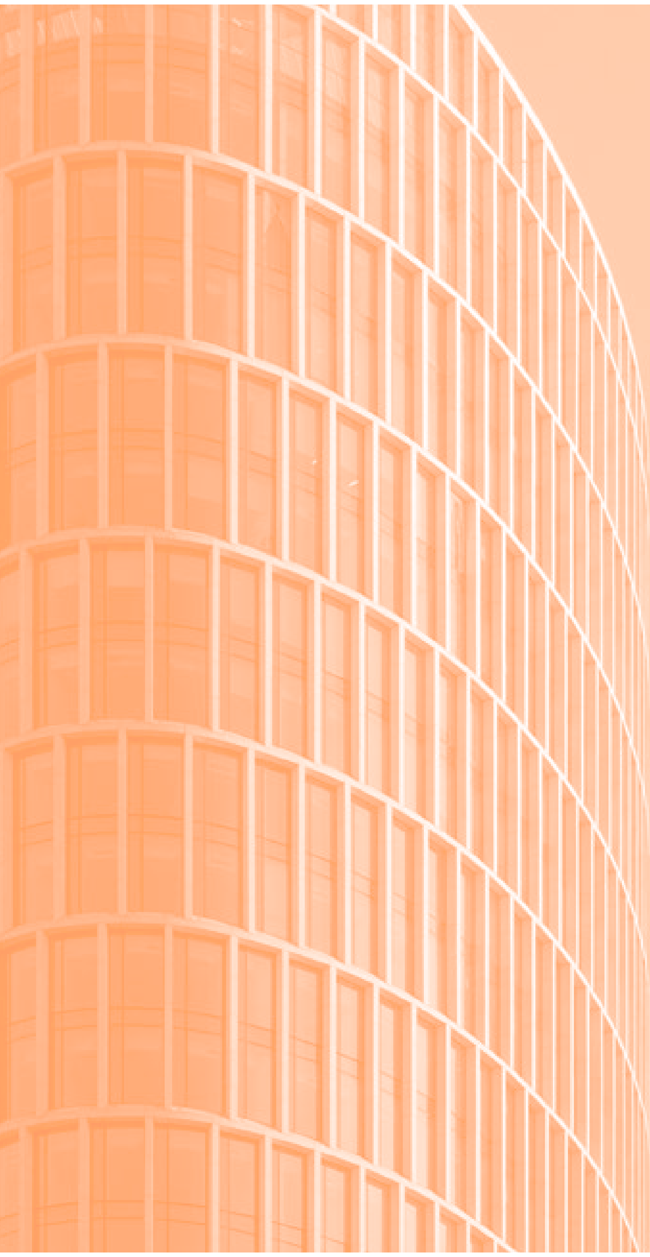
HARBIN BANK CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code: 6138

2016 Annual Report



The Company holds the Finance Permit No. B0306H223010001 approved by the China Banking Regulatory Commission and has obtained the Business License (Uniform Social Credit Code: 912301001275921118) approved by Market Supervision and Administration Bureau of Harbin. The Company is not an authorised institution within the meaning of the Hong Kong Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking/deposit-taking business in Hong Kong.

Contents

Definitions

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

"A Shares"	ordinary shares that are proposed to be issued pursuant to the A Share Offering by the Bank, which will be listed on the Shanghai Stock Exchange and traded in RMB
"A Share Offering"	the Bank's proposed initial public offering of not more than 3,666,000,000 A Shares which are to be listed on the Shanghai Stock Exchange
"Reporting Period"	the year ended 31 December 2016
"Company" or "Bank"	Harbin Bank Co., Ltd. (哈爾濱銀行股份有限公司), a joint stock company incorporated in the PRC on 25 July 1997 with limited liability in accordance with PRC laws
"Group"	the Company and all of its subsidiaries and branches
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"Chief Financial Officer"	the chief financial officer of the Company
"Director(s)"	the director(s) of the Company
"Board" or "Board of Directors"	the board of directors of the Company
"Articles of Association"	the articles of association of Harbin Bank Co., Ltd.
"H Shares"	overseas-listed foreign invested ordinary shares of a nominal value of RMB1.00 each in the share capital of the Company, which are listed and traded on the Hong Kong Stock Exchange
"Harbin Economic Development"	Harbin Economic Development and Investment Company
"HBCF"	Harbin Bank Consumer Finance Co., Ltd.
"HB Leasing"	Harbin Bank Financial Leasing Co., Ltd.
"Supervisor(s)"	the supervisor(s) of the Company
"Board of Supervisors"	the board of supervisors of the Company

Definitions

"Domestic Shares"	ordinary shares of a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for or credited as paid in Renminbi
"PBOC" or "Central Bank"	the People's Bank of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"CBRC"	the China Banking Regulatory Commission
"CSRC"	the China Securities Regulatory Commission

Company Profile

Basic Information

Legal Chinese Name:

哈爾濱銀行股份有限公司(Abbreviation: 哈爾濱銀行)

English Name:

HARBIN BANK CO., LTD. (Abbreviation: HARBIN BANK)

Legal Representative:

GUO Zhiwen

Authorised Representatives for the Hong Kong Stock Exchange:

LIU Zhuo and SUN Feixia

Board Secretary:

SUN Feixia

Joint Company Secretaries:

SUN Feixia and NGAI Wai Fung

Registered Address:

No. 160 Shangzhi Street, Daoli District, Harbin, PRC

Principal Place of Business in Hong Kong:

18/F, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong

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Website for Publishing this Report:

www.hrbb.com.cn

Place Where this Report is Available:

No. 888 Shangjiang Street, Daoli District, Harbin, PRC

Place of Listing, Stock Name and Stock Code:

The Stock Exchange of Hong Kong Limited, HARBIN BANK and 6138

Corporate Uniform Social Credit Code:

912301001275921118

Finance Permit Institution Number:

B0306H223010001

Date of Initial Registration:

25 July 1997

Initial Registration Authority:

Market Supervision and Administration Bureau of Harbin, Heilongjiang Province, PRC

Legal Adviser as to Laws of China:

Beijing Jun He Law Offices

Legal Adviser as to Laws of Hong Kong, China:

Linklaters

Auditors:

Overseas auditor: Ernst & Young, Certified Public Accountants in Hong Kong
Domestic auditor: Ernst & Young Hua Ming LLP

Hong Kong H Share Registrar and Transfer Office:

Computershare Hong Kong Investor Services Limited

Company Profile

Company Profile

The Bank, headquartered in Harbin, was granted its finance permit to carry on financial business by the PBOC in February 1997, and obtained its corporate business license on 25 July 1997. At present, the Bank has established 17 branches in Tianjin, Chongqing, Dalian, Shenyang, Chengdu, Harbin, Daqing, etc. and 32 village and township banks (including 8 village and township banks in preparation) in 14 provinces and municipalities, including Beijing, Guangdong, Jiangsu, Jilin and Heilongjiang. The Bank, as a controlling shareholder, has promoted the establishment of HB Leasing, the first financial leasing company in Northeastern China, and HBCF (approved for establishment), the first consumer finance company in Heilongjiang Province, respectively. As at 31 December 2016, the Group had 355 business outlets with branches and sub-branches across seven administrative regions across China.

As at 31 December 2016, the Bank had total assets of RMB539.0162 billion, total loans and advances to customers of RMB201.6279 billion and total customer deposits of RMB343.1510 billion.

The Bank is ranked 207th in the "Top 1,000 World Banks" in terms of total tier 1 capital in 2016 published by the Banker of United Kingdom, thus rising 2 places from the previous ranking, and the 31st among the Chinese-funded banks. According to the 2016 "Top 500 Banks in Asia-Pacific Region" published by The Asian Banker, the Bank is ranked 99th in comprehensive ranking, thus rising 16 places as compared to the ranking in 2015, and the 48th among banks in Greater China. According to the "Stars of China Awards" 2016 published by Global Finance, a US-based magazine, the Bank has won the "2016 Best City Commercial Bank" award, and become a commercial bank winning this award for three consecutive years.

Company Profile

Major Awards for 2016

List of Major Awards for 2016

No.	Name of Award	Awarding Party	Time of Award
1	2015 Outstanding Award for System Access (2015年系統接入行「突出貢獻獎」)	Clearing Center For City Commercial Banks	January 2016
2	Mobile Banking: 2016 Best Creative Customer Experience Award (手機銀行：2016年度最佳客戶創新體驗獎)	China Online Banking Promotion Alliance (中國網上銀行促進聯盟)	March 2016
3	2016 Top Ten Innovative Projects in China (2016年中國區十大創新項目獎)	Securities Times	April 2016
4	Syndicated Loans to Russia: Top Ten Innovative Financial Products (Corporate Business) under 2016 China Financial Innovation Award (對俄銀團拆借：「2016中國金融創新獎」之十佳金融產品創新獎（對公業務))	Chinese Banker	May 2016
5	White-collar e-Loans: Top Ten Innovative Financial Products (Retail Business) under 2016 China Financial Innovation Award (白領e貸：「2016中國金融創新獎」之十佳金融產品創新獎（零售業務))	Chinese Banker	May 2016
6	Best Employee Management (最佳員工管理)	THE ASIAN BANKER	June 2016
7	Best Regional Trade Finance Bank of China （中國最佳區域貿易金融銀行）	THE ASIAN BANKER	June 2016
8	Best Wealth Management Brand of City Commercial Bank (Rural Commercial Bank) of China (中國最佳城商行（農商行）理財品牌)	Securities Times	June 2016
9	2015 Top Ten Innovative Institutions for Rural Financial Brand of China (2015全國農村金融十佳品牌創新機構)	China Co-operation Times (中華合作時報社), Rural Development Research Centre of the Chinese Academy of Social Sciences (中國社科院農村發展研究所), and Financial Brand and Corporate Culture Research Centre of Central University of Finance and Economics	July 2016

Company Profile

No.	Name of Award	Awarding Party	Time of Award
10	2015 Top Ten Competitive Banks (2015年度十佳競爭力銀行)	Office of China Local Financial Forums (全國地方金融論壇辦公室), Financial News (金融時報社), and China Academy of Regional Finance (中國地方金融研究院)	November 2016
11	2016 Best Financial Institution for Regional Development in China (2016年中國服務區域發展最佳金融機構)	China Comment (《半月談》)	November 2016
12	2016 Best Credit Bank for Small Enterprises (2016年最佳小企業信貸銀行)	GLOBAL FINANCE	November 2016
13	2016 Best City Commercial Bank （2016年最佳城市商業銀行）	GLOBAL FINANCE	November 2016
14	2016 Outstanding and Competitive City Commercial Bank for Small and Micro Financial Services (2016卓越競爭力小微金融服務城商行)	China Business Journal	December 2016
15	2016 Top Ten Outstanding and Competitive City Commercial Banks (2016卓越競爭力城商行10強)	China Business Journal	December 2016
16	2016 Preferred Service Provider for China Small and Medium Enterprises (SMEs) (2016年中國中小企業首選服務商)	China International Cooperation Association of SMEs	December 2016

Company Profile

Major Subsidiaries

The details of major subsidiaries of the Company as of 31 December 2016 are as follows:

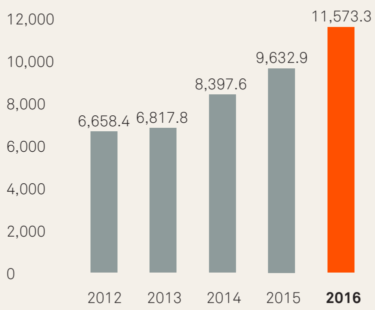
Company Name	Place of incorporation/ registration and operations place in the PRC	Nominal value of issued share/ paid-up capital RMB million	Percentage of ownership/ voting rights directly owned by the Bank (%)	Amount invested by the Company RMB million
Bayan Rongxing Village and Township Bank Co., Ltd.	Bayan, Heilongjiang	50	90.00	45
Huining Huishi Village and Township Bank Co., Ltd.	Huining, Gansu	30	100.00	30
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	Huairou, Beijing	200	85.00	207.6
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30	100.00	30
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	200	70.00	140
Yanshou Rongxing Village and Township Bank Co., Ltd.	Yanshou, Heilongjiang	30	100.00	30
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	150	80.00	144.4
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80	75.00	60
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	50	98.00	49
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	30	100.00	30
Yanshi Rongxing Village and Township Bank Co., Ltd.	Yanshi, Henan	30	100.00	30
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	30	100.00	30
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	100	80.00	80
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30	100.00	30

Company Profile

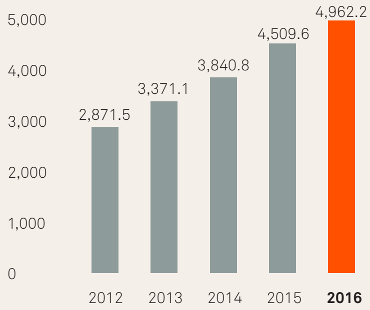
Company Name	Place of incorporation/ registration and operations place in the PRC	Nominal value of issued share/ paid-up capital RMB million	Percentage of ownership/ voting rights directly owned by the Bank (%)	Amount invested by the Company RMB million
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	55	80.00	40
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50	70.00	35
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	30	100.00	30
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30	100.00	30
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	30	100.00	30
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50	100.00	50
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30	96.67	29
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100	80.00	80
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	50	100.00	50
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	Youyang, Chongqing	60	100.00	60
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000	80.00	1,600

Summary of Accounting Data and Financial Indicators

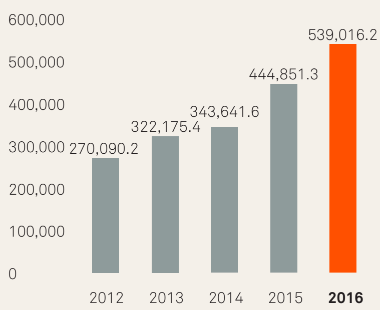
Net interest income
millions of RMB



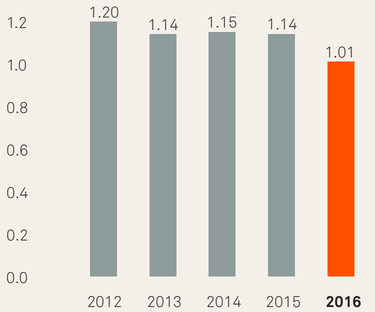
Net profit
millions of RMB



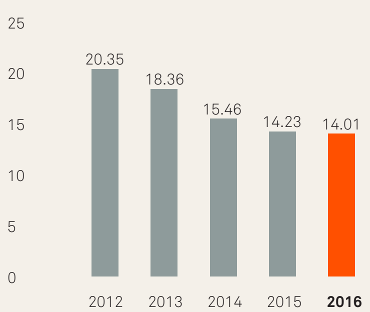
Total assets
millions of RMB



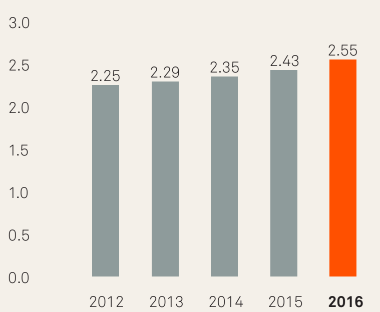
Return on average total assets
%



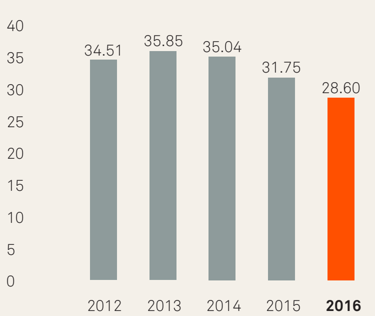
Return on average equity
%



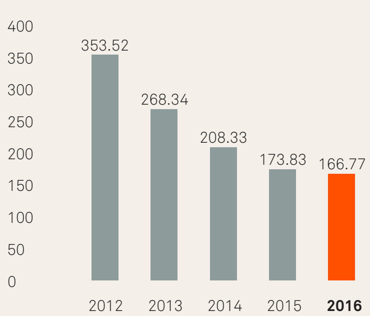
Impairment losses on loans
%



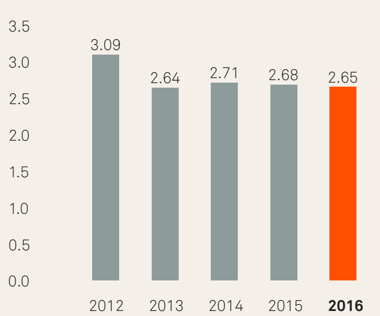
Cost-to-income ratio
%



Impairment coverage ratio
%



Net interest margin
%



Summary of Accounting Data and Financial Indicators

The financial information contained herein is prepared under the International Financial Reporting Standards on a consolidated basis. Unless otherwise stated, such information is the data of the Group denominated in RMB.

	For the year ended 31 December					
	2016	2015	2016 vs. 2015	2014	2013	2012
			(In RMB million, except percentages)			
Results of operations			**Rate of change**			
Net interest income	**11,573.3**	9,632.9	20.14%	8,397.6	6,817.8	6,658.4
Net fee and commission income	**2,393.4**	1,959.4	22.15%	1,600.3	1,247.1	678.7
Operating income	**14,172.0**	11,945.4	18.64%	10,252.8	8,543.9	7,711.3
Operating expenses	**(4,522.2)**	(4,736.9)	-4.53%	(4,433.3)	(3,591.0)	(3,025.5)
Impairment losses	**(3,294.8)**	(1,338.5)	146.16%	(709.2)	(506.1)	(836.2)
Profit before tax	**6,445.6**	5,919.0	8.90%	5,127.5	4,450.0	3,859.0
Net profit	**4,962.2**	4,509.6	10.04%	3,840.8	3,371.1	2,871.5
Net profit attributable to shareholders of the Bank	**4,876.6**	4,457.6	9.40%	3,806.6	3,350.3	2,864.3
For each share (RMB)			**Rate of change**			
Net assets per share attributable to shareholders of the Bank	**3.32**	3.01	10.30%	2.69	2.39	2.22
Earnings per share	**0.44**	0.41	7.32%	0.37	0.41	0.37
Profitability indicators			**Change**			
Return on average total assets(1)	**1.01%**	1.14%	decreased by 0.13 percentage point	1.15%	1.14%	1.20%
Return on average equity(2)	**14.01%**	14.23%	decreased by 0.22 percentage point	15.46%	18.36%	20.35%
Net interest spread(3)	**2.47%**	2.47%	–	2.49%	2.56%	3.06%
Net interest margin(4)	**2.65%**	2.68%	decreased by 0.03 percentage point	2.71%	2.64%	3.09%
Net fee and commission income to operating income ratio	**16.89%**	16.40%	increased by 0.49 percentage point	15.61%	14.60%	8.80%
Cost-to-income ratio(5)	**28.60%**	31.75%	decreased by 3.15 percentage points	35.04%	35.85%	34.51%

Summary of Accounting Data and Financial Indicators

	As at 31 December					
	2016	2015	2016 vs. 2015	2014	2013	2012
						(In RMB million, except percentages)
Capital adequacy indicators[6]			**Change**			
Capital adequacy ratio pursuant to the new Measures						
Core tier 1 capital adequacy ratio	**9.34%**	11.14%	decreased by 1.80 percentage points	13.94%	10.68%	–
Tier 1 capital adequacy ratio	**9.35%**	11.14%	decreased by 1.79 percentage points	13.94%	10.68%	–
Capital adequacy ratio	**11.97%**	11.64%	increased by 0.33 percentage point	14.64%	11.95%	–
Capital adequacy ratio calculated pursuant to the old Measures						
Core capital adequacy ratio	**–**	–	–	–	11.67%	11.94%
Capital adequacy ratio	**–**	–	–	–	12.55%	12.97%
Total equity to total assets	**6.93%**	7.61%	decreased by 0.68 percentage point	8.78%	6.19%	6.27%
Assets quality indicators			**Change**			
NPL ratio[7]	**1.53%**	1.40%	increased by 0.13 percentage point	1.13%	0.85%	0.64%
Impairment coverage ratio[8]	**166.77%**	173.83%	decreased by 7.06 percentage points	208.33%	268.34%	353.52%
Impairment losses on loans[9]	**2.55%**	2.43%	increased by 0.12 percentage point	2.35%	2.29%	2.25%

Summary of Accounting Data and Financial Indicators

	As at 31 December					
	2016	2015	2016 vs. 2015	2014	2013	2012
						(In RMB million, except percentages)
Other indicators			**Change**			
Loan-deposit ratio	**58.76%**	48.46%	increased by 10.30 percentage points	53.01%	47.25%	46.39%
Scale indicators			**Rate of change**			
Total assets	**539,016.2**	444,851.3	21.17%	343,641.6	322,175.4	270,090.2
Of which: total loans and advances to customers	**201,627.9**	148,674.8	35.62%	123,930.3	105,941.3	87,264.4
Total liabilities	**501,681.2**	411,003.3	22.06%	313,479.0	302,248.2	253,153.2
Of which: due to customers	**343,151.0**	306,817.7	11.84%	233,793.8	224,229.6	188,099.1
Share capital	**10,995.6**	10,995.6	–	10,995.6	8,246.9	7,560.2
Equity attributable to shareholders of the Bank	**36,507.8**	33,099.6	10.30%	29,530.3	19,727.5	16,764.7
Non-controlling interests	**827.2**	748.4	10.53%	632.3	199.7	172.3
Total equity	**37,335.0**	33,848.0	10.30%	30,162.6	19,927.2	16,937.0

Notes:

(1) The percentage of net profit during the Reporting Period to the average balance of the total assets at the beginning and the end of the Reporting Period.

(2) The percentage of net profit attributable to the equity shareholders of the Bank during the Reporting Period to the average balance of total equity attributable to equity holders of the parent company at the beginning and the end of the Reporting Period.

(3) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.

(4) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.

(5) Calculated with the operating cost after the business tax and surcharges and divided by the operating income.

(6) Calculated pursuant to the new and old Capital Adequacy Measures, other related regulations of the PRC and PRC GAAP. The new Measures have been adopted for calculation of capital adequacy ratio since 2013, and the old Measures have ceased to be adopted by the Bank for such calculation since 2014.

(7) Calculated with the total NPLs divided by the total loans to customers.

(8) Calculated with the allowance for impairment loss divided by the total NPLs.

(9) Calculated with the allowance for impairment loss on loan divided by the total loans to customers.

Chairman's Statement

Guo Zhiwen
Chairman

In 2016, the global economy remained sluggish but the diversification, complexity and collaboration of the global economic development further deepened, and the impact on non-economic factors such as geopolitics further increased. The domestic economy maintained slow and stable growth with promising prospects. The economic structure continued to optimise, and innovation reinforced the development. However, organic drivers for economic growth were insufficient. The conflict between overcapacity and the structural upgrade of demand was still severe. Facing the complex and ever-changing domestic and overseas economic environment, as well as the intensified competition between banks, the Board, under the great support of shareholders, continued to maintain its strategic focus to forge ahead and explore innovative projects, thus fully facilitating the transformation and development of the Bank, providing quality and efficient financial services to customers, creating value for the shareholders, and proactively performing the Bank's social responsibilities.

Chairman's Statement

During the year, the Bank achieved a breakthrough in operating results. As at the end of 2016, the total assets of the Bank amounted to RMB539 billion, representing an increase of 21% from the end of last year. Net profit amounted to RMB4.96 billion, representing a year-on-year increase of 10%. Financial indicators, including ROA, ROE, cost-to-income ratio, profit per capita, etc., recorded satisfactory results. The subsidiaries maintained good momentum with higher profitability, which provided greater support for the growth in results of the Group. Throughout the year, HB Leasing recorded net profit of RMB219 million, representing a year-on-year increase of 58.7%. 24 village and township banks all recorded profits with net profit of RMB353 million, representing a year-on-year increase of 17.3%. The development of branches became mature. The market share of branches in Harbin, where the Group's headquarters located, maintained a leading position among its peers, and more than 30% of profit of the Bank was contributed by branches outside Harbin. Strategic business units ("SBUs") became the major profit contributor. Wealth Management SBU recorded net profit of RMB400 million. There was a sharp increase in the profit contribution made by Microfinance SBU, Modern Agriculture SBU, and Consumer Finance SBU, while Sino-Russia Finance SBU, Housing Credit SBU and Internet Finance SBU demonstrated great potential to make profit.

During the year, the development of the Bank's four major finance headquarters created new opportunities for growth. Retail finance maintained good development momentum. The total loans of the retail finance business amounted to over RMB100 billion as at the end of 2016, with over 18.00 million retail customers, successfully doubling their size. The customer base, and the stability and contribution of the customers improved. In respect of the credit card business, the layout for organisational structure, product and marketing was completed effectively. There was a breakthrough in mobile finance development. The number of online products and customers had been increasing. Mobile finance customers increased by over 3 million, or nearly doubled from the previous year. The transaction volume for the online cross-border E-commerce payment and settlement platform was RMB3,350 million, with income of RMB56.05 million generated from intermediary business. The platform was classified as a major construction project of the National Development and Reform Commission complied for "One Belt, One Road". Corporate finance developed rapidly. Investment in corporate assets increased significantly, with continuous improvement in its cooperation between government authorities and bank enterprises. The Bank achieved a good result in expanding its strategic customer base. Three featured businesses, namely small enterprise finance business, Sino-Russia finance business and modern agriculture finance business, continued to develop. Excellent layout was created for the development interbank finance. The Bank successfully issued the first tranche credit and asset-backed security, and obtained the qualification of "transfer of income right of non-performing assets (trail)", with volume of asset under management breaking through RMB100,000 million. Transaction volume for bonds rebounded, and there was a good starting for entrusted business.

During the year, a new foundation was created for the transformation and development of the Bank. The leading position of the microcredit business continued to strengthen. Microcredit loans amounted to RMB167.7 billion, which accounted for 83% of total loans as a new record. The strategic plan was deepening and refining. Thus, a full set of strategic planning system is formed, with the new five-year strategic plan as the core part, the strategy for the four major financial sectors as the support and featured internationalised development and comprehensive operating strategy, was formulated. The Bank made a good progress in different works including network transformation, procedure optimisation, operation centralisation, new core system construction, information technology, data management, online channel construction, etc.

Chairman's Statement

During the year, product innovation of the Bank created new momentum. Focusing on the theme of "Year of Products", the whole bank proactively participated in product innovation. Based on its competitive edges and customer demand, each department and branch developed a series of innovative featured products, thereby achieving excellent economic benefits and social benefits. The Bank established a team which was capable for meeting market demands, striving for the best, good at research and development ("R&D") and sensitive to market trends, and created the working environment and concept for achieving the above goals. The Bank established the three-tier organisational structure comprising Headquarters Product Innovation Laboratory, Headquarters Product Innovation Center and Branch Innovative Team. The project management and research support capability of laboratory had been strengthening, with a good development trend of "One Tranche for Investment, One Tranche for R&D, One Tranche for Reserve (投放一批、研發一批、儲備一批)" had been realised.

During the year, the management standard of the Bank stepped up to a new level. More scientific capital management was adopted, which enabled the Bank to expand channels for capital replenishment effectively. The Bank successfully issued tier 2 capital bonds of RMB8,000 million, and proactively organised overseas preference share issuance. Asset and liability management was refined, and the Bank continued to improve its active pricing capability. Management on credit granting became more efficient, and the vertical management on non-retail credit business approval strengthened. Risk management became more advanced, and the Bank fully facilitated the practical application of the results of New Basel Capital Accords. Compliance management became more effective, and the system for compliance appraisal indicators continued to improve. Office management became more modernised, and systems for mobile office had been improving, reflecting the new image of modernised bank management with significant improvement in operating efficiency and customers' experience.

During the year, new momentum gathered for the development of the Group. The Bank proactively explored the layout for collectivised development, strived to combining the existing plans with key breakthroughs, and controlled the pace for external investment rationally. In November 2016, the establishment of HBCF was officially approved. In respect of the development of village and township banks, the establishment of 8 village and township banks in-preparation was approved in 2016. Total number of village and township banks reached 32 (including those approved to be established). Following one year of preparation, the direct banking business of the Bank was officially launched. As the major strategic layout for the development of the Bank's online businesses, direct banking is going to become another important source for business growth and profitability of the Bank through multi-platform cooperation and scenario-based financial service.

During the year, there was a new trend regarding cooperation with Russia. Sino-Russia Financial Council had become more influential. Members of the alliance increased to 62 from 35 at the initial establishment. Leveraging the Sino-Russia Financial Council platform, the Bank achieved excellent results in cooperation with Russian financial institutions. The Bank, together with Chinese alliance members, successfully entered into syndicated loan agreement of RMB10,000 million with Vnesheconom Bank (VEB), the sole policy bank in Russia. This was the most influential cross-border interbank syndicated cooperation between Chinese and Russian financial institutions with the largest number of participants and the largest scale. The Bank was invited to participate in major international meetings including the Eastern Economic Forum organised by Russia, the 3rd China-Russia Expo, and the Sub-Committee for Financial Cooperation of the Regular Meeting between Presidents of China and Russia (中俄總理定期會晤委員會金融合作分委會), etc., reflecting the leading position and development results of the Bank in its Sino-Russia financial services business.

Chairman's Statement

During the year, brand building of the Bank reached a new stage. The Bank proactively promoted the concept of "Working Happily, Living Healthily" by organising diversified cultural activities. The 2016 Harbin International Marathon, in which the Bank participated at the initial preparation stage and provided sponsorship, was held successfully and received good response from the society. This greatly enhanced the corporate image of the Bank. The Bank organised several repetitive high-standard art exhibition, including the Russia Sculpture Exhibition, the Masterpiece Exhibition for Chinese Modern Painting and Calligraphy Artists (中國當代書畫名家精品展), Russia Oil Painting Masterpiece Exhibition, etc. The Bank had performed its social responsibilities. It established the Tongjia'an Charity Fund (同佳岸慈善基金), and proactively participated in charity activities. The Bank donated and constructed the first outdoor charity runway in Harbin. In addition, reports regarding the Bank were published for several times in different media including Economic Daily and Financial News. The Bank received awards from the international mainstream media.

Looking back over 2016, the starting year for the Bank's new five-year plan, we achieved excellent operating results, and most importantly, explored a tailor-made path for transformation and development and accumulated intensive experience for development. We are fully aware that such hard-fought results cannot be achieved without the great support from shareholders, customers, regulatory authorities and the public, and our experiences are valuable. In 2017, centring on the work theme of "Collaborative Development", and adhering to the general principle of "stable and steady progress", the Bank will make progress in a stable and steady manner, facilitate collaborative development, implement strict control over risk exposures, strive to innovative development, facilitate the implementation of the Bank's new five-year overall strategic plan, conduct various works on transformation and development in a steady and stable manner, provide better services to customers, and create greater value for investors and the society!

2017 is the 20th anniversary of the Bank. We are excited and grateful at this new starting for 20-year development. We will adhere to our original objective, move forward to our dreams, and create a brand new, glorious chapter for the development of Harbin Bank Group!

Guo Zhiwen
Chairman

President's Statement

Zhang Qiguang
President

Being fearless against the floating clouds which block our vision, and weathering the dust storm, we will successfully pan for gold (不畏浮雲遮望眼，吹盡狂沙始到金). 2016 was an extraordinary year for the Bank in our process of reform and development. Confronting with the serious challenges from the complex and ever-changing international and domestic economic environment, the Bank strived to its strategic focus, and overcome various adverse factors with profound accumulation and gradual delivery. It vigorously implemented the operation transformation driven by the theme of "Year of Products". The Bank also further optimised the reform and adjustment on organisational structure and operating mode. As a result, the Bank achieved stable operation growth, effective risk control, and rapid facilitation of transformation, thus making a historical breakthrough. The Bank completed various objectives set by the Board, and realised a perfect start for the new five-year strategic plan.

President's Statement

In 2016, with full effort in maintaining quality and efficiency, the Bank's performance achieved historical breakthrough in operating indicators and major indicators improved in leaps and bounds, making the Bank become one of the medium-scale commercial banks. By the end of 2016, the Bank's total assets were RMB539.0 billion, representing an increase of 21.2% from the end of last year; total customer loans were RMB201.6 billion, representing an increase of 35.6% from the end of last year; and total customer deposits were RMB343.2 billion, representing an increase of 11.8% from the end of last year. The total number of customers reached over 18.82 million, representing an increase of 86.3% from the end of last year. The NPL ratio was 1.53%, while the provision coverage ratio was 166.77%. In 2016, the Bank recorded net profit of RMB4.96 billion, representing a year-on-year increase of RMB450 million or 10.0%.

In 2016, the Bank focused on its product works, with significant impacts from product innovation. The Bank achieved unprecedented breakthrough in concept innovation, product innovation, management innovation, technology innovation and marketing innovation. Product management system was optimized significantly. The Bank formed the headquarters product innovation laboratory, respective headquarters innovation centre and product team for branches, established the experimental and functional platform for product innovation, and optimised the evaluation and appraisal mechanism for research and development. Hence, a product working model, which was driven by self-innovation and conducted through resources consolidation with an aim to create value, was formed. The product system of the Bank improved gradually.

In 2016, business segments of the Bank experienced profound expansion on the back of innovative achievements becoming further prominent. The Bank commenced the innovative business collaboration for industry fund and investment and lending. The registration for Sino-Russia Financial Council was completed, with 27 new members joining the alliance. There were four cooperative projects for Russian cross-border financing with an amount of RMB12,600 million, and 29 business cooperation agreements were signed, which became a new power for banks engaging in Sino-Russia financial business and international financing, and greatly enhanced the influence of the Bank. The Bank successfully issued tier 2 capital bonds of RMB8,000 million at the lowest prevailing interest rate in the market by then, as well as the first tranche of asset securitisation product. The Bank proactively facilitated the issue of green financial bonds, and obtained the qualification of "transfer of income right of non-performing assets (trail)". The asset escrow business was implemented and promoted throughout the whole bank, with asset size under management breaking through RMB100 billion. In respect of activities in the bond market, the ranking of the Bank moved up by over 100 places. Direct banking was officially launched, thus realising a brand-new service model. "Innovative E Magic Cube (創e魔方)", the digital marketing platform, was put into operation, which facilitated the Bank's progress of entering into the era of digital marketing. Moreover, the Bank successfully developed numerous innovative products including Cloud Quick Pass (雲閃付), Secret Purse (私房錢), QR code series, etc., which created an important guiding effect on the Bank's mobile finance development. Transaction volume of the cross-border E-commerce platform was RMB3,350 million, with income of RMB56.05 million. Such platform was classified as a key project under the "One Belt, One Road" initiative and the pilot city for modernised logistics.

