,636)
– Placements from banks and other financial institutions	(48,456)	(109,595)
– Deposits from customers:		
Corporate customers	(1,034,082)	(673,156)
Individual customers	(2,075,722)	(1,305,783)
– Financial assets sold under repurchase agreements	(111,960)	(120,537)
– Debts securities issued	(822,227)	(754,577)
– Lease liabilities	(3,806)	–
	(4,406,117)	(3,889,181)
	2,872,202	3,657,557

6. NET FEE AND COMMISSION INCOME

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Fee and commission income		
– Wealth management service fees	17,695	26,323
– Bank acceptance bills service fees	10,280	12,232
– Agency services fees	83,557	95,919
– Settlement and clearing fees	36,144	45,165
– Letter of guarantee service fees	274	142
– Others	10,792	13,412
	<u>158,742</u>	<u>193,193</u>
Fee and commission expense		
– Settlement and clearing fees	(9,311)	(2,485)
– Bank card service fees	(35,040)	(59,182)
– Others	(1,064)	(3,697)
	<u>(45,415)</u>	<u>(65,364)</u>
	<u>113,327</u>	<u>127,829</u>

7. NET TRADING GAINS

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Trading financial instruments		
– Realised gains from debt securities	952,106	280,567
– Unrealised (losses)/gains from debt securities	(99,489)	154,173
	<u>852,617</u>	<u>434,740</u>

8. NET GAINS ARISING FROM INVESTMENT SECURITIES

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net gains on disposal of debt instruments at fair value through other comprehensive income	<u>15,457</u>	<u>2,442</u>

9. OPERATING EXPENSES

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Staff costs (including directors' emoluments)		
– Salaries and bonuses	346,345	449,764
– Staff welfares	11,900	8,959
– Social insurance	79,286	70,651
– Housing allowances	31,998	27,338
– Labor union and staff education expenses	9,986	8,802
– Others	1,015	355
	<u>480,530</u>	<u>565,869</u>
Premises and equipment expenses		
– Depreciation of property and equipment	180,821	147,027
– Depreciation of right-of-use assets	45,381	–
– Amortisation of long term deferred expenses	–	7,234
– Amortisation of land use rights	–	656
– Amortisation of intangible assets	2,189	230
– Rental and property management expenses	37,736	88,537
	<u>266,127</u>	<u>243,684</u>
Business tax and surcharges	37,558	36,016
Other general and administrative expenses	157,378	141,726
	<u>941,593</u>	<u>987,295</u>

10. IMPAIRMENT LOSSES ON ASSETS, NET OF REVERSALS

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Impairment losses on:		
Debt instruments at FVTOCI	402	(5,150)
Financial assets at amortised cost	130,116	(29,163)
Other receivables, prepayments and repossessed assets	7,020	2,412
Loans and advances to customers	2,165,313	492,009
Deposit with banks and other financial institutions	–	(2,307)
Financial assets held under resale agreements	–	(62)
Bank acceptances and letters of guarantees	(13,172)	14,904
	<u>2,289,679</u>	<u>472,643</u>

11. INCOME TAX EXPENSE

	Six months ended June 30,	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprise Income Tax	<u>435,815</u>	<u>709,648</u>
Deferred tax		
– Current year	<u>(329,814)</u>	<u>23,839</u>
	<u>106,001</u>	<u>733,487</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%.

12. EARNINGS PER SHARE

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

	Six months ended June 30, 2019 (Unaudited)	2018 (Unaudited)
Profit for the period attributable to owners of the Bank (<i>RMB'000</i>)	<u>513,718</u>	<u>2,211,388</u>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (<i>'000</i>)	<u>10,069,791</u>	<u>9,830,871</u>

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the period ended June 30, 2019 and 2018.

13. FINANCIAL ASSETS AT AMORTISED COST

	At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Financial asset measured at amortised cost		
Debt securities issued by the following institutions in Mainland China		
– Government	9,679,458	5,238,228
– Banks and other financial institutions	11,981,961	7,348,088
– Corporations	4,780,733	5,831,434
Trust plans	14,134,788	11,977,738
Asset management plans	17,126,274	17,020,474
Asset-backed securities issued by bank and other institutions	<u>145,000</u>	<u>379,726</u>
	57,848,214	47,795,688
Less: Provision for impairment losses	<u>(2,859,516)</u>	<u>(2,729,400)</u>
	<u>54,988,698</u>	<u>45,066,288</u>