President's Statement

In 2016, the Bank accelerated our progress in management transformation, significantly increasing our business support capabilities. The Bank facilitated the construction of headquarters organisation, which focused on the four major headquarters and the centralised operation of the middle and back office, thus achieving functional reorganisation and mechanism optimisation across the whole bank. Moreover, the Bank organised and commenced evaluation works upon the completion of structure transformation, and continued to improve the business suitability of organisational structure. The training system of the Bank was improving. Centring the "Leadership Training Program", over 2,500 employees from the whole bank were selected to participate in the "Leadership Training Program", of whom 673 were selected to be added into the talent list for comprehensive management and professional management. Some talented young management members gradually served key management positions. The Bank facilitated the management on total staff payroll budget for branches, formulated and implemented the implementation rules for the performance appraisal on presidents of different financial headquarters, departments under the headquarters and branches, and optimised the appraisal policy and setting of indicator. The Bank conducted contribution evaluation in different aspects including institution, sector and product, and further optimised the performance and remuneration incentive and restriction mechanism. In addition, the Bank put greater technology investments in core system, mobile channel, product development and other aspects. New core construction projects were commenced and implemented smoothly. The Bank established the Data Management Committee and optimised its data management system, thereby realising the establishment of big data foundation platform and preliminary attempt for business analysis. Hence, the data management and application capability gradually improved. The Bank also completed the centralised operation and whole-bank promotion for the business procedures of corporate account opening, making operating efficiency improved by 23%. The Bank commenced pilot and network optimisation and adjustment, improved the layout, formulated and verified the efficiency evaluation model for network, and optimised the operating models for new business networks.

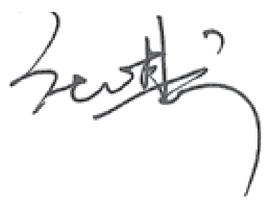
In 2016, focusing on risk management projects, the Bank promoted the application of advanced technology and system construction, thus controlling risk exposures effectively and embracing the "safe year" consecutively. The Bank modified its risk management strategy in a timely manner, proactively promoted vertical and centralised management for credit granting, and improved the independence and professionalism of the credit review and approval for non-retail credit operation. The Bank also focused on asset quality management and control, and continued to improve operational risk management. It established the Asset Quality Management and Control Group, which conducted comprehensive and in-depth credit risk inspection, transfer model innovation, management mechanism optimisation and debt settlement and collection team establishment. Hence, the full-chain asset quality management and control system with clear scope of responsibility and strict mechanism was formulated upon negotiation and coordination between parties. The Bank promoted the application of new capital accord projects, and facilitated the formulation of comprehensive risk management system. The implementation of all new capital accord projects, which had lasted for six years, was completed. The Bank met the compliance requirement for applying high level measurement, and its risk management became more scientific and refined.

President's Statement

In 2016, the corporate brand of the Bank was further enhanced. The Bank won 36 international and local awards with 404 news of the Banks published in the mainstream media. More than 100 employees throughout the Bank served as party members at different levels, and representative or committee member of the People's Congress and Political Consultative Conference, reflecting that the Bank's influence in the banking industry and its political and social position were further enhanced. The Bank ranked 207th in the 2016 Top 1,000 World Banks published by the Banker of United Kingdom. According to the "Top 500 Bank in Asia-Pacific Region" published by The Asian Banker, the Bank ranked 99th in comprehensive ranking, and the 48th among banks in Greater China. It won the "Best Regional Trade Finance Bank of China" award for two consecutive years. The Bank entered the shortlist for "Top 500 in China" by the Fortune of United States for the first time, and ranked 416th. According to the Stars of China Awards 2016 published by Global Finance, a US-based magazine, the Bank won the "Best City Commercial Bank" award for three consecutive times, and received the "Best Credit Bank for Small Enterprises" award. The Bank put great efforts in promoting the concept of "Working Happily, Living Healthily". It sponsored and organised the 1st Harbin International Marathon, which made numerous records in Northeastern Region including the largest running race, the race path with most beautiful scenery, the most beautiful marathon medals in 2016, etc. The event had made a huge success in terms of race organisation, racer service, propaganda, marketing development, etc. It had received great response from the society and media, thus successfully enhanced the awareness of Harbin City and the brand of the Bank.

These results could not have been achieved without the strong support from our customers, investors and the public, nor without the hard work of all the staff. Here, I extend my most sincere gratitude to them on behalf of our management.

2017 marks an important milestone for Harbin Bank entering its 20th anniversary. At this new starting point, we are excited with the feeling of "thousands of obstacles have been overcome (輕舟已過萬重山)" and "enjoying a boundless vista at the perilous peak (無限風光在險峰)". Facing challenges arising from numerous conflicting matters and various potential risk exposures, those who strive to their original objectives will be able to make progress, those who are confident will get victory, and those who engage in reform and innovation will maintain leading position. Centring on the work theme of "Collaborative Development", the Bank will consolidate resources for development, gather power for development, deepen operational transformation, and defend for its risk baseline, aiming to achieve the goal of "becoming a first-class international microcredit bank providing excellent services with unique characteristics".



Zhang Qiguang
President

Report of the Board of Directors

I. Past Economy and Environment and Operation Overview

(I) Past Economy and Environment

In 2016, the global economic recovery remained slow and imbalanced. The combined effects of the measures such as the proactive fiscal policy, the accommodative monetary policy and the real estate adjustment and control policy lessened the pressure on the economy in China. In 2016, the annual gross domestic product (GDP) amounted to RMB74.4127 trillion, representing a year-on-year increase of 6.7%, while the consumer price index (CPI) rose by 2.0% year on year. As at the end of December 2016, the balance of M2 amounted to RMB155.01 trillion, representing a year-on-year increase of 11.3%; the balance of M1 amounted to RMB48.66 trillion, representing an increase of 21.4%, and the balance of M0 amounted to RMB6.83 trillion, representing an increase of 8.1%. As at the end of December 2016, the balance of RMB loans amounted to RMB106.6 trillion, and the balance of RMB deposits amounted to RMB150.59 trillion. New RMB loans made during the year amounted to RMB12.65 trillion, representing a year-on-year increase of RMB0.9257 trillion; and new RMB deposits amounted to RMB14.88 trillion, representing a year-on-year decrease of RMB92.4 billion. Increment of social financing scale for the year was RMB17.8 trillion.

2016 saw Heilongjiang Province vigorously put into effect the decisions and plans made by the Central Committee of the Communist Party of China and the State Council on revitalization of the Northeast. Heilongjiang Province actively promoted change of methods and adjustment to structure, innovatively implemented the "Five Major Plans" in an innovative development and accelerated the development of ten major industries. Heilongjiang Province took an initiative to pursue the state strategy of "One Belt and One Road" and actively participated in the "China-Mongolia-Russia Economic Corridor". The construction of the "Heilongjiang Silk Road Belt" opened up a new way for the participation of the Europe, America, Japan, Korea, Hong Kong, Macau and Taiwan under the regional cooperation in China with a view to open up for Russia. In 2016, the expected GDP growth of the province was 6.1%. Investment in fixed assets, total retail sales of consumer goods and per capita disposal income of urban and rural residents increased by 5.5%, 10%, 6.3% and 6.6% respectively. The Thirteenth Five-year Plan started well in 2016.

Report of the Board of Directors

(II) Operation Overview

In 2016, the domestic economy maintained slow and stable growth with promising prospects. The economic structure continued to optimise. However, the conflict between overcapacity and the structural upgrade of demand was still severe and organic drivers for economic growth were insufficient. Facing the accumulating financial risks, the Company, under the proper leadership of the Board and supervision of the Board of Supervisors, vigorously implemented the operation transformation driven by the theme of "Year of Products". The Bank also further optimised the reform and adjustment on organisational structure and operating mode. As a result, the Bank achieved stable operation growth, effective risk control, and rapid facilitation of transformation, thus making a historical breakthrough. The Bank completed various objectives set by the Board, and realised a perfect start for the new five-year strategic plan.

Steady business scale development

As at 31 December 2016, the Bank had total assets of RMB539,016.2 million, representing an increase of RMB94,164.9 million or 21.2% from the end of last year. The Bank's total loans and advances to customers amounted to RMB201,627.9 million, representing an increase of RMB52,953.1 million or 35.6% from the end of last year. The Bank's deposits from customers amounted to RMB343,151.0 million, representing an increase of RMB36,333.3 million or 11.8% from the end of last year.

Stable profitability

In 2016, the Bank recorded net profit of RMB4,962.2 million, representing a year-on-year increase of RMB452.6 million or 10.0%. The Bank recorded net profit attributable to shareholders of the Bank of RMB4,876.6 million, representing a year-on-year increase of RMB419.0 million or 9.4%, mainly due to increases in net interest income as well as net fee and commission income. In 2016, the Bank recorded net interest income of RMB11,573.3 million, representing a year-on-year increase of RMB1,940.4 million or 20.1%, and net fee and commission income of RMB2,393.4 million, representing a year-on-year increase of RMB434.0 million or 22.1%. The return on average total assets decreased slightly to 1.01% as compared with 1.14% for 2015. The rate of return on average equity was 14.01%, representing a decrease as compared with 14.23% for 2015.

Slight increase in NPLs

As at 31 December 2016, the Bank had NPLs balance of RMB3,082.0 million, representing an increase of RMB1,003.3 million from the end of last year. NPL ratio, impairment losses on loans ratio and provision coverage ratio amounted to 1.53%, 2.55% and 166.77%, increased by 0.13 and 0.12 percentage points and decreased by 7.06 percentage points from the end of last year, respectively.

Stable development of subsidiaries

In 2016, HB Leasing and 24 village and township banks which were subsidiaries of the Company showed promising momentum with annually increasing profit contribution to the Group. As at 31 December 2016, HB Leasing had total assets of RMB17,227 million, representing an increase of 39.3% from the end of last year, and net profit of RMB219 million for the year, representing an increase of 58.7% year on year. All of the 24 village and township banks recorded profit with net profit at RMB353 million, representing growth of 17.3% year-on-year.

Report of the Board of Directors

Compliance with applicable laws and regulations

The Bank was, throughout its operation, in compliance with applicable laws and regulations, which included the Commercial Bank Law of the People's Republic of China, the Company Law of the People's Republic of China, the Hong Kong Listing Rules and other laws and regulations. During the Reporting Period, there was no material violation of the laws and regulations by the Bank.

(III) Analysis on Key issues

1. *Net interest margin*

In 2016, net interest spread of the Bank was 2.47%, which remained unchanged as compared to last year, and net interest margin was 2.65%, which decreased by 3 basis points as compared to last year, mainly for: (1) the decrease in return on loans due to factors such as economic slowdown, declining asset quality, reduction in benchmark lending rate and repricing; and (2) the faster growth in deposits with higher costs such as structured deposits and amounts due from other financial institutions and the limited decrease in the cost of debt due to adaptation of competition stemming from the interest rate liberalization and the removal of the deposit interest rate ceiling. Looking forward into 2017, net interest spread and net interest margin will be subject to great pressure under fiercer competition and more difficult control on cost of debt after the completion of such liberalization. To this end, the Bank will further strengthen its active management of assets and liabilities, active adjustment of credit structure, timely adjustment of investment portfolios, enhancement of risk control and improvement of pricing mechanisms in order to maintain its comparatively stable return on assets. In addition, it will be active in coping with challenges posed by such liberalization by strengthening its liquidity management, consolidating customer base, optimising debt structure and striving to control cost of debt with a view to ensuring stable net interest spread and net interest margin.

2. *Quality of key assets*

As at 31 December 2016, the NPL ratio of the Bank amounted to 1.53%, representing an increase of 0.13 percentage point from the end of last year, with the ratio of loans of special mention and the impairment losses on loans amounted to 2.61% and 2.55%, with growth of 0.14 percentage point and 0.12 percentage point as compared to the end of last year. The increase in NPL ratio and ratio of loans of special mention was due to the comparative high NPL ratio of client groups sensitive to capital turnover such as SME and "agriculture, rural areas and farmers" resulting from the slow turnover of capital under flat corporate production and business activities caused by the prevailing downward economic pressure. The Bank had a stable asset quality and a risk level overall under control.

The NPLs of the corporate loans of the Company primarily concentrated in the wholesale and services industry and the manufacturing industry, which amounted to RMB962.0 million and RMB337.5 million with NPL ratio of 3.17% and 2.91%, respectively. The Bank actively restructured the industry portfolio of its loans by intensifying its efforts in supporting livelihood industries which are less cyclical, strategically emerging industries, modern services industry and other industries while reducing the percentage of loans for industries with over-capacity, backward manufacturing industries and wholesale and retail industries for production goods. As at 31 December 2016, the percentage of loans for the wholesale and service industry and manufacturing industry both reduced. At the same time, the Bank set up differentiated standards for access, risk quota and risk pricing according to the asset quality of the respective industry so as to improve the quality of new loans.

As regards prevention of regional risk, the Bank further optimized the loan resources allocation in different regions. The Bank strengthened its management of quota in industry and product for loans in regions, credit facilities to related clients, distant loans, collateral loans to third parties, credit facilities to specific business districts and loans overdue, added regional collection institutions and strengthened appraisal on loan quality in regions for the purpose of preventing systematic risk in regions.

3. *Capital management*

Throughout the Reporting Period, the Bank was striving to fulfil requirements in its plan for capital management by continuously strengthening its relevant fundamental capability, which further enhanced the role of capital in leading and restraining its business development. On the one hand, the Company, based on its strategic goals and developmental stage for constructing microcredit bank, prioritized microcredit and IT construction in allocating its capital. On the other hand, it placed its capital in areas with a lower capital occupancy and higher benefits in accordance with the Administrative Measures for Capital of Commercial Banks (Provisional). During the Reporting Period, the Company met the transitional minimum capital requirement, reserve capital requirement and countercyclical capital buffer of the CBRC.

As at 31 December 2016, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.34%, 9.35% and 11.97%, decreased by 1.80 and 1.79 percentage points and increased by 0.33 percentage point, respectively, as compared to the end of last year. The decreases in core tier 1 capital adequacy ratio and tier 1 capital adequacy ratio were mainly due to the rapid growth in risk-weighted assets and cash dividends. The increase in capital adequacy ratio was mainly due to the issuance of tier-2 capital bonds and the increase in net profit. As at the end of the Reporting Period, risk-weighted assets of the Company amounted to RMB394,614.9 million, and increased by 31.1% from the end of last year, where the high growth rate was mainly due to the rapid expansion of credit assets of the Company in active support of the development of the real economy, which included growth of more than 23% seen in those underlying loans to SMEs as compared to the end of last year. Furthermore, the Company paid cash dividends of RMB1,176.5 million in 2016, which led to a corresponding decrease in net core tier 1 capital. Looking forward into 2017, the Bank will continue to strengthen its capital management by: (1) staying on the track of its differentiated competition strategy of characteristic development to further enhance the ability of internal capital generation; (2) actively responding to current changes in condition and strengthening its active capital management to continuously optimize its business structure and raise awareness of intensive capital use; and (3) establishing multi-layered and multi-channel mechanisms for capital replenishment to ensure regulatory capital requirements to be met.

4. *Debt instruments classified as receivables*

As at 31 December 2016, total debt instruments classified as receivables amounted to RMB144,193.0 million, and increased by 60.1% year on year. Pursuant to the Notice on Regulating Interbank Business of Financial Institutions (Yin Fa [2014] No. 127), the Bank consistently performed rigorous review on risk and compliance with respect to capital use and accurately measured risks and made provision therefore based on the quality more than formality and on the nature of the underlying assets. With reference to requirements on loan provision, it also raised the coverage ratio for debt instruments classified as receivables in a steady, prudent and dynamic manner based on results of evaluation on both portfolios and individual investments. As at 31 December 2016, balance of provision on debt instruments classified as receivables and the coverage ratio of the Company amounted to RMB1,838.1 million and 1.27%, and increased by RMB1,360.4 million and 0.74 percentage point from the end of last year respectively.

Report of the Board of Directors

5. *Impact of new policies for wealth management business*

On 28 April 2016, the CBRC issued the "Notice on Regulating the Transfer of Beneficiary Rights to Credit Assets among Financial Institutions in the Banking Industry" (Yin Jian Ban Fa [2016] No. 82) (hereinafter referred to as the "Notice"), stipulating that the registration management of transfer of the beneficiary rights to credit assets shall be tightened and the investment of wealth management funds of a bank in its own credit assets beneficiary rights shall be prohibited. Since the issuance of the Notice, the Company has strictly complied with the relevant requirements, ceasing to invest wealth management funds to the Bank's transferrable credit assets. The existing transactions will be settled as contracted and the proportion of the transferrable credit assets to non-standard debt assets has decreased accordingly. Meanwhile, the Company has strictly complied with the relevant requirements in the Notice with respect to reporting on wealth management products, reporting and submitting the relevant product information in a timely manner.

II. Analysis on income statement

	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change
		(In RMB million, except percentages)		
Interest income	**22,602.7**	20,642.8	1,959.9	9.5%
Interest expense	**(11,029.4)**	(11,009.9)	(19.5)	0.2%
Net interest income	**11,573.3**	9,632.9	1,940.4	20.1%
Fee and commission income	**2,571.6**	2,134.7	436.9	20.5%
Fee and commission expense	**(178.2)**	(175.3)	(2.9)	1.7%
Net fee and commission income	**2,393.4**	1,959.4	434.0	22.1%
Net trading gain/(loss)	**(74.4)**	159.9	(234.3)	-146.5%
Net gain on financial investments	**13.1**	31.4	(18.3)	-58.3%
Other operating income, net	**266.6**	161.8	104.8	64.8%
Operating income	**14,172.0**	11,945.4	2,226.6	18.6%
Operating expenses	**(4,522.2)**	(4,736.9)	214.7	-4.5%
Impairment losses:				
Loans and advances to customers	**(1,857.2)**	(893.5)	(963.7)	107.9%
Others	**(1,437.6)**	(445.0)	(992.6)	223.1%
Operating profit	**6,355.0**	5,870.0	485.0	8.3%
Share of profits of an associate	**90.6**	49.0	41.6	84.9%
Profit before tax	**6,445.6**	5,919.0	526.6	8.9%
Income tax expense	**(1,483.4)**	(1,409.4)	(74.0)	5.3%
Net profit	**4,962.2**	4,509.6	452.6	10.0%

Report of the Board of Directors

In 2016, the Bank recorded profit before tax of RMB6,445.6 million and net profit of RMB4,962.2 million, representing a year-on-year increase of 8.9% and 10.0%, respectively.

(I) Net Interest Income, Net Interest Spread and Net Interest Margin

In 2016, the Bank recorded net interest income of RMB11,573.3 million, representing a year-on-year increase of RMB1,940.4 million or 20.1%. The following tables set forth, for the periods indicated, the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield ratio of these interest-earning assets and the average cost ratio of these interest-bearing liabilities.

	For the year ended 31 December					
	2016			2015		
	Average balance(6)	**Interest income**	**Average yield ratio**	Average balance(6)	Interest income	Average yield ratio
				(In RMB million, except percentages)		
Interest-earning assets						
Loans and advances to customers	**182,750.1**	**11,780.8**	**6.45%**	152,874.4	11,200.1	7.33%
Investments in debt securities(1)	**151,689.0**	**7,981.6**	**5.26%**	85,333.0	5,436.5	6.37%
Cash and balances with the Central Bank	**42,553.2**	**624.9**	**1.47%**	43,563.8	633.5	1.45%
Due from banks and other financial institutions(2)	**44,130.3**	**1,372.5**	**3.11%**	69,438.6	2,956.2	4.26%
Long-term receivables	**15,676.6**	**842.9**	**5.38%**	7,961.3	416.5	5.23%
Total interest-earning assets	**436,799.2**	**22,602.7**	**5.17%**	359,171.1	20,642.8	5.75%

Report of the Board of Directors

	For the year ended 31 December					
	2016			2015		
	Average Balance(6)	**Interest expense**	**Average cost ratio**	Average Balance(6)	Interest expense	Average cost ratio
				(In RMB million, except percentages)		
Interest-bearing liabilities						
Due to customers	**295,638.5**	**7,296.9**	**2.47%**	243,448.1	6,558.0	2.69%
Due to banks(3)	**80,250.2**	**2,567.3**	**3.20%**	80,757.2	3,981.3	4.93%
Debt securities issued	**31,881.3**	**1,149.0**	**3.60%**	10,553.9	432.2	4.10%
Due to the Central Bank	**637.3**	**16.2**	**2.55%**	1,252.6	38.4	3.07%
Total interest-bearing liabilities	**408,407.3**	**11,029.4**	**2.70%**	336,011.8	11,009.9	3.28%
Net interest income		**11,573.3**			9,632.9	
Net interest spread(4)			**2.47%**			2.47%
Net interest margin(5)			**2.65%**			2.68%

Notes:

(1) Include available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

(2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.

(3) Include due to banks, financial assets sold under repurchase agreements and borrowing from banks and other financial institutions.

(4) Calculated as the difference between the average yield ratio on total interest-earning assets and the average cost ratio on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.

(5) Calculated by dividing net interest income by the interest-earning assets balance, calculated based on the daily average of the interest-earning assets.

(6) Calculated as the average of the Bank's daily balances.

The following table sets out, for the periods indicated, the changes in the Bank's interest income and interest expense attributable to changes in volumes and interest rates. Changes in volumes are measured by changes in the average balances of the Bank's interest-earning assets and interest-bearing liabilities and changes in rates are measured by changes in the average rates of the Bank's interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volumes and rates have been allocated to changes in interest rate.

	For the year ended 31 December		
	2016 vs. 2015		
	Increase/(decrease) due to		Net increase/
	Volume[(1)]	Interest rate[(2)]	(decrease)[(3)]
			(In RMB million)
Interest-earning assets			
Loans and advances to customers	2,189.4	(1,608.7)	580.7
Investments in debt securities	4,227.9	(1,682.8)	2,545.1
Cash and balances with the Central Bank	(15.9)	7.3	(8.6)
Due from banks and other financial institutions	(1,077.2)	(506.5)	(1,583.7)
Long-term receivables	403.2	23.2	426.4
Change in interest income	5,727.4	(3,767.5)	1,959.9
Interest-bearing liabilities			
Due to customers	1,396.6	(657.7)	738.9
Due to banks	(25.4)	(1,388.6)	(1,414.0)
Debt securities issued	875.3	(158.5)	716.8
Due to the Central Bank	(18.9)	(3.3)	(22.2)
Change in interest expense	2,227.6	(2,208.1)	19.5

Notes:

(1) Represents the average balance for the Reporting Period minus the average balance for the previous period, multiplied by the average yield/cost ratio for such previous period.

(2) Represents the average yield/cost ratio for the Reporting Period minus the average yield/cost ratio for the previous period, multiplied by the average balance for the Reporting Period.

(3) Represents interest income/expense for the Reporting Period minus interest income/expense for the previous period.

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(II) Interest Income

In 2016, the Bank's interest income increased by RMB1,959.9 million or 9.5% to RMB22,602.7 million year on year. The Bank's average balance of interest-earning assets increased by 21.6% from RMB359,171.1 million for 2015 to RMB436,799.2 million for 2016 mainly attributable to increases in the Bank's loans and advances to customers, investments in debt securities and long-term receivables. The increase in the Bank's interest income was partially offset by the average yield ratio of the Bank's interest-earning assets decreased from 5.75% for the end of last year to 5.17% for 2016. The decrease in the average yield ratio of the Bank's interest-earning assets was primarily the result of a decline in yield of loans to customers, investments in debt securities and due from banks and other financial institutions for 2016.

1. *Interest income from loans and advances to customers*

In 2016, interest income from loans and advances to customers increased by RMB580.7 million or 5.2% to RMB11,780.8 million year on year, primarily as a result of a 19.5% increase in the average balance of loans and advances to customers being partially offset by a decrease of 0.88 percentage point in the average yield ratio, among which, increase in the average balance of loans and advances to customers was attributable to the Bank's efforts to develop microcredit business, and increase in credits granted for better real economy, while the decrease of 0.88 percentage point in the average yield ratio of loans and advances to customers was primarily due to a lower benchmark lending rate by PBOC, the slowdown in economic growth and intensified industry competition.

The following table sets out, for the periods indicated, the average balance, interest income and average yield ratio for each component of the Bank's loans and advances to customers.

	For the year ended 31 December					
	2016			2015		
	Average Balance	**Interest income**	**Average yield ratio**	Average Balance	Interest income	Average yield ratio
				(In RMB million, except percentages)		
Corporate loans	**96,493.6**	**5,849.7**	**6.06%**	96,505.4	7,093.5	7.35%
Personal loans	**82,972.5**	**5,790.6**	**6.98%**	51,211.3	3,856.8	7.53%
Discounted bills	**3,284.0**	**140.5**	**4.28%**	5,157.7	249.8	4.84%
Total loans and advances to customers	**182,750.1**	**11,780.8**	**6.45%**	152,874.4	11,200.1	7.33%

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2. Interest Income from Investments in Debt Securities

In 2016, Bank's interest income from investments in debt securities increased by RMB2,545.1 million or 46.8% to RMB7,981.6 million year on year, mainly because of a 77.8% increase in the average balance of the Bank's investments in debt securities being partially offset by a decrease of 1.11 percentage points in the average yield ratio of the Bank's investments in debt securities. The increase in the average balance of the Bank's investments in debt securities was primarily attributable to an expanded and diversified investment portfolio as a result of increased capital sources from customers of the Bank, while the decrease in the average yield ratio of the Bank's investments in debt securities was due to the deteriorated asset quality of certain debt instruments classified as receivables as a result of the lower return on new debt instruments classified as receivables compared to that of the same period as affected by market factors as well as the downward trend of economy.

3. Interest Income from Cash and Balances with the Central Bank

In 2016, interest income from cash and balances with the Central Bank decreased by RMB8.6 million or 1.4% to RMB624.9 million year on year, primarily attributable to a reduced statutory deposit reserve ratio as well as a reduced surplus reserve due to the Bank's strengthened liquidity management.

4. Interest Income from amounts due from Banks and Other Financial Institutions

In 2016, interest income from amounts due from banks and other financial institutions decreased by RMB1,583.7 million or 53.6% to RMB1,372.5 million year on year, primarily attributable to a decrease of 1.15 percentage points in the average yield ratio of the relevant assets and a 36.4% decrease in the average balance. Such decrease was primarily attributable to more capital sources being applied to loans to customers and investments in debt securities and lesser application of such assets, whereas the decrease in the average yield ratio was attributable to the downward trend of market interest rate.

5. Interest Income from long-term receivables

In 2016, interest income from long-term receivables increased by RMB426.4 million to RMB842.9 million year on year, primarily attributable to the business growth from HB Leasing, a subsidiary of the Bank.

(III) Interest Expense

In 2016, the Bank's interest expense increased by RMB19.5 million or 0.2% to RMB11,029.4 million year on year. The increase in interest expense was primarily attributable to a 21.5% increase in the average balance of the interest-bearing liabilities from RMB336,011.8 million for 2015 to RMB408,407.3 million for the end of 2016 resulting from a significant increase in the Bank's customer deposits, while it was partially offset by the average cost of interest-bearing liabilities which decreased from 3.28% for 2015 to 2.70% for 2016.

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1. *Interest Expense on Due to Customers*

In 2016, the Bank's interest expense on due to customers increased by RMB738.9 million or 11.3% to RMB7,296.9 million year on year, primarily attributable to a decrease in the average cost ratio of the Bank's due to customers from 2.69% for 2015 to 2.47% for 2016 arising from the promotion of interest rate liberalization, increased market competition and further strengthened deposits pricing management and significant growth of customers deposit with an increase of RMB52,190.4 million in the average balance from RMB243,448.1 million for 2015 to RMB295,638.5 million for 2016.

	For the year ended 31 December					
	2016			2015		
	Average Balance	**Interest expense**	**Average cost ratio**	Average Balance	Interest expense	Average cost ratio
						(In RMB million, except percentages)
Corporate deposits						
Demand	**79,428.6**	**616.4**	**0.78%**	64,541.3	390.0	0.60%
Time	**122,250.9**	**4,721.7**	**3.86%**	97,066.6	4,057.7	4.18%
Subtotal	**201,679.5**	**5,338.1**	**2.65%**	161,607.9	4,447.7	2.75%
Personal deposits						
Demand	**33,715.8**	**119.9**	**0.36%**	28,039.5	114.1	0.41%
Time	**60,243.2**	**1,838.9**	**3.05%**	53,800.7	1,996.2	3.71%
Subtotal	**93,959.0**	**1,958.8**	**2.08%**	81,840.2	2,110.3	2.58%
Total deposits from customers	**295,638.5**	**7,296.9**	**2.47%**	243,448.1	6,558.0	2.69%

2. *Interest Expense on Due to Banks*

In 2016, the Bank's interest expense on due to banks decreased by RMB1,414.0 million or 35.5% to RMB2,567.3 million year on year, primarily attributable to a decrease in the average cost ratio of the underlying liabilities from 4.93% for 2015 to 3.20% for 2016 and a 0.6% decrease in the average balance of underlying liabilities from RMB80,757.2 million for 2015 to RMB80,250.2 million for 2016. The drop in the average balance and average cost ratio of the underlying liabilities was mainly due to a downward trend in interest rate, as well as the Bank's efforts to strengthen interbank liabilities management and optimize interbank liabilities structure.

3. *Interest Expense on Debt Securities Issued*

In 2016, the Bank's interest expense on debt securities issued amounted to RMB1,149.0 million, and increased by RMB716.8 million or 165.8% as compared to last year, mainly attributable to the Bank's newly issued tier-2 capital bonds and the increase of the average balance of the interbank negotiable certificates of deposit.

(IV) Net Interest Spread and Net Interest Margin

In 2016, the Bank's net interest spread was 2.47%, which remained unchanged as compared to 2015 and the Bank's net interest margin decreased from 2.68% for 2015 to 2.65% for 2016, mainly attributable to the deteriorated quality in certain assets and the gradually smaller spread between loan and deposit rates in the banking sector resulting from the advance in the marketisation of interest rate.

(V) Non-interest Income

1. *Net fee and commission income*

In 2016, the Bank's net fee and commission income increased by RMB434.0 million or 22.1% to RMB2,393.4 million year on year, primarily attributable to an increase in the Bank's advisory and consultancy fees, settlement fee and agency and custodian fees as a result of the development of the related businesses.

	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change
		(In RMB million, except percentages)		
Fee and commission income	**2,571.6**	2,134.7	436.9	20.5%
Advisory and consultancy fee	**1,100.8**	842.3	258.5	30.7%
Settlement fee	**166.0**	115.1	50.9	44.2%
Agency and custodian fee	**1,103.1**	941.6	161.5	17.2%
Of which: non-principal protected wealth management agency fee	**544.2**	496.6	47.6	9.6%
Bank card fee	**132.8**	166.1	(33.3)	-20.0%
Others	**68.9**	69.6	(0.7)	-1.0%
Fee and commission expense	**(178.2)**	(175.3)	(2.9)	1.7%
Net fee and commission income	**2,393.4**	1,959.4	434.0	22.1%

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In 2016, the Bank's advisory and consultancy fee income reached RMB1,100.8 million, and increased by RMB258.5 million or 30.7% year on year, mainly attributable to the expansion of the Bank's advisory and consultancy businesses, resulting in an increase in the number of the Bank's customers and a sustained growth in business volume.

The Bank realized an income of RMB166.0 million from settlement fees for 2016, representing an increase of RMB50.9 million or 44.2% year on year.

In 2016, the Bank's agency and custodian fee income was RMB1,103.1 million, and increased by RMB161.5 million or 17.2% year on year, mainly as a result of the development of the Bank's agency business.

In 2016, the Bank earned RMB132.8 million from bank card fee, with a decrease of RMB33.3 million or 20.0% as compared to last year.

In 2016, the Bank earned RMB68.9 million from other charges and commission, with a decrease of RMB0.7 million or 1.0% as compared to last year. It was associated with foreign exchange business.

2. *Net trading income or loss*

In 2016, the Bank's net trading loss decreased by RMB234.3 million or 146.5% to RMB74.4 million year on year, mainly attributable to the change in fair value of the bonds held for trading.

3. *Net gains on financial investments*

In 2016, the Bank's net gains decreased by RMB18.3 million or 58.3% to RMB13.1 million year on year, mainly attributable to the decrease in net gain on disposal of available-for-sale financial assets.

4. *Other operating income, net*

In 2016, the Bank's other operating income increased by RMB104.8 million or 64.8% to RMB266.6 million year on year, mainly due to the increase of gain from foreign exchange.

(VI) Operating Expenses

In 2016, the Bank's operating expenses decreased by RMB214.7 million or 4.5% to RMB4,522.2 million year on year.

	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change
		(In RMB million, except percentages)		
Staff costs	**2,014.5**	1,924.1	90.4	4.7%
Business tax and surcharges	**468.4**	943.7	(475.3)	-50.4%
Depreciation and amortization	**528.7**	436.7	92.0	21.1%
Others	**1,510.6**	1,432.4	78.2	5.5%
Total operating expenses	**4,522.2**	4,736.9	(214.7)	-4.5%

Staff costs are the largest component of the Bank's operating expenses, representing 44.5% and 40.6% of the Bank's total operating expenses for 2016 and 2015, respectively.

The following table shows the major components of staff costs for the periods indicated.

	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change
		(In RMB million, except percentages)		
Staff costs				
Salaries, bonuses and allowances	**1,592.5**	1,499.1	93.4	6.2%
Social insurance	**198.5**	191.2	7.3	3.8%
Housing fund	**84.8**	85.9	(1.1)	-1.3%
Staff benefits	**112.2**	125.7	(13.5)	-10.7%
Labor Union expenditure and education costs	**20.1**	14.6	5.5	37.7%
Early retirement benefits	**6.4**	7.6	(1.2)	-15.8%
Total	**2,014.5**	1,924.1	90.4	4.7%

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In 2016, the staff costs of the Bank were RMB2,014.5 million, and increased by RMB90.4 million or 4.7% year on year, primarily attributable to more branches being established by the Bank, an increase in wages and benefits, the improved remuneration structure, and the enhanced performance and results linked appraisal.

In 2016, the Bank had to pay business tax and surcharges of RMB468.4 million, with a decrease of RMB475.3 million or 50.4% year on year, primarily attributable to the shift from business tax to value added tax under the full implementation of the "BT to VAT" policy in the domestic financial sector of China since May 2016.

In 2016, depreciation and amortization of the Bank were RMB528.7 million, and increased by RMB92.0 million or 21.1% year on year, primarily as a result of an expansion of the distribution network and an increase in the operating offices related cost as the operating office at the Bank's headquarters was transferred to fixed assets at the end of 2015.

In 2016, the Bank's other operating expenses were RMB1,510.6 million, and increased by RMB78.2 million or 5.5% year on year.

(VII) Impairment Losses

In 2016, the Bank's impairment losses increased by RMB1,956.3 million or 146.2% to RMB3,294.8 million year on year, primarily attributable to impairment provision for assets on prudent and dynamic basis given the comprehensive consideration as to the uncertainties in economic environment, and pursuant to the relevant requirements of the regulatory authorities.

	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change
		(In RMB million, except percentages)		
Loans and advances to customers	**1,857.2**	893.5	963.7	107.9%
Others assets	**1,437.6**	445.0	992.6	223.1%
Total impairment losses on assets	**3,294.8**	1,338.5	1,956.3	146.2%

(VIII) Income Tax Expenses

In 2016, the Bank's income tax increased by RMB74.0 million or 5.3% to RMB1,483.4 million year on year, which was generally consistent with the increase in the Bank's operating profit.

	For the year ended 31 December			
	2016	2015	Change in amount	Rate of change
		(In RMB million, except percentages)		
Current income tax expenses	**2,155.5**	1,659.8	495.7	29.9%
Deferred income tax expenses	**(672.1)**	(250.4)	(421.7)	168.4%
Effective income tax expenses	**1,483.4**	1,409.4	74.0	5.3%

III. Analysis of key items of financial position

(I) Assets

As at 31 December 2016, the Bank's total assets increased by RMB94,164.9 million or 21.2% to RMB539,016.2 million from the end of last year. The increase was mainly attributable to the increase in the Bank's loans and advances to customers, investment in securities and other financial assets, cash and balances with the Central Bank and other assets.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Loans and advances to customers, gross	**201,627.9**	**37.4%**	148,674.8	33.4%
Allowance for impairment losses on loans and advances to customers	**(5,139.7)**	**-0.9%**	(3,613.3)	-0.8%
Loans and advances to customers, net	**196,488.2**	**36.5%**	145,061.5	32.6%
Investment in securities and other financial assets, net	**192,157.4**	**35.6%**	138,980.5	31.2%
Cash and balances with the Central Bank	**67,010.3**	**12.4%**	54,566.1	12.3%
Due from banks and other financial institutions	**34,000.1**	**6.3%**	30,035.1	6.8%
Reverse repurchase agreements	**14,538.6**	**2.7%**	51,027.9	11.5%
Other assets	**34,821.6**	**6.5%**	25,180.2	5.6%
Total assets	**539,016.2**	**100.0%**	444,851.3	100.0%

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1. *Loans and advances to customers*

As at 31 December 2016, the Bank's total loans and advances to customers increased by RMB52,953.1 million to RMB201,627.9 million, representing an increase of 35.6% as compared to the end of last year.

The following table sets out, as of the dates indicated, a breakdown of the Bank's loans by business lines.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Corporate loans	**95,024.7**	**47.1%**	86,649.6	58.3%
Personal loans	**105,793.3**	**52.5%**	61,596.4	41.4%
Discounted bills	**809.9**	**0.4%**	428.8	0.3%
Total loans and advances to customers	**201,627.9**	**100.0%**	148,674.8	100.0%

(1) *Corporate loans*

As at 31 December 2016, the Bank's corporate loans increased by RMB8,375.1 million to RMB95,024.7 million, representing an increase of 9.7% as compared to the end of last year, mainly due to an increase in the Bank's loans to customers in active response to the national policy on continuously supporting real economy development and promoting the development of SMEs.

The following table sets out a breakdown of the Bank's corporate loans by customer type as of the dates indicated.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Loans to Small Enterprises[(1)]	**61,907.2**	**65.1%**	50,297.7	58.0%
Other corporate loans excluding loans to Small Enterprises	**33,117.5**	**34.9%**	36,351.9	42.0%
Total corporate loans	**95,024.7**	**100.0%**	86,649.6	100.0%

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Note:

(1) Loans to Small Enterprises include corporate loans to small enterprises and micro enterprises as defined in the SME Classification Standards. According to the SME Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but less than 1,000 employees and generating more than RMB3 million in operating income in a year are classified as small enterprises, while enterprises having more than five but less than 200 employees and generating more than RMB10 million in operating income in a year in the wholesale industry are also classified as small enterprises. For example, industrial enterprises having less than 20 employees or generating less than RMB3 million in operating income in a year are classified as micro enterprises, while enterprises having less than five employees or generating less than RMB10 million in operating income in a year in the wholesale industry are also classified as micro enterprises.

As at 31 December 2016, the Bank's loans to small enterprises increased by RMB11,609.5 million to RMB61,907.2 million, representing an increase of 23.1% as compared to the end of last year. The increase in the Bank's loans to small enterprises was primarily due to the Bank's proactive development of microcredit business to respond to the national policy on promoting the development of SMEs. As at 31 December 2016 and 31 December 2015, the Bank's loans to small enterprises accounted for 65.1% and 58.0%, of the Bank's total corporate loans respectively.

(2) Personal loans

As at 31 December 2016, the Bank's personal loans increased by RMB44,196.9 million to RMB105,793.3 million, representing an increase of 71.8% as compared to the end of last year. This increase was mainly attributable to the Bank's continued development of personal loans as a response to the PRC government's policies to support financial institutions in developing financial services for SMEs and rural areas. The Bank's personal loans (including loans to small enterprise owners, personal consumption loans and loans to farmers) are an important component of the Bank's microcredit business, which increased accordingly under the Bank's strategy of focusing on the development of the Bank's microcredit business.

The following table sets out a breakdown of the Bank's personal loans by product type as of the dates indicated.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Loans to Small Enterprise Owners	**26,768.0**	**25.3%**	17,558.4	28.5%
Personal consumption loans	**69,405.1**	**65.6%**	34,320.4	55.7%
Loans to farmers	**9,620.2**	**9.1%**	9,717.6	15.8%
Total personal loans	**105,793.3**	**100.0%**	61,596.4	100.0%

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As at 31 December 2016, loans to small enterprise owners and personal consumption loans increased as compared to the end of last year, representing an increase of 52.5% and 102.2% respectively, while loans to farmers decreased as compared to the end of last year, representing a decrease of 1.0%.

2. *Investment securities and other financial assets*

As at 31 December 2016, the total of the Bank's investment securities and other financial assets increased by RMB54,537.4 million to RMB193,995.5 million, representing an increase of 39.1% as compared to the end of last year. The increase in such assets for 2016 was mainly due to the Bank's efforts to increase various types of investments, and continue the expansion of the Bank's capital operating channels, in order to improve the efficiency of the Bank's use of funds.

The following table sets out the components of the Bank's investment securities and other financial assets as of the dates indicated.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Debt instruments classified as receivables	**144,193.0**	**74.3%**	90,082.9	64.6%
Held-to-maturity investments	**30,501.0**	**15.7%**	25,244.1	18.1%
Available-for-sale financial assets	**17,597.3**	**9.1%**	21,291.1	15.3%
Financial assets held for trading	**1,704.2**	**0.9%**	2,840.0	2.0%
Total investment securities and other financial assets	**193,995.5**	**100.0%**	139,458.1	100.0%

The following table sets out, as of the dates indicated, the distribution of the Bank's investment securities and other financial assets by debt investments and equity investments.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Debt investments:				
Bond investments	**49,474.6**	**25.5%**	39,405.9	28.3%
Debt instruments issued by financial institutions[(1)]	**144,496.3**	**74.5%**	100,027.6	71.7%
Subtotal	**193,970.9**	**100.0%**	139,433.5	100.0%
Equity investment	**24.6**	**0.0%**	24.6	0.0%
Total investment securities and other financial assets	**193,995.5**	**100.0%**	139,458.1	100.0%

Note:

(1) Including capital trust schemes, funds and structured wealth management products.

As at 31 December 2016, the Bank's investment in debt instruments issued by financial institutions increased by RMB44,468.7 million to RMB144,496.3 million, representing an increase of 44.5% as compared to the end of last year. As a percentage of total investment securities and other financial assets, such investments increased from 71.7% as at 31 December 2015 to 74.5% as at 31 December 2016. The increase was mainly due to higher investment by the Bank in debt instruments issued by financial institutions.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Government bonds	**8,075.1**	**16.3%**	7,012.1	17.8%
Bonds issued by financial institutions	**4,657.6**	**9.4%**	4,933.9	12.5%
Corporate bonds	**3,597.9**	**7.3%**	4,548.8	11.5%
Bonds issued by policy banks	**33,144.0**	**67.0%**	22,911.1	58.2%
Total bond investments	**49,474.6**	**100.0%**	39,405.9	100.0%

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3. *Other components of The Bank's Assets*

Other components of the Bank's assets primarily consist of (i) cash and balances with the Central Bank, (ii) due from banks and other financial institutions and (iii) financial assets held under reverse repurchase agreements.

As at 31 December 2016, the Bank's cash and balances with the Central Bank increased by RMB12,444.2 million to RMB67,010.3 million, representing an increase of 22.8% as compared to the end of last year.

As at 31 December 2016, the Bank's due from banks and other financial institutions increased by RMB3,965.0 million to RMB34,000.1 million, representing an increase of 13.2% as compared to the end of last year, mainly because the Bank adjusted the weight of such non-credit assets based on its capital and changes in liquidity in the market to ensure both liquidity and capital efficiency.

As at 31 December 2016, the Bank's financial assets held under reverse repurchase agreements decreased by RMB36,489.3 million to RMB14,538.6 million, representing a decrease of 71.5% as compared to the end of last year, mainly because the Bank correspondingly adjusted the scale of such assets based on the comprehensive consideration of matching assets and liabilities and the situation of market liquidity.

(II) Liabilities

As at 31 December 2016, the Bank's total liabilities increased by RMB90,677.9 million to RMB501,681.2 million, representing an increase of 22.1% as compared to the end of last year.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Due to customers	**343,151.0**	**68.4%**	306,817.7	74.6%
Due to banks[1]	**92,895.8**	**18.5%**	60,166.9	14.6%
Repurchase agreements	**13,694.1**	**2.7%**	12,145.0	3.0%
Debt securities issued	**41,883.4**	**8.4%**	23,269.9	5.7%
Due to the Central Bank	**507.0**	**0.1%**	764.3	0.2%
Other liabilities[2]	**9,549.9**	**1.9%**	7,839.5	1.9%
Total liabilities	**501,681.2**	**100.0%**	411,003.3	100.0%

Note:

(1) Due to banks includes borrowing from banks and other financial institutions.

(2) Other liabilities primarily consist of derivative financial liabilities, income tax payable and other tax payable, interest payable, items in the process of clearance and settlement as well as staff salary payable.

1. *Due to customers*

As at 31 December 2016, the Bank's due to customers increased by RMB36,333.3 million to RMB343,151.0 million, representing an increase of 11.8% as compared to the end of last year. This increase was primarily attributable to the strengthening of pricing management, improvement of services and strengthening of marketing capabilities by the Bank.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Corporate deposits				
Demand deposits	**105,653.9**	**30.8%**	85,924.1	28.0%
Time deposits	**130,044.2**	**37.9%**	125,077.1	40.8%
Subtotal	**235,698.1**	**68.7%**	211,001.2	68.8%
Personal deposits				
Demand deposits	**40,145.4**	**11.7%**	39,089.3	12.7%
Time deposits	**67,307.5**	**19.6%**	56,727.2	18.5%
Subtotal	**107,452.9**	**31.3%**	95,816.5	31.2%
Total due to customers	**343,151.0**	**100.0%**	306,817.7	100.0%

2. *Due to banks*

As at 31 December 2016, the amount due to banks increased by RMB32,728.9 million to RMB92,895.8 million, representing an increase of 54.4% as compared to the end of last year. The changes in the Bank's amount due to banks reflected adjustment of the portion of the amount due to banks in the liabilities based on market liquidity and the Bank's capital needs in view of the need to match assets and liabilities.

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3. *Repurchase agreement amounts*

As at 31 December 2016, the Bank's repurchase agreement amounts were RMB13,694.1 million, representing an increase of RMB1,549.1 million or 12.8% as compared to the end of last year. The changes in the Bank's repurchase agreement amounts reflected increase to the repurchase agreement amounts based on market liquidity and the Bank's capital needs in view of the need to match assets and liabilities to better keep in line with the interbank assets business.

4. *Debt securities issued*

As at 31 December 2016, the Bank's debt securities issued were RMB41,883.4 million, representing an increase of RMB18,613.5 million or 80.0% as compared to the end of last year, mainly due to the Bank's newly issued tier-2 capital bonds and the increase of the balance of the interbank negotiable certificates of deposit.

(III) Shareholders' Equity

As at 31 December 2016, the Bank's total shareholders' equity increased by RMB3,487.0 million to RMB37,335.0 million, representing an increase of 10.3% as compared to the end of last year. As at 31 December 2016, total equity attributable to shareholders of the parent company increased by RMB3,408.2 million to RMB36,507.8 million, representing an increase of 10.3% as compared to the end of last year. The increase in shareholders' equity was mainly due to an increase of the Bank's net profit.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Share capital	**10,995.6**	**29.5%**	10,995.6	32.5%
Reserves	**15,498.1**	**41.5%**	13,920.9	41.1%
Retained profit	**10,014.1**	**26.8%**	8,183.1	24.2%
Equity attributable to equity holders of the Bank	**36,507.8**	**97.8%**	33,099.6	97.8%
Non-controlling interests	**827.2**	**2.2%**	748.4	2.2%
Total equity	**37,335.0**	**100.0%**	33,848.0	100.0%

IV. Off-balance Sheet Commitments

The following table sets out the contractual amounts of the Bank's off-balance sheet commitments as of the dates indicated.

	As at 31 December	
	2016	2015
		(In RMB million)
Credit commitments:		
Bank bills acceptance	**54,883.0**	49,452.5
Issued letters of guarantee	**8,504.7**	6,884.4
Issued letters of credit	**5,460.1**	1,275.7
Credit limit of credit card	**4,152.5**	1,289.1
Subtotal	**73,000.3**	58,901.7
Capital expenditure commitments	**894.2**	1,164.5
Operating lease commitments	**1,053.3**	998.0
Treasury bond redemption commitments	**2,986.0**	2,752.0
Relief obligation under risk cooperative fund	**180.0**	180.0
Total	**78,113.8**	63,996.2

In addition, as at 31 December 2016, the amount involved in the significant legal proceedings outstanding against the Group amounted to RMB50 million. It is expected that no loss will be caused by these litigations and no provisions need to be made. As at the date of this report, the Bank has no significant contingent liabilities. Details of off-balance sheet commitments contracts are disclosed in "Commitments and Contingent Liabilities" in the notes to financial statements.

V. Analysis on Loan Quality

During the Reporting Period, the Bank closely monitored changes in external environment, strengthened risk management of the whole process of loan granting, established a complete and effective risk prevention and control system and further promoted the in-depth application of internal assessment system in terms of customer rating, access, pricing, quota and post-loan management. The Bank optimized the loan quality management and control mechanism and adhered to the principle which the front, middle and back office as well as the headquarters and branches perform their respective duties and coordinate with each other. The incentive and restriction mechanism was improved. The Bank commenced credit risk governance on key areas including "high pollution, high energy consumption and overcapacity", loans to related customers, distant loans and collateral loans to third parties so as to strictly prevent the deterioration in asset quality. The Bank innovated the means of disposal and strengthened its efforts in the recovery of NPLs. By adopting the above measures, the Bank adhered to its risk bottom line while the loan quality remained stable basically. However, the Bank faced an upward pressure on NPLs due to changes in the external business environment, economic slowdown and difficulties in operations of SMEs. The increase was moderate and the NPL ratio of the Bank was lower than the average of the commercial banks in China and the overall risk was under control. As at 31 December 2016, the balance of NPLs was RMB3,082.0 million. The NPL ratio amounted to 1.53%, and increased by 0.13 percentage point as compared to the end of last year.

(I) Distribution of Loans by Five-category Loan Classification

The following table sets out the Bank's loans and advances to customers in each category of the Bank's five-category loan classification as of the dates indicated.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Pass	**193,292.7**	**95.9%**	142,918.6	96.1%
Special mention	**5,253.2**	**2.6%**	3,677.5	2.5%
Substandard	**1,174.2**	**0.6%**	1,343.8	0.9%
Doubtful	**1,398.5**	**0.7%**	523.8	0.4%
Loss	**509.3**	**0.2%**	211.1	0.1%
Total loans to customers	**201,627.9**	**100.0%**	148,674.8	100.0%
NPLs and NPL ratio[1]	**3,082.0**	**1.53%**	2,078.7	1.40%

Note:

(1) NPL ratio is calculated by dividing NPLs by total loans and advances to customers.

According to the five-category loan classification system, the Bank classified its NPLs into substandard, doubtful and loss categories.

(II) The Distribution of Loans and NPLs by Business Line

The following table sets out the Bank's loans and NPLs by business lines as of the dates indicated.

	As of 31 December					
	2016			2015		
	Loan amount	**NPL amount**	**NPL ratio**	Loan amount	NPL amount	NPL ratio
				(In RMB million, except percentages)		
Corporate loans						
Loans to small enterprises	**61,907.2**	**1,227.4**	**1.98%**	50,297.7	661.7	1.32%
Other corporate loans excluding loans to small enterprises	**33,117.5**	**288.1**	**0.87%**	36,351.9	240.5	0.66%
Subtotal	**95,024.7**	**1,515.5**	**1.59%**	86,649.6	902.2	1.04%
Personal loans						
Loans to small enterprise owners	**26,768.0**	**682.5**	**2.55%**	17,558.4	391.3	2.23%
Personal consumption loans	**69,405.1**	**524.7**	**0.76%**	34,320.4	357.2	1.04%
Loans to farmers	**9,620.2**	**359.3**	**3.73%**	9,717.6	428.0	4.40%
Subtotal	**105,793.3**	**1,566.5**	**1.48%**	61,596.4	1,176.5	1.91%
Discounted bills	**809.9**	**–**	**–**	428.8	–	–
Total	**201,627.9**	**3,082.0**	**1.53%**	148,674.8	2,078.7	1.40%

In 2016, the Bank actively responded to the national policies by strengthening the adjustment of loans structure and continuing to develop microcredit business rapidly (corporate loans to small enterprises and personal loans). At the end of the Reporting Period, the NPL ratio of corporate loans rose by 0.55 percentage point to 1.59%. The solvency of some enterprises decreased as they continued to be under pressure and generally suffered from a tight capital chain due to the economic slowdown and the further industrial structural adjustment in the new normal. Default of loans was caused by the weak risk resistance capacity of the SMEs in particular. The NPL ratio of personal loans decreased by 0.43 percentage point to 1.48% mainly due to the Bank's active deployment in retail business, increased investment in personal consumption loans and effective risk management as a result of customer structure adjustment, optimized way of risk mitigation and in-depth application of retail internal assessment techniques. The NPL ratio of personal consumption loans decreased by 0.28 percentage point to 0.76%. In 2016, the Bank enhanced its sub-divided risk management by strengthening risk alerts, rigid quota control and client list management of different businesses, setting rigorous loan granting thresholds, establishing additional NPL collection institutions, enhancing cooperation with external institutions and redoubled collection and disposal of loans overdue, thus ensure that loan quality is relatively stable. Aiming at the features of retail credit business risks, the Bank set up a specialized collection and disposal mechanism, built up the NPL elimination mechanism at the beginning of product design, enhanced the application of third-party data to prevent fraud risk, increased the application of internal assessment results and the tracking and monitoring of rating card rules and strategies, in order to make timely adjustment and realize the unification of risk appetite and the immediate transmission of policies.

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(III) The Distribution of Loans and NPLs Classified by Industry

The following table sets out the distribution of the Bank's loans and NPLs by industry as of the dates indicated.

	As at 31 December							
	2016				2015			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
					(In RMB million, except percentages)			
Agriculture, forestry, husbandry and fishery	2,847.5	1.4%	85.6	3.01%	3,528.2	2.4%	33.9	0.96%
Mining	305.6	0.2%	3.0	0.98%	321.2	0.2%	3.0	0.93%
Manufacturing	11,604.4	5.8%	337.5	2.91%	10,524.2	7.1%	293.5	2.79%
Production and supply of electricity, gas and water	3,892.3	1.9%	–	–	1,933.7	1.3%	2.2	0.11%
Construction	4,228.5	2.1%	12.0	0.28%	3,551.4	2.4%	4.0	0.11%
Transportation, storage and postal services	1,840.5	0.9%	8.0	0.43%	3,191.9	2.1%	–	–
Information transmission, computer services and software	1,101.5	0.5%	8.9	0.81%	708.5	0.5%	0.9	0.13%
Wholesale and services	30,356.6	15.0%	962.0	3.17%	29,848.6	20.1%	533.6	1.79%
Accommodations and catering	2,511.5	1.2%	61.7	2.46%	2,587.2	1.7%	1.2	0.05%
Finance	51.3	0.0%	–	–	28.0	0.0%	–	–
Real estate	14,062.8	7.0%	6.0	0.04%	10,657.6	7.2%	6.0	0.06%
Rental and commercial services	15,659.5	7.8%	22.4	0.14%	13,324.4	9.0%	19.9	0.15%
Scientific research, technical services and geological prospecting	425.1	0.2%	2.9	0.68%	244.7	0.2%	–	–
Water conservation, environment, public utility management and investment	3,044.8	1.5%	5.5	0.18%	3,447.8	2.3%	–	–
Residential and other services	508.5	0.3%	–	–	1,113.6	0.7%	4.0	0.36%
Education	384.9	0.2%	–	–	420.6	0.3%	–	–
Health, social security and social welfare	1,382.3	0.7%	–	–	1,029.9	0.7%	–	–
Culture, sports and entertainment	392.1	0.2%	–	–	181.1	0.1%	–	–
Public management and social organization	425.0	0.2%	–	–	7.0	0.0%	–	–
Total corporate loans	95,024.7	47.1%	1,515.5	1.59%	86,649.6	58.3%	902.2	1.04%
Total personal loans	105,793.3	52.5%	1,566.5	1.48%	61,596.4	41.4%	1,176.5	1.91%
Discounted bills	809.9	0.4%	–	–	428.8	0.3%	–	–
Total	201,627.9	100.0%	3,082.0	1.53%	148,674.8	100.0%	2,078.7	1.40%

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In 2016, the Bank adhered to the microcredit development strategy and intensified its efforts in supporting real economy. However, affected by the downward economic movement, the risk resistance of the real economy and its circulation was weakened, causing troubles in production and operation and increases in the NPL ratio of the relevant industries. As at 31 December 2016, the non-performing corporate loans of the Bank concentrated in the wholesale and service industry and the manufacturing industry, with NPL ratio of 3.17% and 2.91%, respectively. The Bank actively restructured the industry portfolio of its loans by intensifying its efforts in supporting livelihood industries which are less cyclical, strategically emerging industries, modern services industry and other industries while reducing loans for industries with over-capacity, backward manufacturing industries and wholesale and retail industries for production goods. During the Reporting Period, the loans for the wholesale and service industry and the manufacturing industry reduced. At the same time, the Bank set up differentiated standards for access, risk quota and risk pricing according to the asset quality of the respective industry so as to place stringent control on the quality of new loans.

(IV) The Distribution of Loans and NPLs by Geographical Region

The following table sets out the distribution of the Bank's loans and NPLs by geographical region as of the dates indicated.

	As at 31 December							
	2016				2015			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
					(In RMB million, except percentages)			
Heilongjiang region	78,739.3	39.0%	2,098.3	2.66%	62,856.4	42.3%	1,257.0	2.00%
Other Northeast region	30,448.0	15.1%	264.0	0.87%	24,422.8	16.4%	212.2	0.87%
Southwest region	41,869.7	20.8%	382.4	0.91%	36,468.6	24.5%	382.1	1.05%
Northern China	24,334.0	12.1%	84.8	0.35%	15,078.7	10.2%	139.0	0.92%
Other regions	26,236.9	13.0%	252.5	0.96%	9,848.4	6.6%	88.4	0.90%
Total	**201,627.9**	**100.0%**	**3,082.0**	**1.53%**	148,674.8	100.0%	2,078.7	1.40%

In 2016, the Bank further optimized the loan resources allocation in different regions so as to facilitate a balanced development of the loan investment in respective regions. The Bank strengthened its management of limitations on industry and product for loans in regions, credit facilities to related clients, distant loans, collateral loans to third parties, risk mitigation, credit facilities to specific business districts and loans overdue, added regional collection institutions and strengthened appraisal on loan quality in regions for the purpose of preventing systemic risk in regions. As at 31 December 2016, the majority of the Bank's NPLs was concentrated in the Heilongjiang region. Affected by various factors such as economic slowdown, economic structural adjustment and industrial transformation and upgrade in the Heilongjiang region, the production and operation of some trading enterprises, agricultural enterprises and the SMEs in traditional industries in the Heilongjiang region were under greater pressure with higher default rate.

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(V) The Distribution of Loans and NPLs by Collateral

The following table sets out the distribution of the Bank's loans and NPLs by collateral as of the dates indicated.

	As at 31 December							
	2016				2015			
	Loan amount	**% of total**	**NPL amount**	**NPL ratio**	Loan amount	% of total	NPL amount	NPL ratio
					(In RMB million, except percentages)			
Unsecured loans	**39,507.5**	**19.6%**	**574.3**	**1.45%**	15,864.6	10.7%	262.8	1.66%
Guaranteed loans	**50,186.4**	**24.9%**	**975.5**	**1.94%**	44,328.6	29.8%	714.2	1.61%
Collateralized loans	**95,661.8**	**47.4%**	**1,457.6**	**1.52%**	77,030.9	51.8%	1,003.1	1.30%
Pledged loans	**16,272.2**	**8.1%**	**74.6**	**0.46%**	11,450.7	7.7%	98.6	0.86%
Total	**201,627.9**	**100.0%**	**3,082.0**	**1.53%**	148,674.8	100.0%	2,078.7	1.40%

During the Reporting Period, the Bank made dynamic responses to changes in the economic environment by increasing quality loans with property and land as collaterals. By making use of the collateral risk and value evaluation system, the Bank revaluated the value of collaterals and adjusted the relevant risk mitigation strategies so as to strictly control the collateral rate and reinforce the management of collateral and prevented risks of false high valuation thereof and defects in relevant procedures, thereby ensuring controllable risks for the collateralized loans of the Bank. Moreover, the Bank made active deployment for its retail credit business, which increased personal consumption loans, while increasing cooperation with third-party institutions such as credit agencies, making due reference to the credit ratings published by the PBOC and carrying out dynamic monitoring of and adjusting its retail internal assessment model to prevent credit risk in an effective manner. During the Reporting Period, the NPL ratio of unsecured loans decreased by 0.21 percentage point to 1.45%. Furthermore, the Bank chose guarantees from corporate customers, state-owned guarantee companies and other guarantees with high internal ratings for its guaranteed loans, carefully chose guarantees from the related customers, distant customers and private guarantee companies and prohibited new mutual guarantees and joint guarantees so as to strengthen risk prevention and control.

(VI) Concentration of Borrowers

As of 31 December 2016, the Bank was in compliance with the lending limit of 10% of the Bank's net capital to any single borrower. The following table sets out, as at 31 December 2016, the Bank's 10 largest single borrowers (excluding group borrowers) in terms of loan balance, none of which was a NPL.

		As at 31 December 2016		
	Industry	Loan balance	% of Total loans	% of Net capital
		(In RMB million, except percentages)		
Borrower A	K- Real estate	1,624.6	0.81%	3.44%
Borrower B	H- Wholesale and services	1,200.0	0.59%	2.54%
Borrower C	K- Real estate	1,060.0	0.53%	2.24%
Borrower D	H- Wholesale and services	1,023.8	0.51%	2.17%
Borrower E	H- Wholesale and services	970.0	0.48%	2.05%
Borrower F	L- Leasing and business services	808.7	0.40%	1.71%
Borrower G	K- Real estate	726.4	0.36%	1.54%
Borrower H	K- Real estate	725.3	0.36%	1.54%
Borrower I	K- Real estate	700.0	0.35%	1.48%
Borrower J	A- Agriculture, forestry, husbandry and fishery	637.9	0.31%	1.35%
Total		9,476.7	4.70%	20.06%

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(VII) Overdue Loans and Advances to Customers

The following table sets out, as of the dates indicated, the distribution of the Bank's loans and advances to customers by maturity.

	As at 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Current loans	**194,341.1**	**96.4%**	143,509.6	96.5%
Loans past due:[1]				
For 1 to 90 days	**4,074.5**	**2.0%**	2,999.9	2.0%
For 91 days to 1 year	**1,549.0**	**0.8%**	1,443.1	1.0%
For 1 year and above	**1,663.3**	**0.8%**	722.2	0.5%
Subtotal	**7,286.8**	**3.6%**	5,165.2	3.5%
Total loans to customers	**201,627.9**	**100.0%**	148,674.8	100.0%

As at 31 December 2016, the amount of overdue loans totaled RMB7,286.8 million, and increased by RMB2,121.6 million as compared to the end of last year; the overdue loans accounted for 3.6% of the total loans, and increased by 0.1 percentage point as compared to the end of last year. The overdue loans were mainly loans within 3 months overdue and temporary in nature, accounting for 55.9%. The increase in overdue loans was primarily due to the capital chain tension or even rupture of the borrowers as a result of economic slowdown, slower capital turnover, reduced loans from banks, more difficult financing. The Bank has its management over the whole process of loan granting which, according to the stage and risk level exposed to, adopted specific preventive measures to prevent overdue loans from increasing and loan quality from declining. The Bank adopted strict classification standards and the ratio of loans past due more than 90 days to NPLs was 1.04.

Note:

(1) Loans to customers with specific repayment date are classified as overdue when the principal or interest becomes overdue.

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(VIII) Movements of Allowance for Impairment Losses on Loans

The Bank adopts individual assessment and collective assessment on impairment loss on loans as of the balance sheet dates. The Bank takes prudence as its principle and makes provision for impairment in the full amount. As at 31 December 2016, impairment losses on loans amounted to RMB5,139.7 million, and increased by RMB1,526.4 million as compared to the end of last year. The impairment losses on loans ratio was 2.55%, and increased by 0.12 percentage point as compared to the end of last year.

Movements of allowance for impairment losses are as follows:

	As at 31 December	
Items	**2016**	2015
		(In RMB million)
Balance at the beginning of the period	**3,613.3**	2,916.1
Exchange difference	**5.0**	3.2
Impairment loss:	**1,857.2**	893.5
Impairment allowances charged	**1,912.3**	919.4
Reversal of impairment allowances	**(55.1)**	(25.9)
Accreted interest on impaired loans	**(97.8)**	(46.7)
Write-off	**(341.4)**	(223.8)
Recoveries of loans and advances previously written off	**103.4**	71.0
Balance at the end of the period	**5,139.7**	3,613.3

VI. Segment Report

(I) Geographical Segment Report

The description of the geographical areas of the Bank is as follows:

Heilongjiang region: Head Office, branches in Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqihar, Yichun and Agricultural Reclamation, as well as HB Leasing and village and township banks operating within Heilongjiang;

Other regions in Northeast China: Branches in Dalian and Shenyang, as well as village and township banks operating in Northeastern China excluding the ones in Heilongjiang;

Southwest region: Branches in Chengdu and Chongqing, as well as village and township banks operating mainly in Sichuan and Chongqing and located in Southwest region;

Northern China: Branches in Tianjin, as well as village and township banks operating mainly in Beijing and Tianjin and located in Northern China;

Other regions: Village and township banks operating in regions other than those listed above.

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The table below sets out certain key financial indicators of each of the Bank's head office and branches in the geographical regions for the periods indicated.