	At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Analysed as:		
Unlisted inside Hong Kong	3,076,023	–
Listed outside Hong Kong	23,268,739	18,321,494
Unlisted outside Hong Kong	28,643,936	26,744,794
	<u>54,988,698</u>	<u>45,066,288</u>
Fair value	<u>55,052,264</u>	<u>45,163,984</u>

14. LOANS AND ADVANCES TO CUSTOMERS

	At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Gross loans and advances to customers		
Corporate loans and advances	113,224,261	113,204,179
Personal loans and advances		
– Personal business loans	7,646,240	7,580,060
– Personal consumption loans	9,075,828	7,647,686
– Residential and commercial mortgage loans	15,698,973	12,797,435
	<u>32,421,041</u>	<u>28,025,181</u>
Discounted bills	25,180,825	19,655,952
	<u>170,826,127</u>	<u>160,885,312</u>
Less: Provision for impairment losses	<u>(6,565,897)</u>	<u>(6,251,454)</u>
	<u>164,260,230</u>	<u>154,633,858</u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Financial assets held for trading (<i>Note (i)</i>)	6,987,091	8,811,736
Trust plans	802,010	263,294
Asset management plans	25,722,273	25,341,432
Investment funds	6,966,466	6,970,953
Other debt securities (<i>Note (ii)</i>)	712,686	1,173,558
	<u>41,190,526</u>	<u>42,560,973</u>
Analysed as:		
Listed outside Hong Kong	6,987,091	8,811,736
Unlisted outside Hong Kong	34,203,435	33,749,237
	<u>41,190,526</u>	<u>42,560,973</u>

Notes:

(i) Financial assets held for trading:

	At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Debt securities issued by the following institutions in Mainland China:		
– Banks and other financial institutions	6,936,732	8,556,552
– Corporations	50,359	255,184
	<u>6,987,091</u>	<u>8,811,736</u>

As at June 30, 2019, no financial assets at FVTPL were subject to material restrictions on the realisation (2018: nil).

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

(ii) Other debt securities

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

16. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Debt instruments at FVTOCI		
Debt securities issued by the following institutions in Mainland China		
– Government	4,379,926	4,869,958
– Banks and other financial institutions	11,446,062	10,037,993
– Corporations	342,080	341,146
	<u>16,168,068</u>	<u>15,249,097</u>
Analysed as:		
Listed inside Hong Kong	343,593	–
Listed outside Hong Kong	15,824,475	15,249,097
	<u>16,168,068</u>	<u>15,249,097</u>

17. DEBT SECURITIES ISSUED

	At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Fixed rates financial bonds	5,997,223	5,996,352
Fixed rate tier-two capital bonds issued	3,195,785	3,194,430
Interbank deposits	34,243,863	32,385,991
	<u>43,436,871</u>	<u>41,576,773</u>

18. DIVIDENDS

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

19. SEGMENT REPORTING

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

Corporate banking

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

Retail banking

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

Financial market operations

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

Others

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

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

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

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and expenses 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, land use rights and other long-term assets.

(a) Segment results, assets and liabilities

	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	(585,806)	1,873,152	(1,287,346)	-	-
Net interest income	1,963,935	739,480	168,787	-	2,872,202
Net fee and commission income	75,624	17,695	10,281	9,727	113,327
Net trading gains	-	-	852,617	-	852,617
Net gains arising from investment securities	-	-	15,457	-	15,457
Foreign exchange gain	-	-	-	8,467	8,467
Other operating expense, net	-	-	-	(4,141)	(4,141)

	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	2,039,559	757,175	1,047,142	14,053	3,857,929
Operating expenses	(496,932)	(184,483)	(255,134)	(5,044)	(941,593)
Impairment losses on assets	(1,848,500)	(113,476)	(333,855)	6,152	(2,289,679)
Operating (loss)/profit	(305,873)	459,216	458,153	15,161	626,657
Share of loss of an associate	-	-	-	(2,314)	(2,314)
(Loss)/profit before tax	<u>(305,873)</u>	<u>459,216</u>	<u>458,153</u>	<u>12,847</u>	<u>624,343</u>
Segment assets	112,327,414	33,124,610	195,272,726	43,051	340,767,801
Deferred tax assets	-	-	-	2,023,530	2,023,530
Total assets	<u>112,327,414</u>	<u>33,124,610</u>	<u>195,272,726</u>	<u>2,066,581</u>	<u>342,791,331</u>
Segment liabilities	96,344,032	134,079,968	86,506,403	13,980	316,944,383
Deferred tax liabilities	-	-	-	100,333	100,333
Dividend payable	-	-	-	1,037,898	1,037,898
Total liabilities	<u>96,344,032</u>	<u>134,079,968</u>	<u>86,506,403</u>	<u>1,152,211</u>	<u>318,082,614</u>
Other segment information					
- Depreciation and amortisation	122,205	56,113	35,508	14,565	228,391
- Capital expenditure	<u>17,452</u>	<u>14,833</u>	<u>10,988</u>	<u>4,804</u>	<u>48,077</u>