	Mainland China					
	Heilongjiang region	Other regions in Northeast China	Southwest region	Northern China	Other regions	Total
						(In RMB million)
For the year ended 31 December 2016						
Operating income	9,595.8	1,181.7	2,180.7	825.3	388.5	14,172.0
Operating expenses	(3,053.8)	(380.4)	(679.3)	(242.1)	(166.6)	(4,522.2)
Impairment losses	(2,978.7)	(136.1)	(92.4)	(48.6)	(39.0)	(3,294.8)
Operating profit	3,563.3	665.2	1,409.0	534.6	182.9	6,355.0
As of 31 December 2016						
Segment assets	396,145.6	44,028.6	65,115.3	22,975.0	10,751.7	539,016.2
Segment liabilities	296,376.0	63,716.3	90,437.9	41,439.1	9,711.9	501,681.2

	Mainland China					
	Heilongjiang region	Other regions in Northeast China	Southwest region	Northern China	Other regions	Total
						(In RMB million)
For the year ended 31 December 2015						
Operating income	7,418.9	1,255.2	2,165.3	757.4	348.6	11,945.4
Operating expenses	(3,102.5)	(485.9)	(712.3)	(271.6)	(164.6)	(4,736.9)
Impairment losses	(916.4)	(79.0)	(305.7)	(17.9)	(19.5)	(1,338.5)
Operating profit	3,400.0	690.3	1,147.3	467.9	164.5	5,870.0
As of 31 December 2015						
Segment assets	309,839.8	35,661.6	74,061.0	17,083.5	8,205.4	444,851.3
Segment liabilities	261,945.5	45,388.1	70,451.8	25,983.1	7,234.8	411,003.3

The table below sets out the Bank's operating income by geographical regions and their proportion to the Bank's total operating income for the periods indicated:

	For the year ended 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Heilongjiang region	**9,595.8**	**67.7%**	7,418.9	62.2%
Other regions in Northeast China	**1,181.7**	**8.3%**	1,255.2	10.5%
Southwest region	**2,180.7**	**15.4%**	2,165.3	18.1%
Northern China	**825.3**	**5.8%**	757.4	6.3%
Other regions	**388.5**	**2.8%**	348.6	2.9%
Total operating income	**14,172.0**	**100.0%**	11,945.4	100.0%

(II) Business Segment Report

The table below sets out the Bank's operating income by business segments for periods as indicated:

	For the year ended 31 December			
	2016		2015	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Corporate finance business	**4,838.0**	**34.1%**	4,439.3	37.2%
Retail finance business	**4,189.3**	**29.6%**	2,965.7	24.8%
Financial institutions business	**5,048.3**	**35.6%**	4,380.0	36.7%
Other businesses(1)	**96.4**	**0.7%**	160.4	1.3%
Total operating income	**14,172.0**	**100.0%**	11,945.4	100.0%

Note:

(1) Include net trading income, net gain or loss on financial investments and other net operating income.

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VII. Analysis of Capital Adequacy Ratio

The Group continued to optimize its business structure and strengthen capital management, and as at 31 December 2016, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.34%, 9.35% and 11.97%, decreased by 1.80 and 1.79 percentage points and increased by 0.33 percentage point, respectively, as compared to the end of last year, which were in line with the regulatory requirements during the transition period provided in the Administrative Measures for Capital of Commercial Banks (Provisional) issued by CBRC. The changes in capital adequacy ratio were mainly due to the increase in risk-weighted assets, cash dividends and issuance of tier-2 capital bonds.

In accordance with Administrative Measures for Capital of Commercial Banks (Provisional) issued by CBRC, the capital adequacy ratio of the Bank was (in the new measures) calculated as follows:

	As at 31 December	
	2016	2015
	(In RMB million, except percentages)	
Core capital	**36,999.9**	33,661.3
Core Tier 1 Capital deductible items:		
Full deductible items	**(158.8)**	(133.9)
Net core tier 1 capital	**36,841.1**	33,527.4
Net other tier 1 capital	**43.3**	0.0
Net tier 1 capital	**36,884.4**	33,527.4
Net tier 2 capital	**10,343.0**	1,534.6
Net capital	**47,227.4**	35,062.0
Credit risk-weighted assets	**367,765.6**	278,894.3
Market risk-weighted assets	**4,189.9**	3,278.7
Operational risk-weighted assets	**22,659.5**	18,918.4
Total risk-weighted assets	**394,614.9**	301,091.4
Core tier 1 capital adequacy ratio	**9.34%**	11.14%
Tier 1 capital adequacy ratio	**9.35%**	11.14%
Capital adequacy ratio	**11.97%**	11.64%

VIII. Business Operation

The principal businesses of the Bank comprise the provision of deposit services, loan services and payment and settlement services, as well as other approved businesses.

(I) Corporate Finance Business

In 2016, striving to the development direction of "transforming into an investment bank", and breaking through by strengthening the operating and product innovation capability, the Bank continued to improve its professionalism in comprehensive customer service, accurate multi-tier marketing, and comprehensive risk management and control etc. Under the existing organisational structure of our corporate finance headquarters, the Bank's corporate finance business formed a business system, which focused on asset and liability management and characterised by loans to small enterprises, Russian cross-border financing and agro-based industry chain finance. The Bank strived to the comprehensive development path of "multiple markets, multiple products, multiple channels", and established the comprehensive asset management layout of "low capital, small assets, high yield, rapid growth".

During the Reporting Period, the corporate finance business of the Bank recorded profit before tax of RMB2,039.0 million (accounting for 31.6% of profit before tax of the Bank) and operating income of RMB4,838.0 million (representing an increase of 9.0% as compared to last year and accounting for 34.1% of operating income of the Bank).

Corporate customers

By leveraging the advantages of the Bank's cross-regional operation and outlet resources, the Bank consolidated its customer base, proactively grew corporate customers, and made full use of customers' value. As at 31 December 2016, the Bank had 109,000 corporate customers, representing a year-on-year increase of 41.97%.

Regarding customer expansion, by relying on core product innovation, the Bank's product system improved with enhanced service standards, which drove the continuous core customer base expansion. To satisfy customers' demands for comprehensive asset management under the new economy normal, centring on quality customers, the Bank offered one-stop financial solution based on the different development stages of small and medium enterprises, thereby realising financing and consulting.

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Corporate deposits

During the Reporting Period, the Bank proactively initiated various deposit marketing campaigns based on the fund flows of government-related authorities and state-owned enterprises. It obtained the qualification of traffic penalty collection bank. In addition, the Bank applied for the issuance of green financial bonds, aiming to expand the fund sources for liabilities. At the same time, the Company strengthened cooperation with governments and enterprises, expanded public debt and promoted retail debt growth. The effect of public and private linkage is remarkable. As at 31 December 2016, the total corporate deposits of the Bank amounted to RMB235,698.1 million, representing an increase of RMB24,696.9 million or 11.7% from the end of last year. The average balance of corporate deposits of the Company amounted to RMB201,679.5 million, representing a year-on-year increase of 24.8%. Demand deposits accounted for 44.8% of corporate customer deposits of the Company. According to the Harbin branch of the PBOC, as at the end of the Reporting Period, the balance of corporate deposits of the Harbin branch of the Bank accounted for 17.9% of corporate deposits in the local market, ranking the first in the local market.

Corporate loans

During the Reporting Period, the Company maintained stable and balance supports to corporate loans, and focused on supporting the development of the real economy. Driven by projects including livelihood projects, infrastructure construction and green industry projects, the Bank strengthened the establishment of "fund-asset" allocation ability. The scale of investment in corporate assets increased significantly, with continuous enhancement in basic asset management. As at 31 December 2016, the corporate loans of the Company amounted to RMB95,024.7 million, representing an increase of 9.7% from the end of last year and accounting for 47.1% of total loans of the Bank. Meanwhile, the quality of corporate loan assets was under control in general with the balance of NPLs at RMB1,515.5 million and NPL ratio of 1.59%.

Intermediary services

During the Reporting Period, the Bank put great efforts in maintaining and growing customers, and provided comprehensive value-added services for our customers, thereby realising coordinated and collaborated development between intermediary services, assets and liabilities. It continued to improve the product portfolio of intermediary services through business innovation such as merger and acquisition loans, and collaboration of investment and lending. The Bank also established a layout for diversified business development, aiming to fully improve market competitiveness and profitability.

The Bank strengthened its management of the intermediary services, continued to promote business development in capital management, collection and payment, online banking and corporate settlement, and focused on the business development in corporate wealth management, financial consultation, bills pool, supply chain finance and trade financing etc. Moreover, the Bank continued to facilitate the procedure optimisation for intermediary business and the establishment of E-channels. It offered different types and all-rounded intermediary services for customers, thereby improving the experience of customers. During the Reporting Period, the corporate finance business of the Company recorded non-interest income of RMB642.6 million, representing a year-on-year increase of 170.23%.

(II) Retail Finance Business

The Bank has been upholding the "comprehensive retail finance" business positioning and "customer-oriented" business philosophy by strengthening research and trend analysis in retail business development, focusing on retail business value creation and profit contribution, and enhancing inter-departmental synergy by building up the headquarters retail platform. The retail finance headquarters has been established with three management departments, namely Retail Finance Department, Retail Credit Department, and Retail Product Innovation Center, and four SBUs, namely Consumer Finance SBU, Microfinance SBU, Credit Card Center and Housing Credit SBU, which are committed to providing customers with comprehensive and versatile one-stop financial services to enhance customer retention and satisfaction. With the thriving development of internet finance and increasingly fierce market competition, the Bank will strive to achieve breakthroughs in key areas such as marketing, segmentation management, professional capability in wealth management, retail credit differentiation and cross-selling so as to improve the input-output efficiency, profit contribution and market competitiveness of the retail finance business.

In 2016, the Company continued to improve its pricing mechanism and system construction of the retail finance business, therefore enhancing the risk pricing capability and creating a new profit model. During the Reporting Period, the retail finance business of the Company recorded profit before tax of RMB2,066.7 million (accounting for 32.1% of profit before tax of the Company) and operating income of RMB4,189.3 million, representing a year-on-year increase of 41.3% and accounting for 29.6% of the operating income of the Company.

Retail customers

By leveraging the mobile internet business platform and consolidating its online and offline resources, the Company further strengthened its retail customer base. By and through its consumer finance business, the Bank achieved rapid growth in the number of customers by penetrating into more long-tail customers of the middle to low income levels, such as young white collars, fresh graduates and migrant workers, and expanded and diversified its cooperation channels and achieved wider consumption coverage, and thereby increased the number of customers it served. As at 31 December 2016, the Bank had 18.71 million retail customers, and increased by 8.45 million or 84.9% as compared to the corresponding period of last year, of which over 10.76 million were customers with existing loans.

Retail deposits

The Bank provides demand and time deposits service to retail customers based on statutory interest rate and the floating interest rate range. Such deposits are mostly denominated in RMB with only a small portion being denominated in foreign currencies. As at 31 December 2016, the total retail deposits of the Company amounted to RMB107,452.9 million, representing an increase of RMB11,636.4 million or 12.1% from the end of last year. The average balance of retail deposits amounted to RMB93,959.0 million, representing an increase of 14.8% as compared with last year. The number of customers with personal financial assets (in RMB and other currencies) over RMB50,000 amounted to 445,800, and increased by 8.1% as compared to last year. Demand deposits accounted for 37.4% of retail customer deposits balance. According to the Harbin branch of the PBOC, the balance of RMB retail deposits of the Harbin branch of the Company ranked second in the local market with a market share of 13.1% during the Reporting Period.

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Retail loans

During the Reporting Period, the key customers of retail loan business were middle class, urban consumers, new agricultural business entities, individual industrial and commercial operators, small and micro business owners, and university students. The Bank put greater efforts in its retail loan business, and fully explored the financing demands for individual consumption and small and micro customer operation financing requirement. Leveraging on the work theme of "Year of Products", the Bank continued to strengthen the iteration and optimisation of retail products including White-collar Loans, Harvest E-Loans and Taxation E-Loans, and facilitate the implementation and promotion of deposit products including Asset Tong (資產通), Study Tour Bao (遊學寶) and Chu Bao Tong (畜保通). Hence, the Bank's product system further optimised with significant enhancement in profit contribution and market competitiveness. By implementing refined customer management, diversified risk control measures and differential marketing strategies, and establishing a professional retail team, the Bank maintained its leading position in the industry. Moreover, the Bank fully facilitated the implementation of internal evaluation for retail business, optimised independent approval mechanism, strengthened cooperation with third party data companies and platforms, explored the marketing mechanism based on big data, and conducted a trail mobile credit model, thus further improving efficiency, service offering and risk management control for retail credit business. As at 31 December 2016, the balance of the Company's personal loans reached RMB105,793.3 million, accounting for 52.5% of the Bank's total loans to customers, of which, the balance of loans to small enterprise owners, personal consumption loans and loans to farmers amounted to RMB26,768.0 million, RMB69,405.1 million and RMB9,620.2 million, respectively, and accounted for 25.3%, 65.6% and 9.1%, respectively, of the Bank's total personal loans. During the Reporting Period, the White-collar e-Loans, by virtue of its innovative market influence of internet+microcredit, was named one of the Top 10 Financial Innovative Products for 2016 (Retail Business) (2016中國十佳金融產品創新獎(零售業務)) in the China Financial Innovation Forum and China Financial Innovation Award Ceremony for 2016 (中國金融創新論壇暨2016中國金融創新獎頒獎典禮) jointly organised by the Banker, the CCTV, the Institute of Finance and Banking of the Chinese Academy of Social Sciences and the Central University of Finance and Economics.

Bank cards

During the Reporting Period, the Bank carried out a comprehensive upgrade of its credit card business. Advanced business systems and management mechanisms were introduced in order to develop new stimulus of growth in the Bank's business, in order to achieve faster expansion and become the top credit card brand among city commercial banks. As at 31 December 2016, the total number of issued credit cards reached 283,700, and increased by 60.4% as compared to last year, of which 106,900 were newly issued during the Reporting Period, representing an increase of 392.1% as compared to the same period last year. The credit card asset balance amounted to RMB2,597 million, and decreased by 16.44% as compared to the end of last year. Such decrease was mainly due to the lower growth rate during the Reporting Period resulting from the system modifications and infrastructure construction of the credit card business underwent by the Company during the first half of the year and the commencement of relevant credit card promotion campaigns during the second half of the year. As at 31 December 2016, the number of bank cards issued by the Company recorded a steady increase. The total number of issued debit cards reached 10.2024 million, of which 1.2034 million were newly issued during the Reporting Period, representing an increase of 13.37% as compared to last year.

Wealth management

The Bank's wealth management business covers three major financial scenarios, namely housing, healthcare and education. Focusing on increasing income generated from intermediary business, the Bank enhances customers' loyalty, retains loyal customers, and strives to promote featured product innovation. The Bank constantly enhances its wealth management capability to accelerate the development of the wealth management business. As at 31 December 2016, the Bank recorded total sales of personal wealth management products of RMB168,832 million, representing an increase of RMB40,800 million as compared with last year, agent insurance premium of RMB1,139.0 million, representing an increase of 275.91% as compared with last year and retail management fee and commission of RMB79.3 million, representing an increase of 76.22% as compared with last year. The Bank was listed as Best Wealth Management Brand of City Commercial Bank (Rural Commercial Bank) of China for 2016 (2016中國最佳城商行（農商行）理財品牌) in China's Best Wealth Management Selection for 2016 (2016中國最佳財富管理評選) organised by Securities Times.

(III) Financial Institutions Business

Under the complicated backdrop of the sluggish real economic growth, increasing financial risk exposures, intensified market fluctuation, accelerated financial disintermediation and interest rate liberalisation, and stricter regulatory environment, in order to implement the strategic goals for the development of interbank business, the Bank completed the interbank financial organisational structure reform in 2015, and established the Interbank Finance Headquarters. The interbank business, under special administration of the Interbank Finance Headquarters, took full advantage of the implementation of the guiding policy of "comprehensive asset management" and made a reasonable layout of investment banking business based on the financing requirement of corporate customers as the primary battlefield, and note market, bond market, currency market, wealth management market, foreign currency market and interbank investment as the secondary battlefield for diversification and coordination. In 2016, the Bank successfully led and issued the first credit asset-backed securities in Northeastern China. As the founder for first securitised product in Northeastern China, the Bank was highly appreciated and recognised by local regulatory authorities and financial institutions. The Bank issued the 2016 Tier 2 Capital Bonds of Harbin Bank of RMB8,000 million, proactively facilitated the issuance of green financial bonds of RMB5,000 million, and commenced works on issuance of ordinary financial bonds, thus expanding the long-term, stable low-cost fund source of the Bank.

In 2016, the Company accelerated the pace of integration of business of the Interbank Finance Headquarters, established a unified management system and recorded rapid growth of the businesses. During the Reporting Period, the interbank finance business of the Company recorded operating income of RMB5,048.3 million, representing a year-on-year increase of 15.3% and accounting for 35.6% of operating income of the Company. The Company made impairment provision for assets of RMB1,360.5 million, representing a year-on-year increase of RMB982.8 million, on prudent and dynamic basis given the comprehensive consideration as to the uncertainties in economic environment, and pursuant to the relevant requirements of the regulatory authorities.

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Currency market transactions

During the Reporting Period, the domestic macroeconomic environment continued with its downturn trend. Progress of capacity reduction, destocking and deleveraging had fully commenced. There were some positive signals regarding overall economy operation, provided that greater efforts had been put on supply side inventory adjustment and increment reform. However, with a gradually revealing asset bubble, negative response regarding "asset shortage" was realised in the capital market. Since the beginning of the year, the PBOC strengthened the market liquidity through frequent open market operations of different types. Under the backdrop of greater fluctuation in exchange rate, the liquidity maintained a stable and neutral status. Overall market income declined, while pressure on capital adequacy ratio of financial institutions increased. Under the backdrop of macroeconomic environment, the Company conducted rational adjustment on its investment structure, thus successfully realising a transformation oriented towards "liquidity", "trading", "safety" and "market-driven activities" for its investment business in a short period of time. The Bank made progress under the adverse environment, and its profitability continued to enhance.

As at 31 December 2016, the balance of our due from and placement with banks and other financial institutions and balance of financial assets held under reverse repurchase agreements was RMB48,538.7 million, representing a decrease of RMB32,524.3 million or 40.1% from the end of last year. On the same date, the balance of our due to and placement from banks and balance of financial assets sold under repurchase agreements was RMB106,589.9 million, representing an increase of RMB34,278.0 million or 47.4% from the end of last year.

Investments in securities and other financial assets

During the Reporting Period, the Company closely monitored the changes in economic environment and market. Based on the judgment of the market interest rate trend, the Company adjusted the positions of its trade accounts in a flexible manner, and proactively satisfied the Bank's liquidity requirement. Meanwhile, the Company properly arranged the timing for making investment, aiming to achieve stable investment and timely profit-taking. As the Company put greater efforts in attracting various kinds of deposits, funds available for investment increased. In order to make better utilisation of various kinds of investments, the Company continued to expand its capital utilisation channels. Moreover, the Company timely increased the investment in securities and other financial assets as to enhance the capital utilisation efficiency of the Company.

As at 31 December 2016, the Company's balances of securities investments and other financial assets amounted to RMB193,995.5 million, representing an increase of RMB54,537.4 million or 39.1% as compared to the end of last year. As at 31 December 2016, the total amount of the Company's bond investments was RMB49,474.6 million, representing an increase of RMB10,068.7 million or 25.6% from the end of last year. On the same date, the total amount of the Bank's debt instruments issued by financial institutions amounted to RMB144,496.3 million, representing a year-on-year increase of RMB44,468.7 million or 44.5%. According to China Central Depository & Clearing Co., Ltd., the bonds traded by the Company in 2016 amount to RMB4,201.5682 billion, representing an increase of 2.8 times as compared to the same period of last year.

Wealth management business

During the Reporting Period, the Company proactively responded to the macro-policy direction of the state, and strictly complied with relevant rules of regulatory authorities. It will satisfy customers' demand on wealth management and support real economy development. As the basic starting point, the Bank proactively conducted innovation works, and continued to expand and strengthen the custody wealth management business of the Company.

In 2016, the Company issued 760 tranches of wealth management products to its customers, and raised total funds of RMB232,109 million. As at 31 December 2016, the balance of wealth management products was RMB119,783 million, representing an increase of 43.13% from the end of last year, of which non-principal protected wealth management products amounted to RMB59,539 million and principal protected wealth management products amounted to RMB60,244 million.

In terms of assets allocation, the Company controlled the investments scale in non-standard debt-based assets strictly in compliance with relevant regulations of the regulators. As at 31 December 2016, the balance of wealth management investments in non-standard debt-based assets of the Company amounted to RMB150 million, accounting for approximately 0.13% of the balance of the Bank's wealth management products as at 31 December 2016 and 0.03% of the Bank's total assets as at the end of 2015, which were in compliance with the regulatory requirements.

(IV) Mobile Finance

In order to fully coordinate the development of mobile finance business, the Mobile Finance Headquarters were responsible for organising innovation and marketing work of traditional electronic banking channels, mobile business and emerging mobile finance business. In 2016, the Bank insisted on the strategic objective of prioritising mobile financial development and by meeting customer experience and customer demands as the starting point, the Bank simultaneously facilitated mobile finance product disruptive innovation and traditional business online migration, resulting in significant increase in number of customers, business scale and brand influence. In the future, the Company will insist on the concurrent development of online mobile banking and offline traditional banking, thus realising two-wheel driven growth and highlighting the functions of mobile finance in the construction of international leading microcredit bank.

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Mobile finance

The Bank deeply explored customers' demands, and fastened the innovation development in its mobile finance business. It successfully launched innovative products including "Hua Shi Loans" (話時貸), Cloud Quick Pass (雲閃付) and QR Code Series, which is an important guidance for the future development of mobile finance. The Bank also realised online processing of major loan products including "Cun Li Bao" (存利寶), "Secret Purse" (私房錢), White-collar Loans (白領貸), Harvest Loans (豐收貸) and Asset Tong (資產通). Competitive edges of online wealth management product sale were outstanding. Sale of online wealth management products during the year amounted to RMB96,700 million, of which sale of mobile wealth management products representing 82% of total sale of online wealth management products. Learning from the experience in direct banking of leading banks and leveraging the late-mover advantage, the Bank proactively facilitated the successful launch of direct banking, which would be the key business of the future development of the Bank's mobile finance business. Meanwhile, the Bank facilitated building up of channels and optimisation of functions, pushed forward optimisation of mobile banking, and revised online banking. The Bank's mobile banking was awarded the "2016 Mobile Bank with Greatest Potential in China" (2016中國手機銀行最具潛力獎) and the 2016 "Best Functional Mobile Bank" (最佳手機銀行功能獎) for regional commercial bank issued by China Internet Banking Union, while the new generation online financial service platform received the "Outstanding Award for Channel Innovation" (渠道創新突出貢獻獎). Leveraging the holding of Harbin Marathon, the Bank successfully commenced marketing works for mobile finance, and launched the charity donation campaign "Donating a Bit for Charity (我為公益添一分)" through organic combination of internet and charity. Hence, the Bank's social influence and reputation of our mobile finance business had been further enhanced.

Cross-border E-commerce payment and settlement

The cross-border E-commerce financial business operated smoothly, and the platform continued to develop and operate steadily. National market development progressed steadily, with rapid growth in transaction volume. As at 31 December 2016, there was an increase of 431 new commercial customers on the platform, with 537 existing customers in total. Commercial customers came from over 10 provinces and cities across China, mainly from Guangdong, Shanghai, Beijing, Zhejiang, Jiangsu and Fujian, etc. A total of 12.84 million cross-border payments were processed throughout the year, with transaction volume of RMB3,350 million, which was 14 times of last year. The platform accounted for 12% of China's E-commerce international card payment and settlement for exports, and had the fourth largest market share among domestic financial institutions; income generated amounted to RMB56.05 million. The Bank's cross-border E-commerce payment platform was selected as the major project for Heilongjiang Luhai Silk Road Economic Belt by Heilongjiang Provincial Government, and was selected and included in the major construction project repository of the National Development and Reform Commission compiled for "One Belt, One Road".

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(V) Key Featured Businesses

1. *Microcredit business*

In 2016, as the beginning year for the new five-year strategic plan, the Bank continued to implement the development strategies for microcredit business. Centring on the work theme of "Year of Products", specialised operating departments including the Retail Credit SBU, the Microfinance SBU, the Consumer Finance SBU, the Small Enterprise Finance SBU and the Housing Loan SBU implemented innovative measures and focused on research and development, aiming to achieve the strategic goal of "becoming a first-class international microcredit bank providing excellent services with unique characteristics" as early as possible. As at 31 December 2016, the balance of the Bank's microcredit loans reached RMB167,700.5 million, representing an increase of 49.9% from the end of last year and accounting for 83.2% of the Bank's total loans to customers. The interest income from the Bank's microcredit business was RMB8,482.2 million for 2016, accounting for 72.0% of the total interest income from loans to customers.

The following table sets out the distribution of the balance of microcredit loans by product type as of the dates indicated.

	As at 31 December 2016		As at 31 December 2015	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Corporate loans to small enterprises	**61,907.2**	**36.9%**	50,297.7	45.0%
Personal loans	**105,793.3**	**63.1%**	61,596.4	55.0%
Total amount of microcredit loans	**167,700.5**	**100.0%**	111,894.1	100.0%

Small enterprise finance business

During the Reporting Period, the Bank proactively commenced product and service innovation for small enterprise finance business. Centring on our customers, the Bank proactively promoted the development of "New Small Loan" (新小貸) brand under small enterprise finance business. Centring on national policy and customers' demand, the Bank launched businesses for small enterprises, including "Yi Yang Loan" (頤養貸), "Property Loan" (物業貸) and "Online Revolving Loan" (網絡循環貸). In addition, the Bank continued to put greater support for technology and cultural enterprises. It commenced collaborated projects for investment and lending, formulated innovative guarantee methods, and issued specific guiding opinions with trail implementation in branches. During the Reporting Period, closely following the economic trend, the Bank established a long-term risk monitoring mechanism and implemented various measures to safeguard the asset quality. By conducting comprehensive risk inspection, the Bank proactively adjusted its credit structure, optimised post-loan management and strengthened the overdue loans risk monitoring, making the quality of small enterprise business loans at an excellent level. Meanwhile, the Bank orderly facilitated the construction of talent team for small enterprise business, enhanced personnel training, optimised appraisal mechanism and

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improved the overall quality of our staff. As at 31 December 2016, the Bank's balance of corporate loans to small enterprises amounted to RMB61,907.2 million, representing an increase of 23.1% over the end of last year; the balance of NPLs for corporate loans to small enterprises amounted to RMB1,227.4 million, and the NPL ratio was 1.98%.

In 2016, due to the Bank's outstanding performance in small enterprise financial services, the Bank won different awards including the Preferred Service Provider for China Small and Medium Enterprises (SMEs) (中國中小企業首選服務商) awarded by China Association of SMEs (中國中小企業協會), the 2016 Outstanding and Competitive City Commercial Bank for Small and Micro Financial Services (2016卓越競爭力小微金融服務城商行) awarded by China Business Journal, and the Best Financial Institution for Small and Medium Enterprises (SMEs) in Harbin (哈爾濱市服務中小最佳金融機構) awarded by Harbin Financial Office and SMEs Association (哈爾濱市金融辦及中小企業協會). The "Revolving Loan" (流動貸) for small enterprises won the title of "2015 Top 50 Financial Products for Small and Micro Enterprises" (2015年服務小微五十佳金融產品) awarded by the China Banking Association. The Bank was the only institution in Heilongjiang Province to win such award.

Consumer finance business

During the Reporting Period, the Bank strived to establish an all-rounded comprehensive consumer finance service (product) system, and satisfy the differential consumer finance demands for people whose income were at or below average. The Bank also adhered to the principle of innovative development, and facilitated the incorporation of big data internet technology into its traditional financial services. Hence, consumers can acquire affordable financial products at any time and places, thereby expanding the depth and width of inclusive financial services. Meanwhile, by accumulating and exploring original data, the Bank expanded its product system and tried to commence cross-sale and interactive marketing. The Bank controlled its overall operating risk through cooperation with external quality data and channels, as well as incorporation of new technologies including big data analysis into risk control measures of traditional bank. During the Reporting Period, the Bank cooperated with Shenzhen Qianhai WeBank in launching personnel microcredit and loan business. The Bank explored online consumer financial services, and formulated innovative business expansion mode, thus further characterising the financial scenario modelling, digitisation and information sharing.

As at 31 December 2016, the Bank had launched consumer finance business in several cities over China with the balance of personal consumption loans amounting to RMB69,405.1 million, representing an increase of 102.2% from the end of last year. The Consumer Finance SBU granted loans accumulated of RMB27,506 million, with a balance of RMB19,842 million, representing an increase of 195.62% from the end of the year.

Microfinance

In 2016, striving to the goal of implementing inclusive financing, and based on the concept of "Credit Factory + Big Data Risk Control", on the basis of further improvement on credit evaluation model, risk pricing model and credit line estimation model, the Bank established the data tracking-orientated analysis model for its microfinance business. While strengthening the risk control capability of Credit Factory, the Bank explored features of quality customers and focused on target customer base, thereby achieving rapid growth in microfinance business driven by accurate customer positioning, an efficient operating model and excellent service experience. The Bank pulled together dedicated teams in Harbin, Dalian, Shenyang, Tianjin, Chongqing and other regions to provide microcredit service to the self-employed and quality wage earners with stable occupation and income and good personal creditworthiness.

As at 31 December 2016, the Bank's balance of loans to small enterprise owners amounted to RMB26,768.0 million, representing an increase of 52.5% from the end of last year. The balance of loans from the Microfinance SBU alone accounted for RMB2,196 million, serving 13,037 customers. The microfinance business had an average loan pricing of 10.53%.

Housing loans

During the Reporting Period, the Company strived to offer housing financial services with scenario modelling, and meet with the all-rounded financing needs of customers by utilising housing and mobile internet technology. Currently, the Company implemented the management mode of online approval and online operation for its housing loans. Through cooperation with third party data companies, the Bank established digitalised risk prevention and control system, and adopted clear market classification for accurate customer targeting, thus satisfying the financial needs for bulk consumption and wealth management related to customers and housing efficiently, rapidly and conveniently. For product innovation, the Company achieved accurate marketing under the approach of obtaining customers in batches by means of mobile APP and WeChat subscription. The Bank also researched and developed online housing loan products to satisfy the customised demand of the customers in the short, medium and long terms, with a view to effectively shortening the processing service time by providing a standardised and flow-like "one-stop" operation process and a multi-dimensioned anti-fraud system, thereby significantly improving customers' experience.

As of 31 December 2016, the Bank's personal housing loans amounted to RMB14,038.8 million, representing an increase of 99.3% from the end of last year.

Loans to farmers

For details of the loans to farmers of the Company, please refer to the section headed "Key Featured Businesses" – "Modern Agriculture Financial Business".

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2. *Sino-Russia financial services*

During the Reporting Period, the Company continued with the Sino-Russia financial services as its bank-wide strategy by leveraging the special operational advantages of the Sino-Russia SBU, the Bank thus maintained its leading position in Sino-Russia financial services among its domestic peers. The Company's Sino-Russia financial businesses developed rapidly. As at 31 December 2016, the Bank's financial services to Russia generated operating profit of RMB181 million, representing an increase of 36% from the same period last year. The Bank's balance of on-balance sheet and off-balance sheet asset businesses to Russia was RMB8,754 million, representing an increase of RMB5,397 million or 160.77% from the same period last year. The Bank's international settlements reached US$2,840 million, representing a year-on-year increase of 10.4%.

In 2016, striving to the development goal of "internationalisation, professionalism, brand-building", the Bank's Sino-Russia financial services aggressively adopted innovative measures and conducted operations, thus achieving outstanding results. In 2015, the Bank, as the Chinese promoter, together with Sberbank of Russia initiated the establishment of the first platform for the cooperation and interaction among financial institutions of China and Russia, namely the Sino-Russia Financial Council. During the Reporting Period, 27 institutions newly joined, making the number of members reach 62. The alliance was becoming more influential with greater leading power. During the year, the Bank was invited to participate in two international commercial events, and achieved numerous practical results which made in-depth impact on Sino-Russia relationship. Firstly, the Bank participated in the 3rd China-Russia Expo held in July 2016. During the meeting, leaders from China and Russia visited the exhibition booth of the Bank, and highly recognised the role of Harbin Bank in facilitating the development of Sino-Russia Financial Council. They expressed that Sino-Russia Financial Council was the results of practical cooperation between China and Russia, which further deepened the comprehensive strategic partnership between the two countries. During the meeting, several cooperative agreements were entered into between members of the alliance, including the Cooperative Agreement Between Harbin Bank and the Ural Bank for Reconstruction and Development (UBRD) (《哈爾濱銀行與烏拉爾復興發展銀行合作協議》) and the Renminbi Payment Business Agreement (《人民幣代付業務協議》). Secondly, the 2nd General Meeting of Sino-Russia Financial Council was successfully convened under the framework of the Eastern Economic Forum held in Vladivostok, Russia on 1 September 2016. The general meeting was included in the national agenda of the Russia Eastern Economic Forum. Over hundred members of the Sino-Russia Financial Council and corporate representatives participated in the meeting. During the meeting, the Bank, as the leading bank, together with 9 Chinese banks, entered into RMB10,000 million Loan Agreement with Vnesheconombank (VEB). This was the most influential cross-border interbank syndicated cooperation between Chinese and Russian financial institutions with the largest number of participants and the largest scale.

During the Reporting Period, the Company cooperated with Sberbank of Russia and Asia Pacific Commercial Bank in launching the Internship Exchange Programme between Chinese and Russian Financial Institutions, and entered into the cooperative agreement. The first phase of exchange training commenced successfully. As at 31 December 2016, the Company total credit granted to Russian banks amounted to approximately RMB9,285 million, which played an important role for the development of Chinese and Russian financial cooperation.

As the only financial institution in China participating in the loans, the Company participated in the approximately EUR250 million dual currency international syndicated loans to the GBI Bank of the Netherlands, which was initiated by the Wells Fargo of America and joined by 24 international financial institutions. The Bank's involvement demonstrated the comprehensive strength of the Bank in participating in the financial cooperation between Europe and America, and expanded its international influence on the global financial market.

As at 31 December 2016, the number of overseas correspondent banks of the Bank reached 522, including 131 correspondent banks in Russia. The Bank becomes one of the banks with the largest number of Sino-Russia correspondent banks in China. The Bank actively cooperated and interacted with its correspondent banks in respect of risk prevention regarding international business, anti-money laundering and anti-terrorism, as well as regional economic exchange.

During the Reporting Period, the Bank proactively initiated Sino-Russia Ruble trading. As at 31 December 2016, the Bank handled Ruble foreign exchange of RUB61,390 million and cross-border transactions in Ruble cash of RUB60.33 million. The Bank has established the convenient RMB cash cross-border transmitting system. During the year, the Bank transmitted RMB30.00 million to Russia banks through cross-border transmitting services, which promoted the internationalisation of RMB while expanding convenient channel for the featured cash services to Russian banks and financial institutions.

During the Reporting Period, due to the outstanding performance of the Company in Sino-Russian financial services, the Bank was awarded four international awards, including the 2016 Top Ten Innovative Project in China by Securities Times, the 2016 Top Ten Innovative Banking Products Award by The Banker, the Best Regional Trade Finance Bank of China in 2016 by The Asian Banker, and the Best Cross-Border Syndicated Loan Bank of the Year by The Economic Observer.

3. Modern agriculture finance business

Adhering to the policies relating to modern agriculture, national food and land, leveraging the opportunities arising from the complementing reforms in facilitating modern agriculture development and in optimising financial supports, and implementing our development strategy under the theme of "Product Innovation", the Company continued to put greater efforts into supporting agriculture development and implemented in Heilongjiang the concept of maintaining innovative, coordinated, environmentally friendly, open and sharing development, thus promoting the structural reform of agriculture supply and accelerating the transformation of the development mode of the agriculture industry. The Bank also focused on strengthening the financial support to the acceleration of agricultural modernisation, and striving to achieve continuous growth in agricultural loans. During the Reporting Period, the Bank's accumulated investment in foundation assets amounted to RMB5,000 million. At the same time, the Company's proactively focused on the capital market under the agriculture sector of the National Equities Exchange and Quotations, and commenced the investment and loan linkage business under agriculture sector for the first time. It accelerated online supply chain financing business innovation, and gradually realised the strategic goal of utilising

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customer cluster under competitive online services by coping with the operating system developed by product innovation department and connecting to the port bulk food trading platform. The Bank also facilitated the comprehensive cooperation with domestic renowned agriculture machinery online platform, created multi-channel operating models, and formulated and developed the agriculture supply chain financing solution and ancillary products for domestic renowned core agriculture machinery manufacturers and ancillary plants and E-commerce companies in upper and lower stream. In addition, leveraging the opportunities arising from the pilot reform of the two-rights system for rural area as implemented by the state, the Bank supported the merger and consolidation of intensive cropping by leading agriculture enterprises. The Bank developed the land circulation project loans specialised for large-scale food storage and processing enterprises, promoted the corporates commencement of scale plantation at food planting base, increased single production capacity of food, and focused on reserving food, thereby expanding the financing chain of the upper stream of agriculture sector. In 2016, the Bank successfully issued the land circulation loan with "leading enterprises + cooperatives + farmers" model in Jalaid Banner, a pilot region for the two-rights reform.

As at 31 December 2016, the Company's agriculture loans were RMB37,827.4 million, representing an increase of 11.9% from the end of last year, including loans to farmers of RMB9,620.2 million, representing a decrease of 1.0% from the end of last year. During the Reporting Period, with the prompt promotion of new-type agriculture loan focusing on "Harvest E-loan" (豐收e貸), and on the basis of traditional agricultural lending model, the Bank conducted in-depth innovation. Leveraging on core competitiveness including the application of "White List" (白名單) mechanism, promotion of automatic channels, fast long-distance approval, and the policy of borrowing and repaying loans at any time, the lending experience of farmers greatly enhanced. The Bank released 19,000 loans amounting to RMB1,630 million throughout the year, and issued loans of RMB7,608 million to new-type agriculture entities including professional large-scale agriculture entities and family farms. During the Reporting Period, proactively responding to the national policy of providing collateral based on the "Two Rights", the Bank successfully released 4 loans secured by rural land contracting right, thus becoming the first batch of financial institutions in China to grant loans secured by rural land contracting right, which received huge support and praise from regulators and attracted media's attention, including XINHUANET.com, Sina Finance and www.dbw.cn. During the Reporting Period, focusing on creating growth point for agriculture finance business innovation, the Bank further expanded the financial collateral methods for agriculture loans, and launched an innovative product, namely "Chu Bao Tong (畜保通)". On 30 November 2016, the Bank successfully released the first tranche "Chu Bao Tong" loan of RMB830,000 secured by live poultry, which was highly recognised by the regulatory authorities. During the Reporting Period, the Bank proactively explored rural consuming scenario modelling finance, and developed and launched the "Wedding Loan" (婚慶貸) product, which targeted on financing for wedding of agriculture customers. "Wedding Loan" is characterised by free of collateral, simplicity, and anytime borrowing and repayment, which fully met the financing demand of agriculture customers for wedding. During the Reporting Period, due to outstanding performance and contribution of the Bank in the agriculture finance business, the Bank was awarded the "2015 Top Ten Innovative Institutions for Rural Financial Brand of China" under the "Agriculture Credit Cup – the Sixth Value Ranking of Rural Financial Brands" election.

(VI) Information on Controlling Subsidiaries

1. Village and township banks

As at 31 December 2016, the Bank had a controlling interest in 24 village and township banks (with another eight controlling village and township banks in preparation), 34 village and township sub-branches, which were mainly located in the eastern, central and western regions of China. As at 31 December 2016, the total assets of the 24 village and township banks amounted to RMB24,434 million, of which the total amount of loans amounted to RMB12,106 million, representing a year-on-year increase of 20.8%. The balance of deposit amounted to RMB18,083 million, representing a year-on-year increase of 31.3%. In 2016, net profit amounted to RMB353 million, representing a year-on-year increase of 17.3%.

All village and township banks had thoroughly implemented the overall strategy of the Group. Centring on the "four adherences" i.e. adhering to localisation, lower stream expansion, specialised operation and serving the "Agriculture, Rural Areas and Farmers" and small and micro enterprises, the Bank, through product innovation, building up service culture and innovative business development at different stages of development of the village and township banks with different management evaluation models, gradually formulated a unique culture, philosophy, management mode and working procedures, which effectively enhanced the core competitiveness and made significant contributions to the overall development of the Company.

2. HB Leasing

HB Leasing made some achievements in respect of asset scale, accumulated investments and business innovation mode since its establishment. Adhering to the strategic positioning of "giving priority to agriculture, and, by focusing on agriculture machinery, being based on Heilongjiang and geared to China", HB Leasing put further efforts in lease to farmers, and initially maintained leading position in domestic leasing market to farmers. HB Leasing was listed under the "Financial Value Ranking" (金融價值榜) by CBN (《第一財經》) for three consecutive years, and awarded the "Most Competitive Agriculture Finance Leasing Company for 2016" (2016年度最具競爭力農業金融租賃公司). In 2016, the adjustment on organisational structure of HB Leasing ran smoothly, and Sino-Russia financial services, clean energy business and transportation and logistics business fully commenced with preliminary results achieved. As of 31 December 2016, total assets of HB Leasing amounted to RMB17,227 million, representing an increase of 39.3% from the end of last year. During the year, the accumulated investments of leasing business amounted to RMB12,918 million, with net profit of RMB219 million, representing an increase of 58.7% from the corresponding period of last year.

HB Leasing always strives to serve the "Agriculture, Rural Areas and Farmers" and remains steadfast in its agricultural strategies. Aiming to become a leading financial leasing company in China with "outstanding characteristics, scientific governance, meticulous management, leading technologies, sound asset, rich returns, respected and beloved", HB Leasing strives to follow the unique and differentiated development path. Centring on maintaining operation efficiency and by means of management, HB Leasing strives to develop its featured businesses, proactively creates new income source, explores the agriculture and agricultural equipment industries and puts great efforts into developing the agricultural machinery leasing business. Through innovation in leasing of special products and businesses, HB Leasing follows the path of becoming a leasing company engaging in real leasing business.

(VII) Distribution Channels

1. *Physical Network*

As at 31 December 2016, the Company had a total of 355 branch outlets, including 17 branches, 279 sub-branches, 1 branch-level financial service centre for small enterprises, and 24 controlling village and township banks and their 34 sub-branches.

2. *Electronic Banking*

The Bank has gradually built up an electronic service system combining online means such as mobile phone banking, online banking, WeChat banking, phone banking and offline self-service terminals. Electronic modes of business have become the main business channels of the Bank. As at 31 December 2016, the replacement rate of business transactions through the Bank's electronic banking reached 83%, and that of mobile banking reached 39%, representing the increase of 10 and 15 percentage points over the end of last year respectively.

(1) Self-service banking

The Bank has provided various convenient services to customers through self-service terminals, including deposit and withdrawal, account inquiry, bill payment, passcode changing and transfer services. While enriching the equipment functions, the Bank has proactively established management system with effective management skills and supervisory means. It has made scientific arrangement and assignment of the use of self-service terminals of customers, thus enhancing the management efficiency of all self-service terminals across the Bank. As at 31 December 2016, the Bank had 940 self-service terminals, representing an increase of 4.0% from the end of last year, including 372 ATMs, 395 BCDMs, 161 multi-media inquiry machines and 12 card issuance machines.

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(2) *Online banking*

The Bank continued to expand the functions of online banking. As at 31 December 2016, a total of 1,450,900 customers opened their online banking accounts with the Bank, representing an increase of 53.10% over the same period of last year. Corporate online banking customers amounted to 70,000, representing an increase of 48.0% over the same period of last year. Personal online banking customers amounted to 1,380,900 in total, representing an increase of 53.37% over the same period of last year.

(3) *Phone banking*

The Bank provides 24-hour telephone banking services to customers through the unified national customer service hotline 95537. Such services include account inquiries, bill payment, credit card business, verbal report of card loss, operator inquiry and outgoing calls. In 2016, the telephone banking customer service centre recorded a total of 2,457,000 business calls throughout the year.

(4) *Mobile phone banking*

The Bank accelerated the business development of mobile phone banking. It offered various transaction functions for its customers, including account management, basic wealth management, transfers, auto-payments, credit cards and loans. Moreover, the Bank also provided different special services such as visual data, mobile phone wealth management, gesture and fingerprint log-in, face and fingerprint recognition, QR code (掃一掃), Shake It (搖一搖) and Cloud Quick Pass (雲閃付). In 2016, the Bank gained more than 220,000 new active mobile phone banking users.

(5) *WeChat banking*

The WeChat banking has stretched banking services from traditional offline channels to finger tips of customers. Featured functions of the WeChat account include account change notifications, palm wealth management, credit card inquiry and loan application and diverse value-added daily-life services such as charging and bill payment services. As at 31 December 2016, WeChat banking had over 850,000 followers. The number of WeChat banking customer purchasing wealth management products amounted to 510,000. The sales of wealth management products amounted to RMB50.7 billion throughout the year and the highest sales of such products in a single week reached RMB1.8 billion.

(6) *Direct banking*

The Bank successfully launched online direct banking, and proactively established operating and service model for direct banking with the Bank's unique characteristics. Currently, our direct banking supports app client and WeChat client terminals, and offers different functions for customers including investment and wealth management, daily-life payment, customer information enquiry and maintenance, news feed and fingerprint log-in. Meanwhile, it supports the binding of debit card of 17 other banks. In respect of security, our direct banking supports security and risk control measures including face recognition, online identity inspection and SMS verification.

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(VIII) Information Technology

In 2016, focusing on the establishment of new key transformation projects and striving to the basic objective of maintaining secured production, our works on information technology proactively supported the development of various businesses of the Bank. During the year, the information system of the Bank operated steadily, with both key system availability and success transaction rate for key information systems reached over 99.99%. Various technical indicators, including transaction volume, transaction amount, system processing capability, success transaction rate, average response time and efficiency of bulk processing, had significantly improved as compared to last year.

Firstly, business requirements for new generation of core construction were defined during the year, and the structure adjustment proposal was determined. The new generation core system will benefit the development of emerging businesses, including product innovation, centralised operation and mobile finance. Apart from adapting itself into in-depth financial system reform and progress of interest rate liberalisation, the Bank also established an expert team during the progress of the project. Currently, the project commenced construction and operated smoothly.

Secondly, the Bank optimised infrastructure construction, improved technology system structure, facilitated the construction of new data centre, and strengthened the production and operating model of "three centres in two areas". Works on structure optimisation and data transfer for core systems and whole-process credit system had completed. Through reform on infrastructure for storage system, the transaction and batch processing capability of the two key systems improved significantly.

Thirdly, the Bank focused on the research and implementation of big data technology. Through historical data gathering and third party data procurement, the Bank realised analysis application including historical data enquiry, anti-fraud programme and clove big data, which enhanced the standard of refined management of the Bank. Through continuous promotion of projects including CRM, businesses of the Bank are supported with reliable data.

Fourthly, the Bank enriched its information security technology, thereby preventing and controlling technology risk exposures effectively. Through application of technologies such as 4A, penetration test, security monitor, terminal control and data desensitization, a depth defensive information security system was formed. The Bank commenced the mobile and online monitor alert project, thereby realising real-time security monitor and alert for mobile and online application, thus ensure the security of funds under mobile and online channels, and control the Bank's reputation risk effectively. The Bank established comprehensive monitoring system, and continued to improve monitoring strategies focusing on key application and system, thereby enhancing the system availability continuously.

Fifthly, the Bank strengthened the functions of mobile channels. Fully leveraging on mobile interactive technology, the Bank focused on the upgrade and optimisation of mobile channel products. Direct banking was successfully launched in September 2016, with a higher standard as compared to its industry peers. Products included deposit, fund, wealth management, microcredit and life service product. Direct banking always strives to the philosophy of self-controllable construction, and fully leveraging on core technology while continuing to commence all-rounded optimisation and improvement.

IX. Risk Exposure and Management

In 2016, the Bank proactively responded to the new trend in financial market. Adhering to the concept of "create value from risk management" and the work theme of "enhancing rigid management and strengthening accountability", the Bank continued to facilitate the implementation of the new capital accord, strengthened works on comprehensive risk monitor, alert and management, and further enhanced the standard of refined risk management of the Bank.

The Bank, by fully analysing macroeconomic trend as well as internal and external risk characteristics and based on the Bank's development strategies, risk management capability, external environment changes and requirements for value return for shareholders, defined the 2016 risk appetite for the whole bank and formulated the 2016 major risk management policies. The Bank strengthened its asset quality management, implemented the management mechanism on dynamic authorisation, product suspension and resumption and risk performance, realised rigid management and control on accessible and certain restricted parts under system at execution level, continued to commence risk value evaluation for collaterals, enhanced internal assessment application, and achieved the online application of three major instruments for operating risk. As at the end of 2016, the Bank completed self-evaluation on compliance, and prepared the self-evaluation report on compliance. System for RWA project was launched, and works on comprehensive risk management verification were completed. The Internal Audit Department completed the preparation of new capital accord audit report, which met with the compliance requirement for voluntary application for high-standard measurement methods under the Administrative Measures for Capital of Commercial Banks (Provisional).

(I) Credit Risk

Credit risk refers to the Bank's risk of economic losses caused by a debtor or a counter-party failing to fulfil his obligations under the contract or credit quality changes, affecting the value of the financial products. The Bank's credit risks exist mainly in loan portfolios, investment portfolios, guarantees, commitments and other on- and off-balance-sheet exposures. The Bank executes a unified risk appetite in credit risk management and controlled risk within an acceptable range, in order to achieve a higher risk return and realise the identification, measurement, monitoring and control of credit risk.

During the Reporting Period, the Bank specified and confirmed its credit management policy. Centring on asset quality management and RAROC, through succeeding the bank-wide risk appetite involving quantitative standard for credit risk, business development strategies and asset quality of the Bank, and fully considered external economic environment and regulatory requirements, the Bank formulated overall control standards for credit risk at headquarters level. Through the access policy and quota system, the Bank realised credit risk management at portfolio level. Hence, the asset quality throughout the Bank was controllable, and post-risk adjustment income was maximised.

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During the Reporting Period, the Bank took the opportunity arising from the implementation of the new capital accord, continued to optimize internal rating system, completed comprehensive verification project for credit risk internal rating system, established internal assessment verification system, further enhanced data collection, established and implemented continuous monitor on models, regular comprehensive verification, optimisation and upgrade mechanism, and deepened the application of internal assessment results, thereby ensuring the continuous steady operation of the Bank's internal rating system. As at the date of this report, the Bank completed the rating model for non-retail loans, and the development and optimisation works on retail application rating cards regarding individual operation, microfinance, civil E-loans and tax E-loans. Retail approval strategy was adjusted for 42 times. Currently, the Bank is conducting works on optimisation of retail behaviour rating cards, pool model, and rating model for non-retail customers. In application of internal assessment results, the Bank fully realised pre-loan access (rigid system control), credit authorisation (rigid system control), credit approval, single customer limit and post-loan monitoring for internal assessment, and gradually facilitated advanced application in areas such as capital measurement, risk appetite, performance appraisal and RAROC. In development and application of non-retail and retail measurement tools, the Bank was basically consistent with leading banks in China.

During the Reporting Period, the Bank strengthened the establishment of collateral risk valuation system. It continued to optimize its collateral valuation system and conducted system upgrade and modification for over 10 times. The Bank realised various management functions including the policy of collateral risk valuation system embedded with the 14 types and 21 sub-types of collaterals, collateral assessment and re-assessment, collateral model and parameter management, collateral data verification and management, assessment target management and statistics analysis report. The Bank also continued to commence works on preliminary assessment and re-assessment of collateral risk value, standardised the management of collateral data and updated collateral data. It optimised collateral risk valuation model, improved the accuracy of commercial properties valuation, and enhanced the automated valuation on residential properties. Hence, our works on collateral risk valuation maintained leading position among industry peers.

During the Reporting Period, the Bank improved the overall risk evaluation for various credit products, and strengthened the dynamic management of product quality of different institutions. It launched analysis on big data risk detection, prepared multi-dimension analysis report on credit grant to remote legal person by fully utilising credit data from PBOC, third party data and internal data of the Bank, and adjusted the proportion, rules and strategies for rating of risk management. Therefore, the asset quality remained relatively stable. Meanwhile, the Bank practically enhanced the risk classification standard, strengthened its anti-fraud management, and put greater efforts on loan collection. As at 31 December 2016, the Bank collected a total of RMB103.4 million of the loans written-off during previous years.

During the Reporting Period, the Bank continued to optimize the establishment of risk alert system. The customer risk alert system was officially launched, promoted and applied. The Bank continued to monitor the effectiveness of the operation and alert signal of the customer risk alert system, and optimised functions of the system on continuous basis.

(II) Liquidity Risk

Liquidity risk refers to the risk of failing to acquire sufficient funds at reasonable cost in time in order to pay the due debt, fulfil other payment obligations and meet the capital requirements for normal operation.

The Assets and Liabilities Management Committee of the Bank is responsible for formulating liquidity risk management policies and strategies, and reviewing the major problems arising from liquidity management activities. The Bank has established an overall liquidity risk management system to comprehensively manage liquidity risks. It has also set up a comprehensive liquidity risk limit system, which monitors and controls the execution of limits at a prescribed frequency.

During the Reporting Period, the Bank, in strict compliance with the standards set out in the Basel Accords, fully applied the achievements made by its projects of liquidity risk management. Such application included stronger liquidity risk management control at the corporate and group levels and consolidated-statements-based management of liquidity risk, which prevented the spread of such risk within the Group. The Bank adopted liquidity risk stress test by combining maturity gap analysis with cash flow analysis, and established a quick-response liquidity risk emergency system across various departments. Meanwhile, the Bank remained focused on improving its liquidity risk management system by strengthening its governance over organisational structure, relevant management mechanisms, systems, quota control, stress test, contingency plans, risk reporting and internal cohesion mechanism, establishing relevant liquidity risk appetite and management policies specific to itself, clarifying liquidity management strategies, requirements and standards for control, so as to ensure that its liquidity indicators remain in compliance with regulatory requirements and internal management standards and enhance its level of risk management by avoiding risk events.

The following table sets out the analysis on remaining maturities of financial assets and financial liabilities of the Group:

	As at 31 December 2016								
	Overdue	Repayable on demand	Within 1 month	1 month to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Indefinite	Total
									(In RMB million)
Total financial assets	6,358.2	30,979.2	40,190.1	40,436.1	142,348.6	149,124.4	78,538.5	38,822.4	526,797.5
Total financial liabilities	–	148,072.7	39,935.3	39,506.7	212,191.7	50,226.8	9,414.8	–	499,348.0
Net liquidity	6,358.2	(117,093.5)	254.8	929.4	(69,843.1)	98,897.6	69,123.7	38,822.4	27,449.5

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The following table sets out our liquidity coverage ratio as at the date indicated.

	31 December 2016	31 December 2015
	(In RMB million, except percentages)	
Qualified quality liquid assets	**80,129.5**	67,401.9
Net cash outflow in the following 30 days	**33,464.4**	50,643.0
Liquidity coverage ratio (%)	**239.45%**	133.09%

As at 31 December 2016, our liquidity coverage ratio was 239.45%, which satisfies the requirements of liquidity coverage ratio of commercial banks under the latest liquidity risk management measures issued by the CBRC.

(III) Market Risk

Market risk refers to the risk of loss in the Bank's on- and off-balance sheet businesses as a result of adverse changes in market prices (interest rates, exchange rates, and stock and commodity prices). The market risks currently faced with the Bank are mainly interest rate risk and exchange rate risk. The Bank's objective of market risk management is to maximize risk-adjusted revenue while limiting the potential losses arising from market risk within a reasonably acceptable level based on the Bank-wide risk appetite.

Interest rate risk refers to the risk of loss in the Bank's on- and off-balance sheet businesses as a result of adverse changes in interest rates. The interest rate risk associated with the Bank's trading accounts exists mainly in the trading businesses, including bond trading and derivative trading. For the management of interest rate risk management of trading accounts, the Bank specified the classification standards for trading accounts and bank accounts, revaluated the market value of assets under the Bank's trading accounts on a daily basis, managed caps according to trading caps, stop-loss limits and risk limits, and monitored by frequency.

The following table sets out the results of our gap analysis as of 31 December 2016, based on the earlier of (i) the next expected re-pricing dates and (ii) the final maturity dates for our financial assets and financial liabilities (whichever the earlier).

	As at 31 December 2016					
	Within 3 months	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
						(In RMB million)
Total financial assets	216,408.0	154,422.4	114,965.2	26,426.9	14,575.0	526,797.5
Total financial liabilities	225,473.6	209,709.4	47,287.4	9,402.9	7,474.7	499,348.0
Interest rate sensitivity gap	(9,065.4)	(55,287.0)	67,677.8	17,024.0	N/A	N/A

Exchange rate risk refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in exchange rates. Our exchange rate risk exists mainly in our foreign currency-related trading and non-trading businesses, including foreign currency loans, foreign currency deposits, proprietary foreign exchange trading and foreign exchange settlement and sale on behalf of customers. The Bank sets transaction caps, stop-loss limits and exposure limits to manage exchange rate risk arising from our foreign exchange business. For foreign exchange settlement and sale, the Bank has designated officers responsible for monitoring the foreign exchange market and implemented large position advance reporting system. Large foreign exchange settlement and sale will be settled separately on a real time basis. This can ensure profits while controlling exchange rate risk effectively.

During the Reporting Period, the Bank, while taking into account its historical transactions, the overall financial environment and its risk tolerance, applied the OPICS RISK system to measure risk based on sensitivity analysis, Value-at-Risk (VaR) analysis and scenario analysis on its monetary transactions to provide a basis for limit-setting models and carry out relevant work in a scientific manner. In addition, the Bank actively commenced work related to stress test for market risk by further improving its stress test solutions, communication of models, stress scenarios and selection of stress indicators to effectively ensure that market risk remained under control. Furthermore, the Bank, in response to the diversification of monetary transactions, properly developed market risk measuring models and measurement of derivatives to achieve effective control over market risk combining qualification and quantification techniques.

The following table sets out our financial assets and liabilities by currency as of 31 December 2016.

	As of 31 December 2016					
	RMB	**USD equivalent to RMB**	**HKD equivalent to RMB**	**RUB equivalent to RMB**	**Other Currencies equivalent to RMB**	**RMB and equivalent to RMB Total**
						(In RMB million)
Total financial assets	522,036.5	4,535.5	18.6	82.8	124.1	526,797.5
Total financial liabilities	496,705.5	2,462.2	37.7	15.0	127.6	499,348.0
Net position of financial assets and liabilities	25,331.0	2,073.3	(19.1)	67.8	(3.5)	27,449.5
Credit commitments	72,924.7	244.3	–	–	11.3	73,180.3

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(IV) Operational Risk

Operational risk refers to the risk of loss arising from flawed or problematic internal procedures, and loss caused by staff, IT systems, and external events. Operational risk includes legal risk, but excludes strategic risk and reputation risk.

The Bank's three defence lines to manage operational risk are separate and independent. Under a unified operational risk appetite, the Bank established a full set of operational risk management system, covering relevant corporate governance structures, policies and systems, management tools, measurement methods and IT system, which would effectively prevent occurrence of events of high operational risk.

During the Reporting Period, taking the opportunity arising from the implementation of the Basel Accords, the Bank continued to promote the bank-wide application of three major management tools, namely self-assessment on risks and control, key risk indicators and loss data collection, to normalize the management of operational risk. The Bank realised the online application of three major tools through the operation of its risk management information system, and conducted a more direct exhibition and analysis of operational risk management by using the system, thereby enhancing the automation and management efficiency of operational risk management. By strengthening operation management and supervision, and enforcing alert on counter services through the counter service risk supervision alert system, the Bank effectively controlled the occurrence of operation risk in its counter services.

(V) Information Technology Risk

Information technology risk refers to operational, legal, reputation and other risks caused by natural factors, human factors, technical loopholes and flawed management in the course of our usage of information technology.

During the Reporting Period, the Bank strengthened its system security management, and established the production and operating model of "three centres in two areas". High security level system structure was adopted in the physical structure of key application systems. In respect of production system, the Bank prepared various kinds of software and hardware systems and tools with security control function, established the information security access management and control (4A) system, and carried out emergency drills for various information systems. The Bank also strengthened its network security management, established network security technology defensive system, and formulated intranet terminal security management system. It formulated network security strategies, completed the effective isolation of production network, office network and internet, established security allocation baseline for servers, network devices and security devices, and formulated security strategies with combination of interbank practice and the best practice. The Bank enhanced the security management for internet and mobile business. It proactively cooperated with numerous renowned information security companies in China, and commenced penetration testing on relevant systems and timely rectified problems discovered in a timely manner. At the same time, it provided continuous security monitor alert for internet systems including the Bank's website and internet bank. The Bank strengthened its data security management. Key data will be transmitted by using encryption transmission technology, and sensitive data transmission will be encrypted. In respect of APP software for mobile application, client software encryption will be adopted. The Bank commenced and completed the construction and implementation of data desensitization project. Data under the testing was automatically desensitized. By fully enhancing the information technology risk prevention and management and system operation capabilities, the stability and security of the systems are ensured and the continuity operation of its major businesses is secured by the enhanced contingency measures.

(VI) Compliance Risk Management

Compliance management is a core risk management activity of the Bank. The Board assumes ultimate responsibility for the compliance of the Bank's operating activities, and the Board of Supervisors supervises the compliance risk management. The Bank has built comprehensive and effective compliance risk management system, consolidated the three defensive lines for compliance risk management, and achieved effective identification and management of compliance risk through continued improvement and optimisation of its compliance risk management as well as a higher risk management standard.

During the Reporting Period, the Bank formulated and executed a risk-based compliance management plan and deepened the work mindset of integrated "prevention, control, examination and correction", thereby improving the refined standard for internal control compliance and optimising the comprehensive internal control risk management system which adapted to business development and transformation. It strived to realize the foundation of compliance management, actively optimised the compliance system and mechanism construction, and strictly prevented and eliminated compliance risk; by leveraging the professional advantages, and emphasising the substance of risks, and through pre-involved business research and development, it strongly supported and promoted business innovation and sound development of the Bank at different dimensions; accepted various external examinations such as "two curbs and two enhancements", put greater efforts in rectifying problems discovered during examinations, thereby showing the power of compliance risk management and achieving the goal of "do not want any violation in mind, cannot make any violation during the process, and afraid of making any violation in view of the consequences"; enhanced the study of overseas bills, regulatory policies and laws and regulations, and provided high-quality legal compliance services; commenced and implemented regular compliance education and trainings, and enhanced the compliance professional standards.

(VII) Anti-money laundering management

During the Reporting Period, striving to the "risk-based" management concept, and aiming to explore and establish interactive prevention control system for online and offline businesses, the Bank continued improving its ability to self-regulate suspicious transactions, enhanced coordinated management of customer identification and customer risk rating management, improved the anti-money laundering monitoring personnel list, and continued optimising its anti-money laundering management system construction, thus improved its anti-money monitoring work with gradual reduction in staff costs. The Bank optimised its anti-money laundering management mechanism, and fully enhanced the management standard for anti-money laundering and anti-terrorism financing, thereby performing its corporate social responsibility effectively. The Bank actively assisted in anti-money investigations carried out by the regulatory authorities, organised theme trainings and campaigns on anti-money laundering, set up good internal and external environment for anti-money laundering, and effectively improved the management performance and work level for anti-money laundering management of the Bank.

Report of the Board of Directors

X. Key Relationships with Persons with Significant Impact

The organisation structure reform carried out by the Bank during the Reporting Period provided a more beneficial mechanism and room for the growth of the employees. In addition, the Bank attached great importance on occupational health and security for the employees, and increasingly improving the staff occupational and security management system by establishing the Ha Run e Generation Club and organising marathon races for the employees to participate in. The career paths for the staff were broadened with the formulation of advanced training programs for employees to fully upgrade their professional knowledge and occupational skills. The Bank improved the incentive and restrictive mechanism, enhanced the staff performance assessment, and implemented diversified remuneration policies and benefits. It also cared about the working environment and physical and mental health of the staff, safeguarded the legitimate interest of the staff, and improved staff satisfaction and happiness, thus further laying the foundation of common growth of the staff and the enterprise. For details of the staff conditions of the Company, please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Organizations" – "Employees" in this annual report.

During the Reporting Period, as usual, the Company paid high attention to the several kinds of interests of investors, and strived to create practicable returns for our investors. In respect of dividends distribution, the 2015 dividends of RMB1.07 (tax inclusive) for every 10 shares held were distributed to all shareholders in cash, which ensured reasonable return of investment for investors. In respect of communications with investors, the Company continued to enhance its communications with investors primarily through the following means: (1) The analyst and investor conference and press conference in relation to 2015 annual results and 2016 interim results were held in Hong Kong during March and August 2016 respectively, with a total of over 80 fund managers, analysts and reporters from China and overseas attending the meeting; (2) The management of the Bank conducted three overseas result roadshows in March, May and August 2016, respectively, and met over 30 overseas institutional investors; (3) In 2016, the Bank hosted the visits from China and overseas institutional investors including Invest Hong Kong, the US Wellington Management Company, the Teachers Insurance and Annuity Association-College Retirement Equities Fund and Indus Capital Partners, as well as analysts from investment banks and security firms. Fully leveraging on the opportunities from site visits of investors and analysts, the Bank introduced its strategic direction and positioning of becoming a "first class international microcredit bank", as well as the concept and progress of operation transformation. (4) In 2016, the Bank timely responded to the questions and recommendations provided by investors through various channels, including answering over 60 calls from investors, replying numerous e-mail enquiries from investors and analysts, and handling matters in relation to appointments between investors and the Company.

The Company adheres to its customer-oriented approach. In 2016, the Bank strictly implemented the Measures for Administration of Consumers' Rights and Interests, as formulated by the Board, to establish an administration system for customer protection. It attached importance to communication with customers, and provided timely feedback to customers. The Company, through its national customer services hotline 95537, provides 24-hour telephone banking services. During the Reporting Period, its customer service centre handled a total of over 2,450,000 transactions for the year. Better communication with customers provided a good customer base for the Bank. In 2016, the total number of the Bank's customers exceeded 18.82 million, thus realising an increase of 84.55% as compared to the corresponding period last year.

XI. Corporate Social Responsibility

2016 was the starting year for the "13th Five-Year Plan" of China, as well as the first year for the "new five-year" development plan for 2016-2020 of the Company. The strategic goal of the Bank has been changed to establishing itself into "a first-class international microcredit bank providing excellent service with unique characteristics" from the previous goal of establishing itself into "a domestically leading and internationally renowned microcredit bank".

Aiming to achieve the new strategic goal, the Company steadfastly upheld the business philosophy of "Inclusive Finance, Harmonious Co-Enrichment". The Bank performed corporate social responsibility and repaid the society and people's livelihood through actions, striving to become a passionate, active and creative bank with clear objectives, strong cultural foundation, outstanding charity brand and good reputation.

In 2016, the Company, under the framework of three responsibilities, namely financial responsibility, environmental responsibility and social responsibility, and driven by various factors including product innovation, service transformation, talent policy and brand upgrade, continued to expand its brand characterised by "trust, warmth, connection, promise" into different aspects of corporate social responsibility:

The relationship management between the Bank and the shareholders, the staff, the creditors or other stakeholders continued to improve; corporate culture build-up developed in line with prevailing trend, and the new corporate culture of "work happily, live healthily" was unanimously recognised by internal and external parties; the management level of corporate social responsibility greatly enhanced; core competitiveness and differential development trend became more obvious; working environment and room for growth of the staff became more attractive with closer bonds between the Bank and its staff; the charity foundation of the Bank was officially formed, thus significantly promoted the staff's enthusiasm and professionalism of participation in social welfare and charity activities. In 2016, the Bank contributed RMB23.1970 million in social welfare activities.