	Six months ended June 30, 2018				
	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)	2,744,282	(562,527)	1,475,802	–	3,657,557
Internal net interest (expense)/ income	<u>(615,405)</u>	<u>1,038,250</u>	<u>(422,845)</u>	<u>–</u>	<u>–</u>
Net interest income	2,128,877	475,723	1,052,957	–	3,657,557
Net fee and commission income	54,802	11,740	58,439	2,848	127,829
Net trading gains	–	–	434,740	–	434,740
Net gains arising from investment securities	–	–	2,442	–	2,442
Foreign exchange gain	–	–	–	168,943	168,943
Other operating income, net	<u>–</u>	<u>–</u>	<u>–</u>	<u>11,521</u>	<u>11,521</u>
Operating income	2,183,679	487,463	1,548,578	183,312	4,403,032
Operating expenses	(423,266)	(90,674)	(451,361)	(21,994)	(987,295)
Impairment losses on assets	<u>(319,841)</u>	<u>(172,168)</u>	<u>36,682</u>	<u>(17,316)</u>	<u>(472,643)</u>
Operating profit	1,440,572	224,621	1,133,899	144,002	2,943,094
Share of profits of associate	<u>–</u>	<u>–</u>	<u>–</u>	<u>820</u>	<u>820</u>
Profit before tax	<u><u>1,440,572</u></u>	<u><u>224,621</u></u>	<u><u>1,133,899</u></u>	<u><u>144,822</u></u>	<u><u>2,943,914</u></u>
Other segment information					
– Depreciation and amortisation	76,945	17,176	54,566	6,460	155,147
– Capital expenditure	<u><u>576,179</u></u>	<u><u>128,621</u></u>	<u><u>408,604</u></u>	<u><u>48,368</u></u>	<u><u>1,161,772</u></u>

	As at December 31, 2018				
	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	110,549,327	27,819,221	188,347,517	186,760	326,902,825
Deferred tax assets	–	–	–	1,719,546	1,719,546
Total assets	<u>110,549,327</u>	<u>27,819,221</u>	<u>188,347,517</u>	<u>1,906,306</u>	<u>328,622,371</u>
Segment liabilities	92,065,313	112,244,596	98,802,812	118,236	303,230,957
Deferred tax liabilities	–	–	–	135,263	135,263
Dividend payable	–	–	–	8,560	8,560
Total liabilities	<u>92,065,313</u>	<u>112,244,596</u>	<u>98,802,812</u>	<u>262,059</u>	<u>303,374,780</u>

(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, 2019 and 2018, no operating income from a customer contributes over 10% of the total operating income of the Group.

20. 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 and unused credit card commitments.

The Group provides financial guarantees 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.

	At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Acceptances	26,374,876	26,418,071
Letters of guarantees	1,153,025	721,547
Unused credit card commitments	381,668	359,224
	<u>27,909,569</u>	<u>27,498,842</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) Operating lease commitments

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

The Group as lessee

	At December 31, 2018 <i>RMB'000</i> (Audited)
Within one year	142,223
In the second to fifth years inclusive	165,992
Over five years	<u>11,847</u>
	<u><u>320,062</u></u>

(c) Capital commitments

At June 30, 2019 and December 31, 2018, the Group's authorised capital commitments are as follows:

	At June 30, 2019 <i>RMB'000</i> (Unaudited)	At December 31, 2018 <i>RMB'000</i> (Audited)
Purchase of property and equipment – Contracted for but not provided	<u><u>9,393</u></u>	<u><u>38,655</u></u>

VI. PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2019 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.bluelillyvilla.com). The 2019 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.bluelillyvilla.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 28, 2019

*As at the date of this announcement, the Board 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 the approval by the competent regulatory authority.*