The Bank strives to develop green credit and establishes itself into a green bank. Green credit refers to the facilities granted to the green industry and energy conservation and environmental protection enterprises. The Bank strictly executed financial policies such as green credit, promoted green finance concept and put itself into the green credit area. It vigorously supported the development of green economy, recycle economy and low-carbon economy. As at the end of 2016, the green credit balance of the Company amounted to RMB1,587 million.

The Company always supports energy conservation and emission reduction. It actively promotes paperless office and resources saving, thus achieving healthy, coordinated and sustainable economic, environment and social development. In 2016, centring on the work theme of "Year of Products", the Bank fully developed mobile finance, and promoted its green bank image through online charity activities. The online charity campaign "Donating a Bit for Charity (我為公益添一分)" organised by the Company encouraged customers to prioritize the selection of e-channels for operation, and one piece of invoice or statement will be saved for every operation. Accumulated expenses on paper of RMB200,000 were saved under the campaign.

Report of the Board of Directors

XII. Material Subsequent Events

(I) Approved Establishment of Ningan Rongxing Village and Township Bank

On 12 January 2017, Ningan Rongxing Village and Township Bank Co., Ltd. (寧安融興村鎮銀行有限責任公司), founded and established by the Bank, received the Reply on Approving the Commencement of Operations of Ningan Rongxing Village and Township Bank Co., Ltd. (《關於同意寧安融興村鎮銀行有限責任公司開業的批復》) (Mu Yin Jian Fu [2017] No. 1) issued by the Mudanjiang Branch of the CBRC. On 19 January 2017, it obtained the financial permit (institution code: S0025H323100001) issued by the Mudanjiang Branch of the CBRC. On 25 January 2017, Ningan Rongxing Village and Township Bank Co., Ltd. obtained its operating license (uniform social credit code: 91231084MA1979WY18). Its registered address is No. 134 Tongjiang Road, Ningan Town, Ningan, Mudanjiang, Heilongjiang Province, and its legal representative is Feng Zhigang. The registered capital of Ningan Rongxing Village and Township Bank Co., Ltd. is RMB30 million, and is wholly-owned by the Bank. Its operating scope included: "accepting public deposits; issuing short-term, medium-term and long-term loans; handling domestic settlement; handling bill acceptance and discounted bill; engaging in interbank borrowing; engaging in bank card business (debit card); engaging in issuance agency, payment agency and underwriting of government bonds; conducting payment collection and insurance agency services; and other business approved by banking regulators (business subject to approval by law shall be conducted upon approval by relevant departments)".

(II) Approved Establishment of HBCF

On 22 January 2017, HBCF, founded and established by the Bank, received the Reply on Approving the Commencement of Operations of Harbin Bank Consumer Finance Co., Ltd. (《關於同意哈爾濱哈銀消費金融有限責任公司開業的批復》) (Hei Yin Jian Fu [2017] No. 22) issued by the Heilongjiang Branch of the CBRC, and obtained its operating license (uniform social credit code: 91230102MA1979M188(1-1)) from Market Supervision and Administration Bureau of Harbin, Daoli District on 24 January 2017. The registered address of HBCF is Flat 4, 1/F, A1 Tower, No. 1536 Qunli 4th Avenue, Daoli District, Harbin, and its legal representative is Sun Jiawei. The registered capital of HBCF is RMB500 million, and the Bank held 59% of its equity interests. Its operating scope included: "business approved by China Banking Regulatory Commission in accordance to relevant laws, administrative measures and other rules, the operating scope shall subject to that set out in approval documents (business subject to approval by law shall be conducted upon approval by relevant departments)".

Upon the commencement of operation, striving to the mission of achieving inclusive finance, by fully leveraging on the intensive experience of the Bank in product innovation, risk control and technology R&D in microcredit business, as well as its shareholder's edges in big data, online finance, consumer scenario modelling, starting with classification of specific demand of different customer base, HBCF will formulate specific strategies, expand service channels based on the actual consuming situation, and meet the demand of urban and rural consumers, thereby creating new experience in online consumption financial services for its customers.

(III) Issuance of Preference Shares

The resolution on the proposal on the issuance of offshore preferences was considered and approved at the 2017 first extraordinary general meeting, the 2017 first class meeting of holders of domestic shares and the 2017 first class meeting of holders of H shares of the Bank held on 10 February 2017. Pursuant to which, the Bank intended to conduct the non-public issuance of not more than 80 million offshore preference shares, with proceeds raised of not more than RMB8,000 million or equivalent. Proceeds raised will be used for replenishing additional tier 1 capital of the Bank. Matters in relation to the proposed issuance of preference shares had been disclosed in the circular dated 23 December 2016 and the announcement of the Bank dated 10 February 2017.

The Bank is currently facilitating matters regarding the non-public issuance of offshore preference shares in accordance to the proposal. The Bank will disclose further information and the progress in a timely manner.

(IV) Issuance of Green Financial Bonds

According to the Decision on Administrative Approval from the People's Bank of China (《中國人民銀行准予行政許可決定書》) (Yin Shi Chang Xu Zhun Yu Zi [2017] No.5) issued by the PBOC on 18 January 2017, the issuance of green financial bonds of not more than RMB5,000 million by the Bank in interbank bond market was approved.

The Bank will issue green financial bonds in due time according to the market situation.

XIII. Dividend

Pursuant to the requirements under Article 17 of the Measures for the Administration of Securities Issuance and Underwriting (《證券發行與承銷管理辦法》) issued by the CSRC, which provides that, "If any profit distribution scheme or the scheme of capitalisation from capital public reserve has not been submitted to the general meeting for shareholders' voting, or such scheme has not been implemented upon voting and approval by shareholders at the general meeting, the listed company shall issue the securities after such scheme is implemented. Before relevant plan is implemented, the lead underwriter shall not underwrite the securities issued by the listed company", and considered that the issuance of A Shares in domestic market has entered into the review and feedback stage, which would be impacted if the Bank distributes a final dividend for the year of 2016 to the shareholders. As such, the Board resolved at a meeting held on 29 March 2017 not to distribute a final dividend for the year of 2016 to all shareholders. The proposal of no dividend distribution will be submitted to the annual general meeting of 2016 to be held on 19 May 2017 for consideration.

The independent Directors of the Bank also issued independent opinion on such profit distribution plan.

Report of the Board of Directors

XIV. Other matters

(I) Share Capital and Substantial Shareholders

Please refer to "Changes in Share Capital and Information on Shareholders" for the detailed information relating to the share capital and substantial shareholders of the Bank.

(II) Use of Proceeds

Please refer to "Important Events" – "Issuance of Debt Securities for the detailed information relating to the use of proceeds.

(III) Reserves

For the year ended 31 December 2016, details of the changes in reserves of the Bank are set out in the Consolidated Statement of Changes in Equity.

(IV) Distributable Reserves

As at 31 December 2016, the distributable reserve of the Company and subsidiaries under the China Accounting Standards for Business Enterprises was RMB10,014 million. The distributable reserve of the Company was RMB9,045 million.

(V) Debentures

The details of the debentures issued by the Bank during the Reporting Period are as follows:

1. 2016 Credit Loan Asset-Backed Securities

During the Reporting Period, the Bank issued the 2016 first tranche of Huijin credit loan asset-backed securities of RMB2,257.3070 million. Details are as follows:

According to the resolutions of the 15th meeting of the fifth session of the Board on 1 November 2013 and the 7th meeting of the sixth session of the Board on 21 January 2016, the Board approved the issuance of the credit loan asset-backed securities of not more than RMB3.0 billion for the purpose of providing liquidity to the Bank's stock assets, optimizing asset structure and improving the Bank's capital efficiency.

According to the "Filing Notice on the 2015 First Tranche of Huijin Credit Loan Asset-backed Securities" issued by the Innovative Supervision Department of the CBRC on 25 December 2015 and the "Administrative Approval Decision of the People's Bank of China" (Banking Market License [2016] No. 36) issued by the PBOC on 25 February 2016, the issuance of credit loan asset-backed securities of not more than RMB2.258 billion by the Bank in the interbank market was approved. The Bank obtained the consent and permission from the CBRC and the PBOC for the issuance of the 2016 first tranche of Huijin credit loan asset-backed securities on 16 March 2016.

The 2016 first tranche of Huijin credit loan asset-backed securities are classified as Priority A, Priority B asset-backed securities and subordinated asset-backed securities with the total issuance size of RMB2,257.3070 million. Class Priority A asset-backed securities, abbreviated as "16 Huijin 1A" (bond code: 1689059), whose issuance scale amounted to RMB1,690.05 million, with a weighted average term of 0.33 year and a coupon rate of 3.18%. Class Priority B asset-backed securities, abbreviated as "16 Huijin 1B" (bond code: 1689060), whose issuance scale amounted to RMB209.93 million, with a weighted average term of 1.17 year and a coupon rate of 3.5%. Subordinated asset-backed securities, abbreviated as "16 Huijin 1C" (bond code: 1689061), whose issuance scale amounted to RMB357.3270 million, with a weighted average term of 1.69 year and zero coupon rate.

2. 2016 Tier-2 Capital Bonds

During the Reporting Period, the Bank issued the "2016 Tier-2 Capital Bonds of Harbin Bank Co., Ltd." of RMB8.0 billion. The proceeds from the issuance of bonds were all used in the replenishment of the Bank's tier-2 capital so as to optimize the Bank's capital structure and support continuous business development.

Details of the issuance are as follows:

According to the resolutions of the 6th meeting of the sixth session of the Board on 7 December 2015 and the 2016 first extraordinary general meeting of the Bank on 22 January 2016, the Board and the shareholders' general meeting approved the issuance of the tier-2 capital bonds of not more than RMB8.0 billion. According to the "Approval of Heilongjiang Bureau of the People's Bank of China for Issuance of Tier-2 Capital Bonds by Harbin Bank" (Hei Yin Jian Fu [2016] No. 29) issued by the Heilongjiang Bureau of the CBRC on 18 March 2016 and the "Administrative Approval Decision of the People's Bank of China" (Banking Market License [2016] No. 89) issued by the PBOC on 2 June 2016, the issuance of tier-2 capital bonds of not more than RMB8.0 billion by the Bank in the interbank market was approved. The Bank obtained the consent and permission from the Heilongjiang Bureau of the CBRC and the PBOC for the issuance of the "2016 Tier-2 Capital Bonds of Harbin Bank Co., Ltd." on 16 June 2016.

The issuance size of the 2016 tier-2 capital bonds of Harbin Bank Co., Ltd. was RMB8.0 billion with right allowing issuer to redeem subject to conditions precedent at the end of the fifth year. The Bonds have a term of 10 years with a fixed coupon rate of 4.00%, and its short name was "16 Harbin Bank Tier-2" (bond code: 1620026).

3. *2016 HB Leasing Financial Bonds*

According to the resolutions of the 5th meeting of the first session of the board of directors of HB Leasing on 17 July 2015 and the 2015 first extraordinary general meeting of HB Leasing on 17 July 2015, the board of directors and the shareholders' general meeting approved the Proposal on the Issuance of Financial Bonds Issuance, approving the issuance of financial bonds of not more than RMB2.0 billion by HB Leasing in the interbank market in China with a term not more than 5 years. The proceeds raised from the issuance of bonds will be used in the investment in agriculture leasing projects.

According to the "Approval of the Heilongjiang Bureau of the China Banking Regulatory Commission for Issuance of Financial Bonds by Harbin Bank Financial Leasing Co., Ltd." issued by the Heilongjiang Bureau of the CBRC (Hei Yin Jian Fu [2015] No. 357) on 26 November 2015 and the "Administrative Approval Decision of the People's Bank of China" (Banking Market License [2016] No. 86) issued by the PBOC on 30 May 2016, the public issuance of financial bonds of not more than RMB2.0 billion by HB Leasing in the interbank market was approved. HB Leasing obtained the consent and permission from the CBRC and the PBOC for the issuance of the 2016 first tranche of financial bonds on 27 July 2016.

The issuance size of the 2016 first tranche of financial bonds of HB Leasing was RMB1.0 billion with a term of 3 years, a coupon rate of 3.50% accrued annually and fixedly and a short name as "16 HB Leasing Bond 01" (bond code: 1622010).

(VI) Purchase, Sale or Redemption of Listed Securities of the Bank

The Bank or any of its subsidiaries did not purchase, sell or redeem any shares of the Bank from 1 January 2016 to the date of this report.

(VII) Pre-emptive Rights

The Bank does not have provisions in respect of pre-emptive rights in its Articles of Association and under the PRC laws.

(VIII) Public Float

The total issued share capital of the Bank is 10,995,599,553 shares, and the H Shares held by the public amount to 3,023,570,000, representing 27.50% of the total issued share capital of the Bank, which is in compliance with the requirements of Hong Kong Listing Rules. Up to the date of this report, based on the publicly available information, the Bank has been in compliance with the public float requirement of the Hong Kong Listing Rules.

(IX) Management Contracts

There were no management and administration contracts for the entire or substantial part of any business of the Bank during the Reporting Period.

Report of the Board of Directors

(X) Major Customers

By the end of the Reporting Period, the balance of the Bank's loans to any single borrower did not exceed 10% of the Bank's net capital. The interest income from the five largest borrowers of the Bank did not exceed 30% of total interest income. The Directors of the Bank and their close associates did not have any interest in these five largest borrowers.

(XI) Donations

The Bank made charitable and other donations in an aggregate sum of approximately RMB23.197 million for the year ended 31 December 2016.

(XII) Connected Transactions

During the Reporting Period, in the ordinary and usual course of business, the Bank provided commercial banking services and products to the public in China, which included certain connected persons of the Bank such as shareholders, Directors, Supervisors, the President and/or their respective associates. Pursuant to Hong Kong Listing Rules, as these transactions were entered into on normal commercial terms in the ordinary and usual course of the business of the Bank, such transactions were exempt from reporting, annual review, disclosure and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. During the Reporting Period, there were no non-exempt connected/continuing connected transactions between the Bank and its connected persons.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in Note 49 to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction that need to be disclosed under the Hong Kong Listing Rules.

(XIII) Directors and Supervisors

As at the end of the Reporting Period, the details of the members of the Board and their biographies were set out in the section headed "Directors, Supervisors, Senior Management and Institutions", which constitutes a part of this Report of the Board of Directors.

During the Reporting Period, Mr. Qin Hongfu, the former non-executive Director of the Bank, resigned from the position of non-executive Director due to personal reasons on 15 August 2016. Mr. Peng Xiaodong became a non-executive Director of the Bank as recommended by the Shareholders in accordance with the Articles of Association of the Bank. The relevant resolution was considered and approved at the tenth meeting of the Sixth Session of the Board on 15 August 2016 and at the extraordinary general meeting convened on 13 October 2016. The appointment of non-executive Director of the Bank was approved by Heilongjiang Regulatory Bureau of CBRC on 1 December 2016.

(XIV) Directors' and Supervisors' Interests in Business in Competition with the Bank

None of the Directors and Supervisors of the Bank holds any interest in any business which competes or is likely to compete, whether directly or indirectly, with the Bank.

Report of the Board of Directors

(XV) Remuneration Policy

Details of the remuneration policy and reward scheme of the Bank are set out in "Directors, Supervisors, Senior Management, Employees and Organizations" – "Employees".

The details of the remuneration determination policy for the Directors and Supervisors of the Bank are set out in "Directors, Supervisors, Senior Management, Employees and Organizations" – "Information on Evaluation and Incentive Scheme and Annual Remuneration for Directors, Supervisors and Senior Management" and notes 11 and 12 to the financial statements.

(XVI) Directors' and Supervisors' Service Contracts

During the Reporting Period, the Directors and Supervisors of the Bank did not sign any service contracts which were not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

(XVII) Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Bank or its Associated Corporations

As at 31 December 2016, the Directors, Supervisors and chief executive and their respective associates did not hold any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (as defined in Part XV of the SFO) which were required to be registered in the register pursuant to section 352 of the SFO or to be disclosed to the Bank and the Hong Kong Stock Exchange as provided by the Model Code.

During the Reporting Period, the Bank did not grant any right to subscribe for shares or debentures of the Bank or any associated corporations to its Directors, Supervisors and President (including their spouses or children under the age of 18).

(XVIII) Permitted Indemnity Provisions

In 2016, the Bank didn't have any permitted indemnity provisions once in effect or in effect for the benefit of Directors of the Bank (whether entered into by the Bank or not) or any directors of associated companies of the Bank (if entered into by the Bank).

The Bank has purchased legal liability insurance for duties performed by Directors and Supervisors, and the relevant applicable laws for such insurance policies are the PRC laws.

(XIX) Interests of Directors or Supervisors in Transactions, Arrangements or Contracts

For the year ended 31 December 2016, there was no transaction, arrangement and contract of significance to which the Company, its holding company, its subsidiary or a subsidiary of its holding company was a party and in which a Director, Supervisor or any entity connected with any of them has or had at any time during that period, in any way, whether directly or indirectly, a material interest.

(XX) Corporate Governance

The Bank is committed to maintaining a high level of corporate governance. Details of corporate governance of the Bank are set out in the "Corporate Governance Report" of this annual report.

(XXI) Auditors

Please refer to the section "Corporate Governance Report" – "External Auditors and Auditors' Remuneration" for the information on the auditors of the Bank.

XV. Prospects

In 2017, the domestic economy continues to be complex and is still facing tough challenges. Firstly, challenges from risks continue to exist. China's economy is under the "three-phase" aggregated period which comprises the gear-changing phase for economic growth, the periodical painful phase for structural adjustment and the digesting phase for preliminary stimulating policies, along with the downward pressure of economic growth and the deleveraging as well as de-capacity process, the solvency of companies is weakened and various hidden risks are emerging. The non-performing loans of commercial banks will be further exposed in the future. Secondly, the regulatory environment has been more stringent. The regulation and enforcement of liabilities arising from illegal behaviours with respect to the domestic banking industry have been further strengthened. The macro-prudential evaluation system and new rules in the industry exert a greater impact on the Bank's operations with more stringent regulation. Thirdly, competitive pressures further increase. In view of the increasingly intense competition, the banking industry has been transforming towards the directions of various companies, diversified business and cross-boundary competition, pursuant to which most commercial banks have enhanced their efforts in innovation focusing on "integration, lightness, refinement and intelligence" so as to accelerate transformation. Fourthly, new market entrants represented by internet finance enterprises bring about innovative business models, creating greater impact to the traditional business model of commercial banks. With the help of new technology, internet-finance-based enterprises are gradually penetrating into the banking business, which is rapidly changing the market competition pattern and bringing new challenges to traditional banks.

Report of the Board of Directors

However, while facing various challenges, the Bank also embraces various opportunities for transformation and development with the successive introduction of central and local policies in relation to deepening reform and structural adjustment. Firstly, the economic structural adjustment has given rise to a number of new-type enterprises, which improves market vitality and provides new opportunities for the Bank's customer development, business development and business transformation. Secondly, measures implemented by the government, which facilitate transformation development including promotion of new urbanisation and agricultural modernisation, increase in investment in infrastructure and strengthening support for the development of Northeast region, are beneficial to the upgrading of banking financial business and the development of financial business. Thirdly, the fundamental role of consumption-driven economy is becoming increasingly evident. China's consumption market will maintain its strong growth momentum in future. The accelerated formation of diversified consumption hotspots and new consumption patterns will bring huge momentum for the development of retail business. Fourthly, the application of new technology brings opportunities for innovative financial models. The widespread use of the internet and big data allows banks to actively integrate into the rapid development of internet finance. With the gradual implementation of the national strategy of "Internet +", banks will speed up deployment for new technology and the innovation of financial models to explore new sources of profit growth.

Looking forward, the Bank will continue to uphold the business philosophy of "Inclusive Finance, Harmonious Co-Enrichment". Relying on product innovation as the engine of development, the Bank insists on adhering to the following five paths of development: "microcredit" development; "characteristic, collectivised, international" development; "online mobile phone banking and offline traditional banking" dual development; development with support from four financial sectors "Retail Finance, Corporate Finance, Interbank Finance, Mobile Finance"; and product innovation-oriented development. The Bank will strive to become a "first-class international microcredit bank providing excellent service with unique characteristics" by 2020.

By order of the Board
Guo Zhiwen
Chairman

Harbin, PRC
29 March 2017

Changes in Share Capital and Information on Shareholders

I. Share Capital

The Bank was listed on the Hong Kong Stock Exchange on 31 March 2014, upon an issuance of 2,748,700,000 H Shares in total. After completion of the issuance, the total share capital of the Bank increased to 10,995,599,553 shares with a registered capital of RMB10,995,599,553.

II. Statement of Changes in Shares

Unit: Shares

	1 January 2016		Increase/decrease during the Reporting Period (+/-)					**31 December 2016**	
	Number	Percentage	Private placement	New shares issued	Bonus issue	Others	Subtotal	**Number**	**Percentage**
Domestic Shares									
1. Non-listed shares held by corporations	7,889,497,752	71.75%				19,041,426	19,041,426	**7,908,539,178**	**71.92%**
Including: (1) Shares held by state-owned enterprises	2,194,789,800	19.96%						**2,194,789,800**	**19.96%**
(2) Shares held by private enterprises	5,694,707,952	51.79%				19,041,426	19,041,426	**5,713,749,378**	**51.96%**
2. Non-listed shares held by natural persons	82,531,801	0.75%				(19,041,426)	(19,041,426)	**63,490,375**	**0.58%**
H Shares									
3. Overseas listed foreign shares	3,023,570,000	27.50%						**3,023,570,000**	**27.50%**
Total number of shares	10,995,599,553	100%						**10,995,599,553**	**100%**

Note: Non-listed shares held by corporations (domestic shares) of the Bank were held by 31 state-owned corporate shareholders, including Harbin Economic Development, Harbin Hadong Investment Co., Ltd. (哈爾濱市哈東投資有限責任公司), Harbin Industrial Investment Group Co., Ltd. (哈爾濱工業投資集團有限責任公司), etc.

Changes in Share Capital and Information on Shareholders

III. Shareholdings of Shareholders

As at the end of the Reporting Period, the total number of the shares of the Bank was 10,995,599,553 shares, comprising 7,972,029,553 Domestic Shares and 3,023,570,000 overseas listed H Shares.

Shareholdings of Top 10 shareholders of Non Overseas-listed Shares

Name of Shareholder	Nature of Shareholder	Number of shares held (shares)	Shareholding percentage (%)	Number of shares pledged	Type of shares
1 Harbin Economic Development and Investment Company	State-owned	2,160,507,748	19.65%	–	Non-overseas listed shares
2 Harbin Kechuang Xingye Investment Company Limited	Private enterprise	720,262,554	6.55%	–	Non-overseas listed shares
3 Heilongjiang Keruan Software Technologies Company Limited	Private enterprise	719,816,019	6.55%	–	Non-overseas listed shares
4 Heilongjiang Xinyongsheng Trading Company Limited	Private enterprise	639,804,806	5.82%	184,966,105	Non-overseas listed shares
5 Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	Private enterprise	572,253,048	5.20%	120,693,932	Non-overseas listed shares
6 Heilongjiang Tuokai Economic and Trading Company Limited	Private enterprise	522,447,109	4.75%	–	Non-overseas listed shares
7 Heilongjiang Tongda Investment Co., Ltd.	Private enterprise	358,578,793	3.26%	–	Non-overseas listed shares
8 Harbin Jubang Investment Co., Ltd.	Private enterprise	301,170,095	2.74%	301,170,095	Non-overseas listed shares
9 Beijing Xinrun Investment Co., Ltd.	Private enterprise	255,418,587	2.32%	–	Non-overseas listed shares
10 Dongning Lizhi Architecture and Decoration Engineering Company Limited	Private enterprise	199,010,054	1.81%	194,982,174	Non-overseas listed shares

Note: The above shareholding percentage of non-overseas listed shares is calculated based on the total share capital of the Bank of 10,995,599,553 shares as at 31 December 2016. In addition, the above pledged or frozen shares held by the shareholders are subject to pledge only and not judicial moratorium.

Changes in Share Capital and Information on Shareholders

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Bank

As at 31 December 2016, to the knowledge of the Directors, the interests and short positions of the following persons (excluding the Directors, Supervisors and the chief executive of the Bank) in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Domestic Shares

Name of shareholder	Capacity	Domestic shares held (long position)	Percentage of issued domestic share capital of the Bank	Percentage of total issued share capital of the Bank
Harbin Economic Development and Investment Company[1]	Beneficial owner	2,160,507,748	27.10%	19.65%
Harbin Kechuang Xingye Investment Company Limited[2]	Beneficial owner	720,262,554	9.03%	6.55%
Heilongjiang Keruan Software Technologies Company Limited[3]	Beneficial owner	719,816,019	9.03%	6.55%
Heilongjiang Xinyongsheng Trading Company Limited[4]	Beneficial owner	639,804,806	8.03%	5.82%
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited[5]	Beneficial owner	572,253,048	7.18%	5.20%
Heilongjiang Tuokai Economic and Trading Company Limited[6]	Beneficial owner	522,447,109	6.55%	4.75%

Notes:

1. Harbin Economic Development is wholly owned by Harbin Municipal Finance Bureau.

2. Harbin Kechuang Xingye Investment Company Limited is owned as to 93.92% by Tianjin Wenhua Tianhai Industrial Company Limited (天津文華天海實業有限公司), which is owned as to 50% and 47.3% by Baotou Ronghui Trading Company Limited (包頭市榮慧貿易有限責任公司) and Hangzhou Jiela Trading Company Limited (杭州傑拉貿易有限公司), respectively. Baotou Ronghui Trading Company Limited (包頭市榮慧貿易有限責任公司) is owned as to 98.22% by Jinan Kangze Commercial and Trading Company Limited (濟南康澤商貿有限公司), which is in turn owned as to 62.5% and 37.5% by two natural persons, Tan Ran (譚燃) and Zhang Yanyong (張衍勇), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Harbin Kechuang Xingye Investment Company Limited.

3. Heilongjiang Keruan Software Technologies Company Limited is owned as to 95.83% by Dalian Yujiaxin Technology Company Limited (大連宇嘉信科技有限公司), which in turn is owned as to 60% and 40% by two natural persons, Liang Yifeng (梁乙峰) and Diao Xiaoxi (刁小熙), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Keruan Software Technologies Company Limited.

4. Heilongjiang Xinyongsheng Trading Company Limited is owned as to 95.4% by Beijing Chengxinfenghui Technology and Trading Company Limited (北京誠信豐匯科貿有限公司), which in turn is owned as to 60% and 40% by two natural persons, Liu Kun (劉坤) and Zhao Yonghe (趙永和), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Xinyongsheng Trading Company Limited.

Changes in Share Capital and Information on Shareholders

5. Heilongjiang Tiandi Yuanyuan Network Technology Company Limited is owned as to 93.61% by Beijing Huifutong International Investment Company Limited (北京匯富通國際投資有限公司), which in turn is owned as to 80% by a natural person Dong Yan (董雁). Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Tiandi Yuanyuan Network Technology Company Limited.

6. Heilongjiang Tuokai Economic and Trading Company Limited is owned as to 95.27% by Beijing Tailonghuasheng Technology Company Limited (北京泰隆華勝科技有限公司), which in turn is owned as to 87.5% by Beijing Jieshentiancheng Trading Company Limited (北京傑勝天成貿易有限公司), which in turn is owned as to 70% by a natural person Guan Wu (管武). Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Tuokai Economic and Trading Company Limited.

H Shares

Name of shareholder	Capacity	Number of H Shares held (long position)	Percentage of issued H share capital of the Bank	Percentage of total issued share capital of the Bank
Fubon Financial Holding Co., Ltd.	Interest of controlled corporation[1]	773,124,000	25.57%	7.03%
Huaxia Life Insurance Co., Ltd.	Beneficial owner	486,702,000	16.10%	4.43%
CITIC Capital Holdings Limited	Interest of controlled corporation[2]	401,275,000	13.27%	3.65%

Notes:

1. Fubon Financial Holding Co., Ltd. held the interests in 773,124,000 H Shares of the Bank through its controlled corporation, Fubon Life Insurance Company Limited.

2. CITIC Capital Holdings Limited held the interests in the relevant number of shares through its controlled corporations.

Save as disclosed above, to the knowledge of the Directors, none of other persons (excluding the Directors, Supervisors and the chief executive of the Bank) had any interests or short positions in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2016.

IV. Substantial Shareholders of the Bank under the Hong Kong Listing Rules

As at the end of the Reporting Period, Harbin Economic Development was the substantial shareholder holding more than 10% of the shares (as defined under the Hong Kong Listing Rules) of the Bank.

As at 31 December 2016, Harbin Economic Development, the single largest shareholder of the Bank, held 19.65% of the total issued shares of the Bank. According to the Business License (Uniform Social Credit Code: 91230100424004064C(1-1)) issued by Market Supervision and Administration Bureau of Harbin on 30 May 2012, and the Amendments to the Articles of Association of Harbin Economic Development and Investment Company made on 19 September 2011, Harbin Economic Development is a validly subsisting economic entity under the ownership by the whole people with the Harbin Municipal Finance Bureau as its sole shareholder.

V. Pledged and Frozen Shares Held by Shareholders with Shareholding of 5% or More of the Company

As at 31 December 2016, 305,660,037 shares of two shareholders each holding 5% or more of the Company were pledged.

VI. Controlling Shareholders and Actual Controllers

The Company does not have a controlling shareholder or actual controller.

VII. Shareholders with Shareholding of 5% or More of the Company

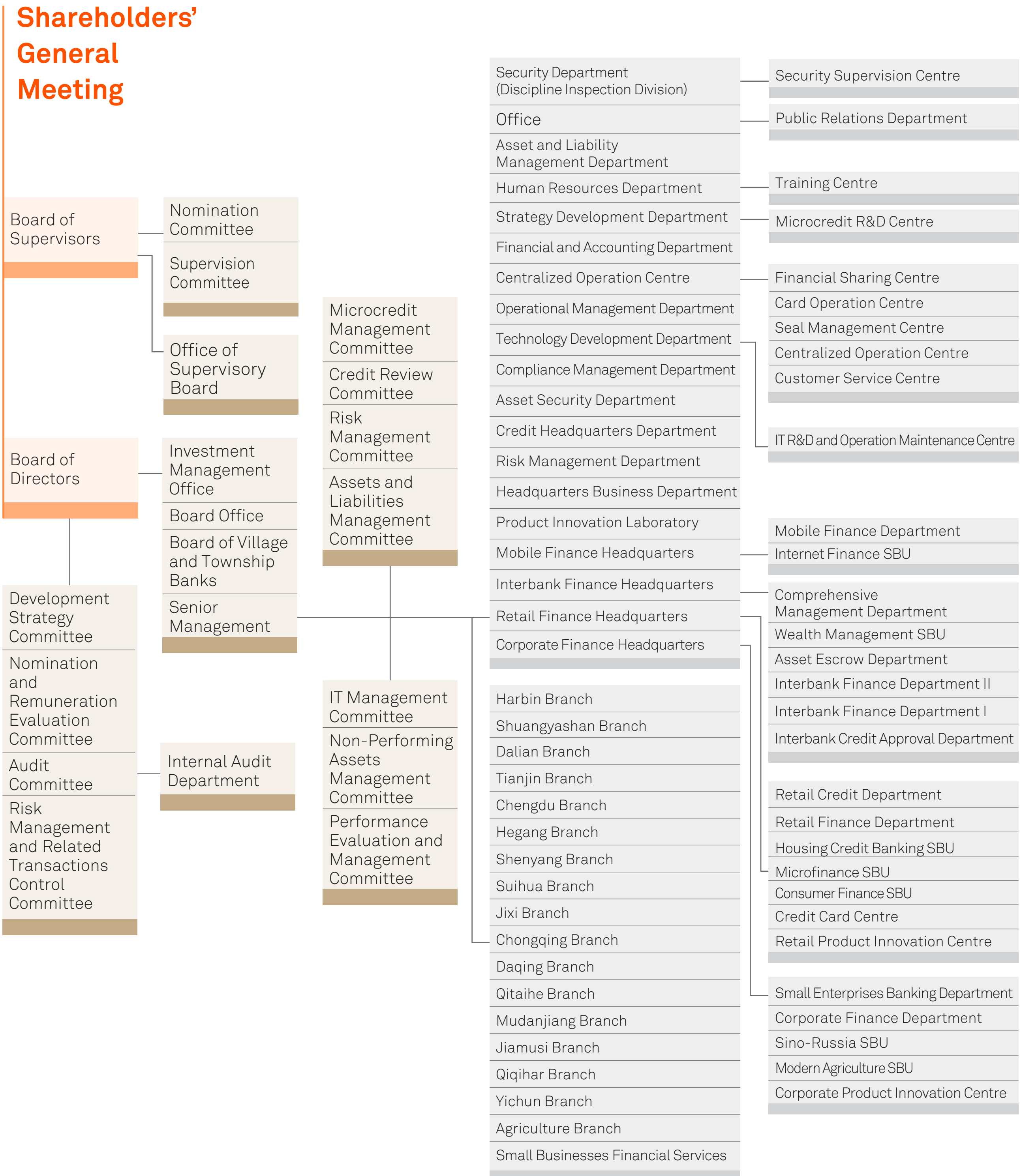
Please see "III. Shareholdings of Shareholders" above for the particulars of shareholders with shareholding of 5% or more of the Company as at 31 December 2016.

VIII. Performance of Undertakings by the Bank and Shareholders Holding 5% or More of the Shares

During the Reporting Period, neither the Bank nor its shareholders holding 5% or more of the total shares in issue of the Bank gave any undertakings.

Corporate Governance Report

I. Organization Chart of Corporate Governance



II. Corporate Governance Overview

Sound corporate governance is the responsibility of the Board. In 2016, the Bank strictly complied with relevant overseas listing regulatory requirements, and strived to improve the Bank's corporate governance mechanism, as well as enhance and improve the Bank's corporate governance. The Bank had adopted the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, and had met the requirements of the PRC commercial bank administrative measures and corporate governance requirements and had established a sound corporate governance system. Currently, the principal corporate governance documents of the Company include: the Articles of Association, the Rules of Procedure for the Shareholders' General Meeting, the Rules of Procedure for the Board of Directors Meetings, the Rules of Procedure for the Board of Supervisors Meetings, the Working Rules for the Independent Directors, the Working Rules for the Development Strategy Committee of the Board of Directors, the Working Rules for the Risk Management and Related Transactions Control Committee of the Board of Directors, the Terms of Reference of the Audit Committee of the Board of Directors, the Terms of Reference of the Nomination and Remuneration Evaluation Committee of the Board of Directors, the Terms of Reference of the President, the Administrative Measures for Connected Transactions, the Information Disclosure Administrative Measures, etc. The Board believes that during the period from 1 January 2016 up to 31 December 2016, the Bank had complied with the requirements of the provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules.

In addition, the Board has adopted the Model Code under Appendix 10 to the Hong Kong Listing Rules for the Directors, Supervisors and relevant employees of the Bank. After inquiries by the Bank, the Directors, Supervisors and relevant employees have confirmed that they had complied with relevant requirements of the code during the period from 1 January 2016 up to 31 December 2016.

In 2016, the shareholders' general meetings passed the following resolutions relating to corporate governance of the Bank:

At the 2016 first extraordinary general meeting of the Bank held on 22 January 2016, the Proposal on the Issuance of Eligible Tier-2 Capital Instruments was considered and approved.

At the 2015 annual general meeting of the Bank held on 19 May 2016, the following reports and regulatory documents on corporate governance were considered and approved: the Proposal on the 2015 Work Report of the Board of Directors, the Proposal on the 2015 Work Report of the Board of Supervisors, the Proposal on the 2015 Final Account Report, the Proposal on the 2016 Financial Expense Budgets, the Proposal on the 2015 Profit Distribution Plan, the Proposal on the 2015 Annual Report, the Proposal on the Appointment of Auditors for 2016, the Proposal on Granting a General Mandate to Issue H Shares to the Board of Directors, the Proposal on the Amendments to the Articles of Association, the Proposal on the Issuance of Green Financial Bonds, the Proposal on the Extension of the Validity Period of the Proposal on the Initial Public Offering and Listing of A Shares, the Proposal on the Matters Relating to Dilution of Immediate Return Upon the A Share Offering and Return Recovery Measures, and Certain Commitments by Directors and Senior Management Relating to Recovery of Immediate Return, the Proposal on the Extension of the Validity Period of the Authorisation to the Board to Handle the Application for the A Share Offering and Related Matters and the Proposal on the Extension of the Validity Period of the Authorisation to the Board and Specific Personnel Further Authorised by the Board to Draft and Finalise the Open Commitment Letter.

Corporate Governance Report

At the 2016 first domestic shareholders' class meeting of the Bank held on 19 May 2016, the following reports and regulatory documents on corporate governance were considered and approved: the Proposal on the Extension of the Validity Period of the Proposal on the Initial Public Offering and Listing of A Shares, the Proposal on the Matters Relating to Dilution of Immediate Return Upon the A Share Offering and Return Recovery Measures, and Certain Commitments by Directors and Senior Management Relating to Recovery of Immediate Return, the Proposal on the Extension of the Validity Period of the Authorisation to the Board to Handle the Application for the A Share Offering and Related Matters and the Proposal on the Extension of the Validity Period of the Authorisation to the Board and Specific Personnel Further Authorised by the Board to Draft and Finalise the Open Commitment Letter.

At the 2016 first H shareholders' class meeting of the Bank held on 19 May 2016, the following reports and regulatory documents on corporate governance were considered and approved: the Proposal on the Extension of the Validity Period of the Proposal on the Initial Public Offering and Listing of A Shares, the Resolution on the Matters Relating to Dilution of Immediate Return Upon the A Share Offering and Return Recovery Measures, and Certain Commitments by Directors and Senior Management Relating to Recovery of Immediate Return, the Proposal on the Extension of the Validity Period of the Authorisation to the Board to Handle the Company's Application for the A Share Offering and Related Matters and the Proposal on the Extension of the Validity Period of the Authorisation to the Board and Specific Personnel Further Authorised by the Board to Draft and Finalise the Open Commitment Letter.

At the 2016 second extraordinary general meeting of the Bank held on 13 October 2016, the following reports and regulatory documents on corporate governance were considered and approved: the Proposal on the issuance of non-capital financial bonds and the Proposal on the election of Mr. Peng Xiaodong as a non-executive Director of the Bank.

In 2016, the Bank organised and held 47 important meetings in total of all kinds (such as general meetings and class meetings of shareholders, meetings of the Board and its special committees, and meetings of the Board of Supervisors and its special committees), including five general meetings and class meetings of shareholders, six meetings of the Board, 26 meetings of the special committees of the Board, four meetings of the Board of Supervisors and six meetings of the special committees of the Board of Supervisors. At the meetings, the Bank considered and approved 273 major proposals and reports, including: the Work Report of the Board of Directors, the Work Report of the Board of Supervisors, the Work Report of the President, the Financial Budget Report, the Financial Statements, the Profit Distribution Plan, the performance evaluation index of senior management, the Comprehensive Operation Plan, the Report on the Implementation of Connected Transactions, the Risk Control Report, the amendments to the Articles of Association, the institutional development plan, etc. To further optimise the corporate governance mechanism in satisfying requirements of the Hong Kong Listing Rules and requirements in relation to the listing of A Shares, in 2016, the Bank amended the Terms of Reference of the Audit Committee of the Board, the Working Rules for the Risk Management and Related Transactions Control Committee of the Board, the Terms of Reference of the Nomination and Remuneration Evaluation Committee of the Board and the Working Rules for the Development Strategy Committee of the Board; due to the proposal on the non-public issuance of offshore preference shares, the Bank formulated the Articles of Association (Draft) and their annexes, which were to be applicable and effective upon the issuance of offshore preference shares, and the Articles of Association (Draft) and their annexes, which were to be applicable and effective upon the issuance of offshore preference shares and listing of A Shares.

During the Reporting Period, the Board conducted an annual evaluation of the senior management approved to be appointed in accordance with the requirements of the Administrative Measures on the Performance Evaluation of Senior Management, and applied the performance evaluation results in the remuneration distribution and terms of employment of the evaluated targets so as to provide incentives for the continuous improvement of duty performance of the senior management and to systematise, standardise and normalise the evaluation mechanism of the senior management by the Board.

According to the requirements of the Evaluation Method on Duty Performance of Directors, the Nomination and Remuneration Evaluation Committee of the Company conducted an annual evaluation of duty performance of the Directors in order to promote careful, earnest and diligent duty performance and self-discipline of the Directors.

The Bank continued to deepen the development of its internal control system by establishing, optimising and implementing various rules and regulations of internal control. A good internal control culture was developed and the business management and control mode of all business lines and business of various regions was refined through systematic publicity and education. Various internal control targets were achieved through various effective measures such as division of responsibilities, lines of reporting, incentive and restraint, etc.

III. Board of Directors

The Board shall hold at least four regular meetings every year. The notices and materials of the meetings should be sent to each Director at least 14 days and 3 days before the relevant meeting is convened, respectively, in accordance with the related corporate governance requirements under the Hong Kong Listing Rules and the Articles of Association. Each Director may put forward proposals to be added to the agenda of the Board meetings. The detailed minutes of the meetings of the Board will be provided to all attending Directors for their review, giving opinions and then signed by all Directors for confirmation. A good communication and report mechanism has been established among the Board, the Directors and senior management of the Bank. Senior management personnel provide sufficient information to the Board and its special committees to make decisions. The senior management shall conduct business and management activities within the scope of authorisation of the Articles of Association and the Board. All Directors may seek independent professional opinions at the cost of the Bank. The president of the Bank regularly reports to the Board and is subject to supervision of the Board. Relevant senior management personnel may be invited to attend the meetings of the Board and its special committees from time to time for explanation or answering inquiries. In the Board meetings, all Directors can present their opinions freely, and decisions on important matters should be made after detailed discussion.

As the administrative body of the Board, the Board Office is responsible for the preparation of the shareholders' general meeting and the Board meetings and special committees of the Board, information disclosure, investor relations management and other daily routines.

Corporate Governance Report

As the decision-making body of the Company, the Board is accountable to the shareholders' general meeting and responsible for implementing the resolutions of the shareholders' general meeting. The Board mainly exercises the following functions and powers:

1. Convening the shareholders' general meeting, and report to the shareholders' general meeting.

2. Implementing the resolutions of the shareholders' general meeting.

3. Deciding on the development plans of the Company and formulating business development strategy of the Company and supervising the implementation of the strategy.

4. Deciding on operation plans, investment plans and major assets disposal plans of the Company.

5. Formulating the risk tolerance level, risk management and internal control policies of the Company.

6. Formulating annual financial budgets and final account plan of the Company.

7. Formulating profit distribution plans and loss make-up plans of the Company.

8. Formulating proposals on the increase or decrease of registered capital, the issuance of bonds or other securities and the listing of the Company.

9. Formulating capital plans and bearing the ultimate responsibility of capital management.

10. Formulating proposals on major acquisitions of the Company, acquisitions of the stock of the Company or merger, division, dissolution and change of the corporate form.

11. Regularly evaluating and improving the Company's corporate governance.

12. Deciding on external investment, acquisition and disposal of assets, assets mortgage, external security, related transactions, external donations and other matters of the Company, within the scope of authorisation of the shareholders' general meeting.

13. Determining arrangement plans for the Company's internal management agencies, branches and capacity. and the number of management personnel.

14. Appointing or removing the president or board secretary of the Company, according to the nomination of the chairman of the Board; appoint or remove senior management such as the vice-president, assistant president and Chief Financial Officer, according to the nomination of the president.

15. Deciding on remuneration and disciplinary matters of senior management personnel and supervising and ensuring that senior management effectively fulfill management responsibilities.

16. Reviewing and monitoring the training and continuous professional development of the Directors and senior management.

17. Formulating basic management system and validating work rules for the president.

18. Formulating proposal on amendments to the Articles of Association of the Company.

19. Managing the information disclosure matters of the Company and bearing the ultimate liability of the authenticity, accuracy, completeness, and timeliness of the Company's accounting and financial report.

20. Proposing the engagement or replacement of the accounting firm that audits the Company to the shareholders' general meeting.

21. Establishing the mechanism of the identification, investigation and management of the conflict of interests between the Company and shareholders, especially major shareholders.

22. Hearing the work report of the president of the Company and checking the work of the president.

23. Safeguarding the legitimate rights and interests of the depositors and other stakeholders.

24. Formulating and reviewing the Company's policies and practices on corporate governance.

25. Reviewing and monitoring the Company's policies and practices on compliance with the legal and regulatory requirements.

26. Developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors.

27. Verifying the Company's compliance with the Corporate Governance Code specified in the Hong Kong Listing Rules and the information disclosed in the Corporate Governance Report.

28. Other functions and powers granted by laws, administrative regulations, department rules or the Articles of Association of the Company.

Corporate Governance Report

IV. Board Members

The Bank understands and recognises the importance of diversification of members of the Board, which the Bank views as the vital aspect to support the improvement of corporate governance and to achieve the sustainable development of the Bank. Hence, the Bank has adopted a policy namely "Diversification Policy of Members of the Board of Directors of Harbin Bank Co., Ltd.", according to which the Bank shall set the composition of members of the Board considering gender, age, nationality, academic background, professional qualification, industry expertise, etc. During the process of member selection and appointment of members of the Board, a comprehensive assessment is required to understand capabilities, skills, relevant experience, background and the objective evaluation of the potential contributions to the Bank of each candidate based on full consideration of member diversification to ensure various perspectives and opinions during the term of office and the composition of the Board best compatible with the development strategy of the Bank.

As at the end of the Reporting Period, the Board of our Company consisted of 13 Directors, including 3 executive Directors: Mr. Guo Zhiwen, Mr. Liu Zhuo and Mr. Zhang Qiguang, five non-executive Directors: Mr. Zhang Taoxuan, Mr. Ma Pao-Lin, Mr. Peng Xiaodong, Mr. Cui Luanyi and Mr. Chen Danyang, and five independent non-executive Directors: Mr. Zhang Shengping, Mr. He Ping, Mr. Du Qingchun, Mr. Wan Kam To and Mr. Kong Siu Chee. The five non-executive Directors are all from shareholders and have working experience in the fields of management, finance and accounting; three executive Directors have worked in the areas of banking and management for a long time and possess extensive bank management experience and professional expertise in those areas; five independent non-executive Directors are all experts in economic, financial, accounting and legal fields, two of whom are from Hong Kong, one with experience in auditing, finance, management consulting and the other with experience in corporate governance, and risk control and management of the banking industry. For details of the change, biographies and term of office of the members of the Board, please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Organizations" in this annual report.

V. Change in the Composition of the Board during the Reporting Period

During the Reporting Period, Mr. Qin Hongfu, a former non-executive Director of the Bank, resigned from the position of non-executive Director due to personal reasons in August 2016. Mr. Peng Xiaodong became a non-executive Director of the Bank as recommended by the Shareholders in accordance with the Articles of Association of the Bank. The relevant resolution was considered and approved at the tenth meeting of the Sixth Session of the Board of the Bank on 15 August 2016 and at the extraordinary general meeting convened on 13 October 2016. The resolution also obtained the Approval in relation to the Qualification of Mr. Peng Xiaodong (Hei Yin Jian Fu [2016] No.237) from Heilongjiang Office of CBRC on 1 December 2016.

VI. Chairman and President

The roles and works of the chairman of the Board and president of the Bank are taken by different individuals. There is a clear division of their responsibilities in compliance with the recommendations of the Hong Kong Listing Rules.

Mr. Guo Zhiwen, as the chairman of the Board, is mainly in charge of chairing shareholders' general meetings, convening and chairing the Board meetings, supervising and examining the implementation of the resolutions of the Board of the Directors, proposing to the Board candidates of the special committees, the president and secretary to the Board of the Bank, signing important documents of the Board and other documents which shall be signed by the legal representative of our Bank, encouraging different constructive opinions from Directors and facilitating effective contribution by non-executive Directors.

Mr. Zhang Qiguang, as the president of the Bank, is mainly in charge of the management of daily operation and the implementation of relevant resolutions and operation plans of the Board.

VII. Duties of Directors

During the Reporting Period, all Directors carefully, earnestly and diligently exercised the rights granted by the Bank and regulatory authorities, and devoted enough time and energy to handle the matters of the Company. During the year, the Directors, namely Guo Zhiwen, Zhang Qiguang, Zhang Taoxuan, Cui Luanyi, Chen Danyang and Zhang Shengping, were only absent from one physical Board meeting, and the attendance of remaining Directors for physical Board meetings was 100%.

The independent non-executive Directors gave their professional advice on the proposals considered by the Board, such as the profit distribution plan. In addition, the independent non-executive Directors also gave full play to their professional expertise in the special committees of the Board, and put forward professional and independent opinions on the corporate governance and operation management of the Bank.

During the Reporting Period, the Bank's Board of Supervisors conducted annual evaluation of the performance of duties of the Directors, and reported the results of the evaluation to the shareholders' general meeting.

The Directors are responsible for monitoring the preparation of financial statements of every accounting year to ensure a true and fair view of the Group's business condition, results and cash flows in the corresponding accounting period. In preparing for the financial statements for the year ended 31 December 2016, the Group has selected and consistently applied appropriate accounting policies and has made reasonable and prudent judgements and estimates. The Directors have acknowledged their responsibility for the preparation of financial statements and the auditor's statement of reporting responsibility for their report is set out in the Independent Auditor's Report on page 154 of this report.

Corporate Governance Report

VIII. Board Meetings and the Directors' Attendance

During the Reporting Period, the Bank held six meetings of the Board, considering and approving major proposals on development strategies, operation plans, financial policies, rule amendments and other matters, including 90 important proposals and reports such as the working report of the Board, the working report of the president, financial budget, financial statements, profit distribution plan, performance evaluation index of senior management, comprehensive operation plan, management and implementation of connected transactions, amendments to the Articles of Association.

Meeting	Meeting Date	Meeting Mode
The 7th meeting of the 6th session of the Board	12 January 2016	On-site
The 8th meeting of the 6th session of the Board	22 March 2016	On-site
The 9th meeting of the 6th session of the Board	19 May 2016	On-site
The 10th meeting of the 6th session of the Board	15 August 2016	On-site
The 11th meeting of the 6th session of the Board	13 October 2016	On-site
The 12th meeting of the 6th session of the Board	15 December 2016	On-site

The attendance of each Director in meetings of the Board and general meetings in 2016 is set out below:

Board Members	Number of Board Meetings Requiring Attendance	Number of Board Meetings Attended in Person	Number of Board Meetings Attended by Proxy	Attendance Rate of Board Meetings[1]	Number of General Meetings Attended/ Number of General Meetings Requiring Attendance
Guo Zhiwen[2]	6	5	1	83.33%	2/5
Liu Zhuo	6	6	0	100%	0/5
Zhang Qiguang	6	5	1	83.33%	4/5
Zhang Taoxuan	6	5	1	83.33%	4/5
Ma Pao-Lin	6	6	0	100%	5/5
Qin Hongfu (resigned on 15 August 2016)	4	4	0	100%	4/4
Cui Luanyi	6	5	1	83.33%	2/5
Chen Danyang	6	5	1	83.33%	2/5
Peng Xiaodong (appointed on 1 December 2016)	1	1	0	100%	0/0
Zhang Shengping	6	5	1	83.33%	5/5
He Ping	6	6	0	100%	4/5
Du Qingchun	6	6	0	100%	5/5
Wan Kam To	6	6	0	100%	5/5
Kong Siu Chee	6	6	0	100%	5/5

Note: 1. During the Reporting Period, attendance by proxy was not deemed as attendance.

2. Mr. Guo Zhiwen, the chairman of the Bank, failed to attend the 2015 annual general meeting held on 19 May 2016 due to business engagement.

IX. Duty Performance of Independent Non-Executive Directors

The Board now has five independent non-executive Directors, the appointment of which is in full compliance with the requirements of CBRC and CSRC and the Hong Kong Listing Rules regarding qualification, number and proportion of independent non-executive directors. During the Reporting Period, they maintained communications with the Bank through meeting with the chairman, site visits, special researches, trainings, department interviews and other approaches. Independent non-executive Directors actively voiced independent and professional opinions in the meetings of the Board and its special committees, attached importance to safeguarding minority shareholders' interests, and played a full role as independent non-executive directors.

The Bank has received independence confirmation letters from all the independent non-executive Directors. In the opinion of the Bank, all the independent non-executive Directors have been independent from 1 January 2016 to the date of the report.

X. Special Committees of the Board

The Board has four special committees, including the Audit Committee, Nomination and Remuneration Evaluation Committee, Risk Management and Related Transactions Control Committee and Development Strategy Committee. Both the structure and the composition of each special committee comply with the requirements of regulatory authorities and the Articles of Association. Amongst these committees, Nomination and Remuneration Evaluation Committee, Risk Management and Related Transactions Control Committee and Audit Committee are chaired by independent non-executive Directors, which further strengthens the supervision on the Bank by independent non-executive Directors.

In 2016, the special committees of the Board exercised their power in an independent, standard and effective manner in accordance with the laws. During the year, they held 26 meetings, at which 107 proposals and reports on regular reports, structural adjustment, rule amendments and other matters were considered and they were critical to the sustainable development and corporate governance of the Bank. As a result, the professionalism of discussion procedure of Board meetings and the work efficiency and decision-making capacity of the Board improved and the sustainable and healthy development of our businesses was boosted.

Corporate Governance Report

Members and terms of reference of the four special committees and their work in 2016 are as follows:

(I) Audit Committee

The Audit Committee mainly consists of independent non-executive Directors. The members include independent non-executive Directors: Mr. Wan Kam To (chairman of the committee), Mr. Zhang Shengping and Mr. Kong Siu Chee and a non-executive Director Mr. Peng Xiaodong.

The major terms of reference of the Audit Committee during the Reporting Period are as follows:

1. Examining the Bank's accounting policies, financial condition and financial reporting procedure.

2. Reviewing the Bank's financial information and its disclosure.

3. Overseeing the Bank's financial reporting process and internal control procedures.

4. Monitoring and evaluating the Bank's Internal Audit Department.

5. Making recommendations to the Board on the appointment, re-appointment and removal of external auditors.

6. Coordinating internal and external audit work of the Bank.

7. Reporting to the Board on corporate governance principle and terms of reference with respect to the Audit Committee in accordance with Appendix 14 to the Hong Kong Listing Rules.

In 2016, the Audit Committee held 5 meetings, at which 19 proposals and reports were considered and passed, including the Proposal on the 2015 Annual Results Announcement and Annual Report, Proposal on 2015 Profit Distribution Plan, Proposal on the 2016 Financial Expense Budget, Proposal on the Appointment of Auditors for 2016, Proposal on the 2015 Internal Control Evaluation Report of Harbin Bank Co., Ltd., Proposal on Approval of 2016 Unaudited Interim Financial Statements prepared according to the International Financial Reporting Standards, Proposal on Consideration and Approval of 2016 Interim Results Announcement and Interim Report. In 2016, the Audit Committee heard the work reports from the Internal Audit Department for many times, continued to deepen the implementation of the internal control system, supervised and guided the audit and examination work, and further improved the internal control system. The Audit Committee also organised the preparation and review of the 2015 annual report and 2016 interim report according to regulators' disclosure requirements on the annual financial report and the disclosure plan of the Audit Committee. During the Reporting Period, the Audit Committee had several meetings and communications with the external auditors, among which some meetings were in the absence of executive Directors and senior management. On 29 March 2017, the Audit Committee reviewed the audited consolidated financial statements for the year ended 31 December 2016 prepared in accordance with the accounting principles and policies of the Bank. The attendance of each member in the meetings of the Audit Committee in 2016 is as follows:

Member of Audit Committee	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate(Note)
Wan Kam To	5	5	0	100%
Zhang Shengping	5	4	1	80%
Kong Siu Chee	5	5	0	100%
Qin Hongfu (resigned on 15 August 2016)	5	5	0	100%
Peng Xiaodong (appointed on 1 December 2016)	0	0	0	100%

Note: During the Reporting Period, attendance by proxy was not deemed as attendance.

(II) Nomination and Remuneration Evaluation Committee

The Nomination and Remuneration Evaluation Committee mainly consists of independent non-executive Directors. Currently, members include independent non-executive Directors: Mr. Du Qingchun (chairman of the committee), Mr. He Ping, Mr. Wan Kam To and a non-executive Director Mr. Chen Danyang.

The major terms of reference of the Nomination and Remuneration Evaluation Committee during the Reporting Period are as follows:

1. Reviewing the structure, size and composition of the Board (including the skills, knowledge and experience) at least on an annual basis and proposing suggestions on the proposed change of the Board in accordance with company strategy.

2. Determining the conditions of service, criteria and selection procedures for Directors and senior management personnel.

3. Conducting preliminary review on the qualifications and appointment conditions of Directors and senior management personnel and proposing suggestions to the Board.

4. Assessing the independence of independent Directors.

5. Making and implementing the remuneration policy and structure for Directors and senior management.

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6. Reviewing and approving the remuneration proposals of the management with reference to the enterprise policies and objectives formulated by the Board.

7. Making recommendations to the Board on the remuneration and incentives measures and schemes for the senior management.

8. Drafting the performance review standards for senior management and conducting such performance review, and reporting the results to the Board.

9. Checking and deciding the amounts of annual incentive compensation to be distributed to senior management, operating and management personnel and other employees.

10. Formulating Board diversity strategy.

In 2016, the Nomination and Remuneration Evaluation Committee held 4 meetings. All members strictly performed the obligations listed in Terms of Reference for the Nomination and Remuneration Evaluation Committee of the Board and fully completed this year's work arrangements. Major works that were launched are as follows: conducting performance assessment of Directors and senior management, determining the 2017 annual performance assessment index of senior management, and completing the preliminary assessment on the qualifications and conditions of proposed Directors and providing recommendations to the Board. Meanwhile, 11 proposals and reports including the Proposal on Remuneration Management Measures of Harbin Bank (Revised Draft), Proposal on 2017 Annual Performance Assessment Index for Senior Management and Proposal on Adjustment to the Composition of the Audit Committee were reviewed and passed. The attendance of each member in the meetings of the Nomination and Remuneration Evaluation Committee in 2016 was as follows:

Member of Nomination and Remuneration Evaluation Committee	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate(Note)
Du Qingchun	4	4	0	100%
He Ping	4	4	0	100%
Wan Kam To	4	4	0	100%
Chen Danyang	4	4	0	100%

Note: During the Reporting Period, attendance by proxy was not deemed as attendance.

(III) Risk Management and Related Transactions Control Committee

The Risk Management and Related Transactions Control Committee currently consists of independent non-executive Directors, being Mr. Zhang Shengping (chairman), Mr. He Ping and Mr. Du Qingchun, an executive Director, being Mr. Liu Zhuo and a non-executive Director, being Mr. Cui Luanyi.

The major terms of reference of the Risk Management and Related Transactions Control Committee during the Reporting Period are as follows:

1. Supervising the risk control by senior management in respect of, among others, credit, market, operation and information technology.

2. Making regular assessment of the Bank's risk status.

3. Providing advice on improving the Bank's risk management and internal control.

4. Reviewing the Bank's asset liability management policies.

5. Collecting and compiling lists and information of the Bank's related parties.

6. Examining and supervising the control of related party transactions of the Bank, as well as the implementation of control scheme of related party transactions by the Directors, senior management and related parties, and reporting the results to the Board.

7. Approving or conducting preliminary review of matters to be approved or preliminarily reviewed by the Risk Management and Related Transactions Control Committee as set out in the Articles of Association and any other internal system rules, keeping records of the relevant matters and reporting to the Board in accordance with the rules.

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In 2016, the Risk Management and Related Transactions Control Committee held nine meetings, at which 43 proposals and reports were considered and approved, including Proposal on the Risk Management Policy of Harbin Bank in 2016, Proposal on Risk Appetite of Harbin Bank in 2016 and Proposal on Management of Isolation of Risks of Harbin Bank in 2016. The attendance of each member in the meetings of Risk Management and Related Transactions Control Committee in 2016 is as follows:

Member of Risk Management and Related Transactions Control Committee	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate(Note)
Zhang Shengping	9	8	1	88.89%
He Ping	9	9	0	100%
Du Qingchun	9	9	0	100%
Liu Zhuo	9	9	0	100%
Cui Luanyi	9	9	0	100%

Note: During the Reporting Period, attendance by proxy was not deemed as attendance.

(IV) Development Strategy Committee

The Development Strategy Committee currently consists of executive Directors, being Mr. Guo Zhiwen (chairman) and Mr. Zhang Qiguang, an independent non-executive Director, being Mr. Kong Siu Chee, and non-executive Directors, being Mr. Zhang Taoxuan and Mr. Ma Pao-Lin.

The major terms of reference of the Development Strategy Committee during the Reporting Period are as follows:

1. Researching and providing advice on the Bank's long and medium term development strategies.

2. Researching and providing advice on material investment and financing programs, material capital operation and asset operating projects to be approved by the Board as required under the Articles of Association.

3. Researching and providing advice on other material matters which may affect the development of the Bank.

4. Drafting the Bank's annual business targets.

5. Supervising and inspecting the implementation by senior management of the Bank's long and medium term development plans, annual business targets, investment and financing programs and capital allocation programs.

6. Exchanging information about the operation and risk exposure of the Bank with senior management and departments on a regular basis, as well as providing advice and recommendation.

7. Researching and providing advice on the strategy, policy and objective for the works on protecting consumers' rights, listening to the report on works regarding protection of consumers' rights by senior management on regular basis, supervising the execution and implementation of relevant works, and providing relevant report to the Board.

8. Researching and providing advice on the strategy, policy and objective for green credit, supervising the senior management in the implementation of green credit and fulfilment of social responsibility.

In 2016, the Development Strategy Committee held eight meetings, at which 34 proposals and reports such as Proposal on 2016-2020 Summary of Development and Strategic Plan, Proposal on 2016 Comprehensive Operation Plan, Proposal on Amendment to the Articles of Association, Proposal on the Non-Public Issuance of Offshore Preference Shares of Harbin Bank Co., Ltd. were considered and approved. The attendance of each member in the meetings of Development Strategy Committee in 2016 is as follows:

Member of Development Strategy Committee	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate(Note)
Guo Zhiwen	8	8	0	100%
Zhang Qiguang	8	8	0	100%
Kong Siu Chee	8	8	0	100%
Zhang Taoxuan	8	8	0	100%
Ma Pao-Lin	8	8	0	100%

Note: During the Reporting Period, attendance by proxy was not deemed as attendance.

XI. Board of Supervisors

The Board of Supervisors now consists of seven Supervisors, including three external Supervisors, three employee representative Supervisors and one shareholder representative Supervisor. The number and personnel composition of the Board of Supervisors are in compliance with the provisions of laws and regulations. During the Reporting Period, the Board of Supervisors held four meetings, at which 9 proposals and reports such as the Work Report of the Board of Supervisors, performance evaluation reports, the annual report, profit distribution plan and interview work report were considered and approved. The attendance of each Supervisor in the meetings of the Board of Supervisors in 2016 is as follows:

Member of Board of Supervisors	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate(Note)
Gao Shuzhen	4	4	0	100%
Wang Jiheng	4	4	0	100%
Meng Rongfang	4	4	0	100%
Bai Fan	4	4	0	100%
Lu Yujuan	4	3	1	75%
Wang Ying	4	4	0	100%
Yang Dazhi	4	4	0	100%

Note: During the Reporting Period, attendance by proxy was not deemed as attendance.

During the Reporting Period, pursuant to the approval on the Articles of Association of the Bank by the regulatory authorities, the two special committees of the Board of Supervisors, originally the Nomination Committee and the Supervision and Evaluation Committee, changed to the Nomination Committee and the Supervision Committee with the major change of the function of evaluation of duty performance of the Directors, Supervisors and the senior management of the Supervision and Evaluation Committee to be performed by the Nomination Committee. The structure and staff composition of each special committee were in compliance with the provisions of regulatory authorities and the Articles of Association and each committee was chaired by an external Supervisor. Each special committee carried out its work according to the laws, regulations, the Articles of Association, Rules of Procedure for the Board of Supervisors Meeting and the working rules of each committee.

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During the Reporting Period, the special committees of the Board of Supervisors exercised their authority and power in an independent, regular and effective manner in accordance with the law. Six meetings were held throughout the year at which 8 proposals such as annual performance evaluation report, periodic reports and the profit distribution plan were considered.

(I) Nomination Committee

The Nomination Committee consists of external Supervisors, being Mr. Wang Jiheng (chairman) and Ms. Bai Fan, and an employee representative Supervisor, being Ms. Wang Ying.

Its major terms of reference are as follows:

1. Drafting the conditions of service, criteria and selection procedures for Supervisors.

2. Conducting preliminary review and providing advice to the Board of Supervisors on the qualifications and conditions of supervisor candidates.

3. Nominating qualified external supervisor candidates and recommending Supervisors to the Board of Supervisors.

4. Supervising the election and employment procedure of Directors.

5. Comprehensively evaluating and reporting to the Board of Supervisors on the performance of duties of Directors, Supervisors and senior management personnel.

6. Providing advice to the Board of Supervisors on the size and composition of the Board of Supervisors based on the Bank's operational and management status, total asset size and shareholding structure.

7. Supervising the scientificity and rationality of the Company's remuneration management system and policy and remuneration management of senior management personnel.

8. Other matters authorised by the Board of Supervisors.

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During the Reporting Period, the Supervisory Board Nomination Committee held one meeting, at which the self-evaluation and mutual evaluation of the Supervisors for 2016 was conducted. The attendance of each member in the meetings of the Supervisory Board Nomination Committee in 2016 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Wang Jiheng	1	1	0	100%
Bai Fan	1	1	0	100%
Wang Ying	1	1	0	100%

(II) Supervision Committee

The Supervision Committee consists of an external Supervisor, being Ms. Meng Rongfang (chairman), a shareholder representative Supervisor, being Ms. Lu Yujuan, and an employee representative Supervisor, being Mr. Yang Dazhi.

Its major terms of reference are as follows:

1. Drafting the off-office auditing programme on senior management personnel and implementing such plans as approved by the Board of Supervisors.

2. Tracking the formulation of the Board's regular reports and relevant material adjustments and reporting the same to the Board of Supervisors.

3. Supervising the Board of Directors to establish steady business philosophy and value criterion, formulate strategy of development to conform to the practical circumstances of the Company and supervising the Company's financial activities, business decisions, risk management and internal control.

4. Making recommendations on the engagement of external auditors based on supervision as needed.

5. Other matters authorised by the Board of Supervisors.

During the Reporting Period, the Supervisory Board Supervision and Evaluation Committee held five meetings, at which 8 proposals and reports were considered and approved, such as the Proposal on 2015 Profit Distribution Plan and Proposal on the 2015 Annual Report, the Proposal on the Board of Supervisors' Evaluation Report on the 2015 Duty Performance of the Board of Directors and Directors, Proposal on the Evaluation Report on the 2015 Duty Performance of the Board of Supervisors and Supervisors, Proposal on the Board of Supervisors' Evaluation Report on the 2015 Duty Performance of the Senior Management and its members, Proposal on Conducting Interviews by the Board of Supervisors in 2016, Proposal on the Interview Work Report of the Board of Supervisors and Proposal on 2016 Interim Report. The attendance of each member in the meetings of the Supervisory Board Supervision and Evaluation Committee in 2016 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Meng Rongfang	5	5	0	100%
Lu Yujuan	5	4	1	80%
Yang Dazhi	5	5	0	100%

XII. Change in the Members of the Board of Supervisors during the Reporting Period

During the Reporting Period, there was no change in the members of the Board of Supervisors.

XIII. Financial, Business and Family Relationship among Directors, Supervisors and Senior Management

No relationship exists among Directors, Supervisors and senior management of the Bank, including financial, business and family relationship or other material relationship.

XIV. Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code set out in Appendix 10 of the Hong Kong Listing Rules as its codes governing securities transactions by its Directors and Supervisors. After making inquiries with all Directors and Supervisors, the Bank confirmed that they had complied with the above codes for the period from 1 January 2016 to 31 December 2016. The Bank also set up guidelines in respect of dealings by relevant employees in the securities of the Bank on terms no less exacting than those of the Model Code. The Bank did not have knowledge that any relevant employee had breached the guidelines.

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XV. Trainings and Surveys of Directors and Supervisors during the Reporting Period

During the Reporting Period, the Board organised survey and investigations by independent Directors for four times, during which they went to Harbin, Shenzhen, Jiangxi, Shanghai and other regions to conduct site visits on five departments of the headquarters and three township banks of holding subsidiaries by way of interviews. Through interviews and site visits, the independent Directors gained understanding of the establishment of regulatory systems of the departments and branches, appraisal system, information technology, risk management, budget control and operation, instructed them to enhance the management and operation, raise awareness of risks and improve risk management capability and gave independent, objective and professional opinions and recommendations on their operation and management.

During the Reporting Period, the Board of Supervisors organised the external Supervisors to conduct three special investigations. They conducted interviews with 17 branches, 11 sub-branches and the four finance headquarters, the risk department, the business department and the support department, as well as the Bank's investees, namely HB Leasing, the board of directors of the village and township banks and 6 village and township banks with a special focus on the implementation of strategies, risk control, compliance management, financial management, non-performing assets and incident prevention and control.

During the Reporting Period, three training sessions were organised for Directors and Supervisors by the Bank, covering E-financing, social responsibility of listed company, corporate governance and hot issues in the banking industry with the participation of relevant senior management members. Meanwhile, the Bank organised learning sessions for senior management members on topics relating to corporate governance, law, finance and the Hong Kong Listing Rules, ensuring that they possessed an adequate understanding of the operation, business of the Bank and relevant laws and regulations.

The attendance of each Director in trainings on specific topics and site business visits in 2016:

Name of Directors	Number of trainings on specific topics	Number of site business visits
Guo Zhiwen	1	5
Liu Zhuo	1	2
Zhang Qiguang	1	5
Zhang Shengping	2	3
He Ping	2	3
Du Qingchun	2	3
Wan Kam To	2	4
Kong Siu Chee	2	4
Zhang Taoxuan	2	0
Ma Pao-Lin	1	0
Qin Hongfu (resigned on 15 August 2016)	2	0
Peng Xiaodong (appointed on 1 December 2016)	1	0
Cui Luanyi	2	0
Chen Danyang	2	0

The attendance of each Supervisor in trainings on specific topics and site business visits in 2016:

Name of Supervisors	Number of trainings on specific topics	Number of site business visits
Gao Shuzhen	1	7
Wang Jiheng	1	2
Meng Rongfang	1	1
Bai Fan	1	2
Lu Yujuan	1	0
Wang Ying	1	1
Yang Dazhi	1	1

XVI. Amendments to Articles of Association

In order to further enhance its corporate governance practice and system, the Proposal on Amendments to the Articles of Association was considered and approved at the 2015 annual general meeting held by the Bank on 19 May 2016. These amendments became effective upon the approval of the Heilongjiang Branch of the CRBC on 2 September 2016.

In order to meet the requirement of the non-public issuance of offshore preference shares, the Bank formulated the draft Articles of Association for offshore preference shares and draft Articles of Association for A shares and offshore preference shares. These drafts were considered and approved at the 2017 first extraordinary general meeting, 2017 first domestic shareholders' class meeting and 2017 first H shareholders' class meeting convened on 10 February 2017 and will become effective upon the approval of regulatory authority and the completion of such issuance.

XVII. Company Secretaries under the Hong Kong Listing Rules

Ms. Sun Feixia and Mr. Ngai Wai Fung have acted as joint company secretaries of the Bank since January 2014. Please refer to "Information on Joint Company Secretaries" for the biographical details of Ms. Sun Feixia and Mr. Ngai Wai Fung. Each Director may discuss with, seek advice and obtain data from the company secretaries. Both of Mr. Ngai and Ms. Sun have confirmed their receipt of no less than 15 hours of relevant professional trainings. The principal contact person of Mr. Ngai with the Bank is Ms. Sun.

XVIII. Communication with Shareholders

In the management of investor relationship, the Company closely adheres to the operating philosophy of "Inclusive finance, Harmonious Co-Enrichment", works on the strategic objective of "becoming a first-class international microcredit bank providing excellent services with unique characteristics", highlights the unique market position of microcredit, rural credit and Sino-Russia credit and gives emphasis to displaying to investors the Bank's latest achievements and future potential of developing business fields such as microcredit, mobile finance and Sino-Russia credit. Meanwhile, the Company also displays its comprehensive development plan in establishing village and township banks and subsidiaries such as HB Leasing.

During the Reporting Period, the Company always attached great importance to the interests of investors and repaid the value to the investors. With respect to dividend, the Company paid dividends of RMB1.07 per 10 Shares (inclusive of tax) to all Shareholders by way of cash for the year 2015, guaranteeing reasonable investment return for investors. With respect to communication with investors, the Company further improved its communication with investors in the following ways: (1) The Company held analyst meetings for 2015 annual results and 2016 interim results as well press conferences in Hong Kong in March and August 2016 respectively, where there was a total of more than 80 individuals including domestic and foreign fund managers, analysts and media reporters attending the meetings. (2) The management of the Bank attended three results roadshows overseas and met over 30 foreign institutional investors in March, May and August 2016 respectively. (3) In 2016, the Bank received visitors of domestic and foreign institutional investors as well as analysts of investment banks and brokers including InvestHK in Hong Kong as well as Wellington Asset Management, Teachers Insurance and Annuity Association – College Retirement Equities Fund and Indus Capital in the U.S. The Bank seized the opportunities arising from the visits of investors and analysts and introduced to them the Bank's strategic direction and position to "become a first-class international microcredit bank" and its ideas and progress in business transformation. (4) In 2016, the Bank replied the issues and suggestions from investors proposed through various channels in a timely manner, including answering over 60 telephone inquiries from investors, replying numerous e-mail inquiries from investors and analysts and dealing with the matters in relation to scheduling meetings with the Company for investors.

Shareholders may at any time make inquiries to the Board in writing via the Board Office, whose contact details are as follows:

Address: No. 888 Shangjiang Street, Daoli District, Harbin, China
Post code: 150010
Tel: 86-451-86779933
Fax: 86-451-86779829
E-mail: ir@hrbb.com.cn

XIX. Rights of Shareholders

(I) Procedure of convening an extraordinary general meeting of shareholders

According to the provisions of the Articles of Association and Rules of Procedure for Shareholders' General Meeting:

1. Shareholders individually or jointly holding 10% or more of shares of the Bank may sign one or more written requests in the same form and content and submit to the Board to request that the Board should convene an extraordinary general meeting or a separate class meeting of shareholders while declaring the topic of such meeting in such request. The Board shall, within 10 days after receipt of the request, make written feedback to agree or disagree to convene an extraordinary general meeting or a separate class meeting of shareholders in accordance with provisions of the laws, administrative regulations and the Articles of Association;

2. The Board shall deliver such notice of convening an extraordinary general meeting or a separate class meeting of shareholders within 5 days after the decision of the Board if it agrees to convene an extraordinary general meeting or a separate class meeting of shareholders. Any change of the former request in the notice shall be made with the consent of relevant shareholders;

3. While the Board disagrees to convene an extraordinary general meeting or a separate class meeting of shareholders or does not give feedback within 10 days after the receipt of such request, shareholders individually or joint holding 10% or more of shares of the Bank are entitled to propose that the Board of Supervisors should convene an extraordinary general meeting by submitting such request in writing;

4. While the Board of Supervisors agrees to convene an extraordinary general meeting or a separate class meeting of shareholders, it shall, within 5 days after the receipt of the request, deliver such notice, in which any change in the former proposal shall be made with the consent of relevant shareholders; and

5. In the event that the Board of Supervisors fails to deliver such notice to convene an extraordinary general meeting or a separate class meeting of shareholders in a specified period, such acts shall be deemed to be refusing to convene such aforesaid meeting by the Board of Supervisors. Such shareholders individually or jointly holding 10% or more of shares of the Bank for 90 consecutive days may at their discretion convene and preside over such aforesaid meeting.

(II) Procedure of submitting a proposal to the general meeting of shareholders

Shareholders individually or jointly holding 3% or more of the shares of the Bank may propose an interim proposal in writing and submit it to the convener 10 days before the general meeting. For contact details, please refer to "Corporate Governance Report" – "Communication with Shareholders". The convener shall issue a supplementary notice of the general meeting within 2 days after receiving the proposal and announce such proposal, which shall satisfy such provisions as otherwise specified in the local listing rules (the Hong Kong Listing Rules). Except the aforementioned situation, the convener shall not alter proposals listed in the notice of the general meeting or add any proposals after the issuance of notice of the general meeting.

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XX. External Auditors and Auditors' Remuneration

The Bank engaged Ernst & Young Hua Ming LLP and Ernst & Young to respectively act as auditors for 2016 annual financial report of the Bank prepared according to the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards. The Company did not change its auditors during the past three years.

For the year ended 31 December 2016, the Bank respectively paid RMB6.2 million and RMB0.4 million to such external auditors for audit services and non-audit services.

XXI. Risk Management, Internal Control and Internal Audit

The Board is responsible for the on-going supervision of the risk management and internal control systems of the Company, and responsible for the risk management and internal control systems. It is also responsible for the review of the effectiveness of those risk management and internal control systems. The Board reviews the effectiveness of the risk management and internal control systems of the Group each year through its special committees.

The Board completed its review of the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2016 through its special committees. The Bank commenced internal control evaluation according to the requirements under the Guidelines for Internal Control of Commercial Banks of the CBRC. The Board was of the opinion that, during the year, the business and matters within the scope of internal control assessment by the Company involved various kinds of control on the corporate and operational levels as well as in the area of information technologies and covered the principal aspects including Company's financial, operational and regulatory control and risk management. The internal control system was effective and adequate. In addition, the Board also reviewed and was satisfied with the sufficiency of resources and the qualifications and experience of the employees for performing the Company's accounting and financial reporting functions, as well as the adequacy of the employee training courses and the relevant budget. However, the risk management and internal control systems were designed to manage rather than to eliminate the risk of failure to achieve the business objectives. Accordingly, the Board can provide only reasonable assurance, instead of absolute assurance, against material misstatement or losses.

(I) Procedures for Identification, Evaluation and Management of Significant Risks

For the procedures used by the Bank for identification, evaluation and management of significant risks, please see refer to "Report of the Board of Directors" – "Risk Exposure and Management" in this annual report.

(II) Procedures for Review of the Effectiveness of the Risk Management and Internal Control Systems

The Bank conducts an annual review of the effectiveness of its risk management and internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The review is conducted by reference to the guidelines and definitions given by the regulatory and professional bodies for the purpose of assessing five different internal control elements, namely, the control environment, risk assessment, control activities, information and communication, and internal monitoring. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The review also considers the adequacy of resources, staff qualifications and experience and training of the Bank's accounting, financial reporting and internal audit functions. The review is coordinated by the Bank's Internal Audit Department which, after the management and various business departments have performed their self-assessment and the management has confirmed the effectiveness of the relevant systems, then carries out an independent examination and other post-assessment work on the review process and results. The results of the 2016 review, which have been reported to the Audit Committee and the Board, revealed that the Group's risk management and internal control systems were effective and adequate.

(III) Procedures for Resolution of Material Internal Control Defects

The key internal control procedures that the Bank has essentially established and implemented to prevent and solve material internal control deficiencies are summarized as follows:

- a rational organizational structure with appropriate personnel is developed and whose responsibility, authority, and accountability are clearly delineated. The Bank has formulated policies and procedures to ensure reasonable checks and balances for all the operating units, reasonable safeguard for the Group's asset and adherence to relevant laws and regulations and risk management in its operations;

- the management draws up and continuously monitors the implementation of the Group's strategies, business plans and financial budgets. The accounting and management systems that are in place provide the basis for evaluating financial and operational performance;

- the Bank has various risk management and human resources policies. There are specific units and personnel that are responsible for handling reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks. There are also procedures and internal controls for the handling and dissemination of inside information. The Group has set up mechanisms to identify, evaluate and manage all the major risks in a timely manner, and has established corresponding internal control procedures.

- the Bank has established an information technology governance structure that produces a range of reports on information systems and management, including information on the monitoring of various business units, financial information and operating performance. Such information facilitates the management, business units and the regulatory bodies in assessing and monitoring the Bank's operation and performance. Proper communication channels and reporting mechanisms are in place at various business units and levels to facilitate the smooth exchange of information;

- pursuant to a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee of the Board, the Bank's Internal Audit Department conducts independent reviews on such aspects as financial activities, various business sectors, various kinds of risks, operations and activities. Reports are submitted directly to the Audit Committee. The Bank's Internal Audit Department closely follows up on the items that require attention in a systematic way and reports to the management and the Audit Committee in a timely manner;

(IV) Procedures and Internal Control Measures for the Handling and Dissemination of Inside Information

The Board secretary is responsible for organizing and coordinating of the information disclosure matters of the Company, collecting the information to be disclosed and reporting to the Board, continuously paying attention to the media coverage of the Company, and verifying the coverage of the inside information related to the Company.

When an employee of the Company becomes aware of any new progress or information which may be inside information, he/she shall inform his/her reporting person on information disclosure at once through the person in charge of his/her unit or department. The reporting person on information disclosure shall report the related information at once to the reporting person on information disclosure of the related department of the headquarters of the Bank, who shall inform the Board secretary and the Board Office at once. If the information to be disclosed is covered by the media before it is disclosed according to the law, the Company shall make an announcement immediately.

Internal Control

Pursuant to the laws and regulations on internal control normative system for enterprises including the Basic Internal Control Norms for Enterprises and its relevant guidelines as well as the Guidelines for Internal Control of Commercial Banks, the Company formulated and improved a scientific internal control system while establishing and maintaining a business environment which is under proper control and takes into account risk conditions by borrowing advanced ideas from foreign countries. The Bank has a clear internal management framework: as the decision-making body of the Bank, the Board is responsible for the creation, development and effective implementation of internal control system; the management at various levels is responsible for coordinating the establishment and implementation of internal control system and its daily operation; the various branch organisations and departments are responsible for establishing and continuously improving their own internal control systems in accordance with the requirements of laws and regulations; the compliance departments at different levels and the independent internal audit departments are responsible for the supervision and evaluation of the internal control system of the Company, forming an internal control management and organisational structure with reasonable division of labour, clear responsibilities and reporting relationships.

During the Reporting Period, the Bank implemented a series of works on improving and optimising internal control, primarily including the following:

Firstly, the Bank improved its risk evaluation system. The Board, senior management and responsible management personnel fully understood various risk exposures under the operating and management process, and basically established a comprehensive risk management system which is suitable for the Bank through years of effort. Major risk exposures, such as credit risk, market risk, liquidity risk, compliance risk, legal risk and reputation risk, were covered by the scope of risk management and were consistently monitored. Series of management measures and systems had been applied gradually so far, such as data platform, pricing management, comprehensive budgeting management, interest rate liberalisation project, and internal assessment model for retail and non-retail business. Hence, the standard of delicacy management for risk assessment greatly improved.

Secondly, the Bank adhered to its principles in full coverage, balancing, prudence and conformity to establish a comprehensive internal control system, which formulated comprehensive, systematic and standardised business and management systems for various business and management activities. Proper control measures were adopted to execute standardised business and management process. At the same time, the Bank identified and assessed the risk exposures during business operations with the use of scientific risks management techniques and methods to consistently monitor various types of major risks. The information system control was strengthened to improve the automatic system control on business and management activities through the effective integration of internal control process with business operation system and management information system. According to the needs for operation and management, the duties and authority of the departments and positions were defined and formulated standardised descriptions for the responsibilities of departments and positions. The Bank rationalised the incompatible positions involved in the business process and management activities upon comprehensive systematic analysis and implemented corresponding separation measures to form interacting position arrangement. The Bank formulated internal control requirements for important positions, which established work shift and compulsory leave systems on staff at important positions. The Bank established systems to regulate staff's behaviour so as to strengthen the supervision and inspection on staff's behaviour. The reporting, investigation and punishment systems on staff's abnormal behaviour were also established. According to the business capacity, management level, risk condition and business development needs of the branch institutions and department, the Bank established the relevant authorisation system which defined the authorities of institutions, departments, positions, employees at different levels for business operations and matters and would be subject to dynamic adjustments. The Bank strictly complied with the accounting standards and systems so as to reflect the business transactions in an accurate and timely manner while ensuring the trueness, reliability and completeness of the financial accounting information. The Bank established an effective verification and monitoring system to verify various accounts, certificates and statements regularly and check the intangible assets including cash and marketable securities, and important evidence in a timely manner. With respect to new business and introduction of new products and services, the Bank established the relevant management system and business process. The Bank established a comprehensive outsourcing management system, which defined the organisational structure and management responsibilities for outsourcing management, and assessed the risk of outsourcing business. The Bank established a comprehensive customer complaint handling mechanism and workflow for handling complaints so as to regularly summarise and analyse the complaint related matters to identify the potential issues for effective improvement in services and management.

Thirdly, for the establishment of information transmission and communication channels, the Bank established a two-way internal communication mechanism from two dimensions, namely top-down and down-top communication. By clearly identifying the responsible departments for reporting and the reporting paths, the Bank established a better internal system for internal information exchange and communication mechanism. Furthermore, through optimising information exchanging platforms within the Bank such as the OA system, the Bank ensured that various departments and entities at all levels of the head office can convey in a timely manner all information on the strategies, policies, systems and relevant requirements at the decision-making level to the employees and at the same time provide support to the employees for timely reporting of internal control problems to the managements at various levels. Regarding external disclosure and information gathering, the Bank also specified responsible departments, relevant processes and document circulation mechanisms to ensure compliance thereof and timely circulation of external documents.

Fourthly, the Bank has been putting efforts in the establishment and optimisation of an effective internal control organisational system under joint supervision from multi-levels, multi-dimensions and multi-channels. The Bank established a reporting and information feedback system for internal control. The business departments, internal control management functional departments, internal audit departments and other responsible personnel had to report to the Board, the management or the responsible departments in a timely manner once they discovered any threat or defect of internal control.

Fifthly, the Bank continued to organise various compliance trainings and seminars so as to enhance compliance culture and internal control performance. During the Reporting Period, the Board and the senior management of the Bank highly focused on the works in respect of internal control training, and strengthening of incident prevention and control, consumer right protection and anti-money laundering management. It emphasised the importance of internal control, aiming to make all employees across the Bank acknowledge the importance of internal control, be familiar with the duty requirements for different positions, understand the key points of internal control and take part in internal control, thus building an excellent internal control environment across the Bank. The Bank further promoted its compliance philosophy of "giving highest priority to compliance, making all employees in compliance, working in compliance actively, and creating value through compliance", thereby building a corporate culture of "compliance with high efficiency".

Internal Audit

The Bank has established in place an independent and vertical internal audit management system. The Board is responsible for building and maintaining a sound and effective internal audit system. The Board has established the Audit Committee, which is accountable to the Board, whereas the Internal Audit Department as the Bank's department for audit, is responsible for audit on the operation and management of the Bank, and is accountable to the Board and the Audit Committee thereunder. The Internal Audit Department exercises its independent right of internal audit as authorised by the Board, not subject to intervention by any other departments or persons. Neither does it take part in any specific operating activities within the scope of duties of other departments.

During the Reporting Period, conforming to the prevailing risk condition and the new requirements for the Bank's transformation and development, the Internal Audit Department of the Bank adhered to a risk-oriented concept while being vigilant about the base line of risk and regulation and focused on the identification of risk and optimisation of internal control system so as to further strengthen the supervision at the group, institutional and business levels. It took the lead in organizing the evaluation of the internal control of the organisations in the scope of consolidation. It organised and implemented a comprehensive audit on branches and sub-branches, village and township banks, audit of management members for term of office, special audit on key business, follow-audit on new capital agreements and risk audit on information technology. In addition, it implemented comprehensive and continuous supervision on its system-supported business through an off-site auditing system. The internal control and material risk management audit achieve full coverage. The Board and the senior management emphasised on the audit findings and transformation of audit results, actively promoted rectification and process improvement, supervised the effective duty performance of the units under auditing and improved the Bank's risk control ability.

For the major features and other particulars of the risk management and internal control systems of the Bank, please refer to "Report of the Board of Directors – IX. Risk Exposure and Management" in this annual report.

Report of the Board of Supervisors

I. Meeting of the Board of Supervisors

In 2016, the Board of Supervisors held four meetings, at which 9 proposals were considered and approved, including the Proposal on 2015 Work Report of the Board of Supervisors of Harbin Bank Co., Ltd., the Proposal on the 2015 Profit Distribution Plan, the Proposal on the 2015 Annual Report, the resolution on the Board of Supervisors' Evaluation Report on the 2015 Duty Performance of the Board of Directors and Directors, the Proposal on the 2015 Duty Performance of the Board of Supervisors and Supervisors, the Proposal on the Board of Supervisors' Evaluation Report on the 2015 Duty Performance of Senior Management and its Members, the Proposal on the Interview Work Report of the Board of Supervisors, the Proposal on 2016 Interim Report and the Proposal on Adjustment to the Composition of the Supervisory Board Committees.

II. Major Work of the Board of Supervisors

(I) System Establishment

During the Reporting Period, the Board of Supervisors always paid attention to the introduction and updates of the relevant laws and regulations and regulatory guidelines in China, and organised the Supervisors to study in a timely manner. Pursuant to the approval on the amended Articles of Association from the Heilongjiang Branch of the CRBC, the Bank put the new Rules of Procedure of the Board of Supervisors Meetings and the terms of reference of the committees into effect on time.

(II) Special Investigation

During the Reporting Period, the Board of Supervisors conducted special investigations for the external Supervisors. It established three topics, namely consumer finance development strategy, risk management of big data era and the economic development of the Sanjiang Plain as well as the innovation and risk management of the Bank's loan products, and prepared special investigation reports upon in-depth study and analysis through investigation. It then concluded recommendations and advices to provide reference for the decision-making and operation of the Bank.

(III) Conducting Interviews

During the Reporting Period, the Board of Supervisors, in performance of their duties, monitored the duty performance of the Board and the senior management and matters relating to the financial operation, risk management and internal control, as well as organised and implemented relevant activities.

During the Reporting Period, the Board of Supervisors conducted interviews with the all branches and certain sub-branches inside and outside the province as well as the four finance headquarters, the risk department, the business department and the support department. The Board of Supervisors placed special emphasis on the supervision and understanding on the implementation work of the branch organisations and departments, effects of the change in external environment and its pertinent strategies, execution of the new five-year strategic plan, new organisational structure condition, risk management, compliance management, financial management, non-performing assets and incident prevention and control, etc.

During the Reporting Period, the Board of Supervisors also conducted interviews with its investees, namely HB Leasing, the board of directors of the village and township banks and certain village and township banks so as to know more about the overall risk management condition of these investees while focusing on the establishment of the overall risk management system and improvement in risk management capacity of these investees.

Report of the Board of Supervisors

(IV) Supervision of Duty Performance

During the Reporting Period, the Board of Supervisors continued supervising the performance of the Board and the senior management in accordance with the relevant rules of the Articles of Association and the requirements relating to the evaluation of performance by the Board of Supervisors. Through conducting interviews and so on, considering and approving resolutions, attending the meetings of the Board and the senior management the Board of Supervisors monitored the performance of the Board and the senior management and their members. Based on the annual supervision on the performance, the Board of Supervisors evaluated the annual work performance and compiled reports to submit to the shareholders' general meeting and relevant regulatory authorities.

(V) Putting Forward Management Suggestions

During the Reporting Period, the Board of Supervisors consistently paid attention to all kinds of risk management status and control measures of the Company, and by focusing mainly on business development, compliance management, risk management, data governance, group development, optimisation of asset structure and so on during their interviews, investigations and supervision process, the Board of Supervisors provided comments and suggestions, and reported to the Board and the senior management for reference for decision-making and operation. The Board of Supervisors also reminded to prevent the risks including operational risk, reputation risk, market risk, credit risk and bills risk as well as information technology risk and continue to supervise financial, overall risk management and internal control.

(VI) Self-enrichment

Firstly, the Board of Supervisors formulated its work plan. Pursuant to the Guidelines on the Work of the Board of Supervisors of Commercial Banks, the Articles of Association and other relevant provisions and based on the overall economic condition and the actual situation of the Company, the Board of Supervisors formulated the annual work plan which clarified its job objectives, priorities, measures and methods, laying a foundation for scientific and effective performance of duties. Secondly, the Board of Supervisors improved the theoretical level of the Supervisors. By organising trainings in relation to corporate governance, information disclosure and new regulations of regulatory policy for Supervisors, Supervisors had a clearer picture on their legal responsibilities, rights and obligations, and an in-depth understanding on the problems and challenges confronted upon the listing of the Company. Thirdly, the Board of Supervisors strengthened the requirements on the duty performance of the Supervisors. It strictly reviewed the attendance of meetings and trainings of the Supervisors, which was regarded as an important basis for performance evaluation. All supervisors participated in the interviews and research in order to deeply understand the actual situation of the operation and management in the industry and make professional recommendations so as to ensure their duty performance.

By Order of the Board of Supervisors
Gao Shuzhen
Chairman of the Board of Supervisors

Harbin, PRC
29 March 2017

Important Events

I. Corporate Governance

During the Reporting Period, the Bank continued to optimise its corporate governance structure and improve its corporate governance practice in strict compliance with relevant laws and regulations such as the Company Law of the People's Republic of China, the Commercial Bank Law of the People's Republic of China as well as the Listing Rules, with due consideration given to the actual conditions of the Bank.

During the Reporting Period, the Bank strictly complied with relevant overseas listing regulatory requirements, and strived to improve the Bank's corporate governance mechanism, as well as enhance and improve the Bank's corporate governance. The Bank had adopted the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, and had met the relevant requirements of the PRC commercial bank administrative measures and corporate governance requirements and had established a sound corporate governance system. Currently, the principal corporate governance normative documents of the Company include: the Articles of Association, the Rules of Procedure for the Shareholders' General Meeting, the Rules of Procedure for the Board of Directors Meetings, the Rules of Procedure for the Board of Supervisors Meetings, the Working Rules for the Independent Directors, the Working Rules for the Development Strategy Committee of the Board of Directors, the Working Rules for the Risk Management and Related Transactions Control Committee of the Board of Directors, the Terms of Reference of the Audit Committee of the Board of Directors, the Terms of Reference of the Nomination and Remuneration Evaluation Committee of the Board of Directors, the Terms of Reference of the President, the Connected Transactions Administrative Measures, the Information Disclosure Administrative Measures, etc. The Board is of the opinion that during the period from 1 January 2016 to 31 December 2016, the Bank had complied with the requirements of the Code Provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules.

(I) Formulation of New Five-Year Development Strategy

During the Reporting Period, after full research and discussion, the Bank formulated "2016-2020 Development Strategy Plan" and "2016-2020 Strategic Development Detailed Plan". The detailed strategy formulation is as follows:

"2016-2020 Guidelines of Development Strategy Plan" was considered and passed at the 6th meeting of the sixth session of the Board held on 7 December 2015. Based on full discussion of the Board of Directors and the senior management, "2016-2020 Development Strategy Plan" was considered and passed at the 7th meeting of the sixth session of the Board held on 22 January 2016. "2016-2020 Strategic Development Detailed Plan" was considered and passed at the 9th meeting of the sixth session of the Board on 19 May 2016 in order to further refine the details of the strategy and enhance its feasibility.

According to the "2016-2020 Development Strategy Plan", in the coming five years, the Bank will continue to uphold "Inclusive Finance, Harmonious Co-Enrichment" as its operational philosophy, and strive to achieve the strategic goal of becoming a "first class international microcredit bank providing excellent services with unique characteristics". Driven by product innovation and with the support of the four financial pillars of "Retail Finance, Corporate Finance, Interbank Finance, Mobile Finance", the Bank aims to achieve "characteristic, collectivised, international" development.

Important Events

(II) Establishment of HBCF

In order to further consolidate and improve the Bank's advantages in microcredit business, help achieve the strategic objective of "becoming a first-class international microcredit bank providing excellent services with unique characteristics" and accelerate the collectivised development of the Bank, the resolution on the establishment of a consumer finance company was considered and passed at the 5th meeting of the 6th session of the Board held by the Bank on 14 October 2015. On 10 November 2016, the Bank obtained the Approval for the Proposed Establishment of Harbin Bank Consumer Finance Co., Ltd. (Yin Jian Fu [2016] No. 356) from the Heilongjiang Office of the CBRC. The Bank disclosed the matters in relation to the approval of the establishment of a consumer finance company in the announcement dated 14 November 2016. The Bank has been working on the establishment of HBCF strictly pursuant to the approval opinion. For the specific progress, please refer to "Report of the Board of Directors" – "Material Subsequent Event".

(III) New Investment in and Establishment of Village and Township Banks

During the Reporting Period, the Bank held the 10th meeting of the 6th session of the Board on 15 August 2016 and considered and passed the proposals on the establishment of a village and township bank in Kongtong District of Pingliang, the establishment of a village and township bank in Maiji District, Tianshui, the establishment of a village and township bank in Qingbaijiang District, Chengdu, the establishment of a village and township bank in Langzhong, the establishment of a village and township bank in Zhongjiang County, Deyang, the establishment of a village and township bank in Huanan County, Jiamusi, the establishment of a village and township bank in Nehe and the establishment of a village and township bank in Ning'an. As at 31 December 2016, all eight village and township banks obtained approvals for their establishment from the CBRC. The Bank has been proactively working on the establishment of village and township banks strictly pursuant to the approval opinions. The details of establishment are as follows:

1. *Ning'an Rongxing Village and Township Bank Co., Ltd.*

On 1 November 2016, Ning'an Rongxing obtained the Approval on the Proposed Establishment of Ning'an Rongxing Village and Township Bank Co., Ltd. (Hei Yin Jian Fu [2016] No. 207) from the Heilongjiang Office of the CBRC. It had a registered capital of RMB30 million and the Bank held its 100% equity interest.

2. *Tianshui Maiji Rongxing Village and Township Bank Co., Ltd.*

On 25 November 2016, Tianshui Maiji Rongxing obtained the Approval on the Proposed Establishment of Tianshui Maiji Rongxing Village and Township Bank Co., Ltd. (Gan Yin Jian Fu [2016] No. 182) from the Gansu Office of the CBRC. It had a registered capital of RMB50 million and the Bank held its 98% equity interest.

3. *Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd.*

   On 25 November 2016, Pingliang Kongtong Rongxing obtained the Approval on the Proposed Establishment of Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd. (Gan Yin Jian Fu [2016] No. 184) from the Gansu Office of the CBRC. It had a registered capital of RMB50 million and the Bank held its 90% equity interest.

4. *Langzhong Rongxing Village and Township Bank Co., Ltd.*

   On 29 December 2016, Langzhong Rongxing obtained the Approval on the Proposed Establishment of Langzhong Rongxing Village and Township Bank Co., Ltd. (Chuan Yin Jian Fu [2016] No. 506) from the Sichuan Office of the CBRC. It had a registered capital of RMB50 million and the Bank held its 90% equity interest.

5. *Zhongjiang Rongxing Village and Township Bank Co., Ltd.*

   On 29 December 2016, Zhongjiang Rongxing obtained the Approval on the Proposed Establishment of Zhongjiang Rongxing Village and Township Bank Co., Ltd. (Chuan Yin Jian Fu [2016] No. 507) from the Sichuan Office of the CBRC. It had a registered capital of RMB50 million and the Bank held its 70% equity interest.

6. *Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd.*

   On 29 December 2016, Chengdu Qingbaijiang Rongxing obtained the Approval on the Proposed Establishment of Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd. (Chuan Yin Jian Fu [2016] No. 508) from the Sichuan Office of the CBRC. It had a registered capital of RMB100 million and the Bank held its 70% equity interest.

7. *Huanan Rongxing Village and Township Bank Co., Ltd.*

   On 30 December 2016, Huanan Rongxing obtained the Approval on the Proposed Establishment of Huanan Rongxing Village and Township Bank Co., Ltd. (Hei Yin Jian Fu [2016] No. 361) from the Heilongjiang Office of the CBRC. It had a registered capital of RMB30 million and the Bank held its entire equity interest.

8. *Nehe Rongxing Village and Township Bank Co., Ltd.*

   On 30 December 2016, Nehe Rongxing obtained the Approval on the Proposed Establishment of Nehe Rongxing Village and Township Bank Co., Ltd. (Hei Yin Jian Fu [2016] No. 362) from the Heilongjiang Office of the CBRC. It had a registered capital of RMB50 million and the Bank held its 80% equity interest.

Important Events

II. Issuance of Debt Securities

(I) Bond Issuance during the Reporting Period

During the Reporting Period, the Bank issued the "2016 Tier-2 Capital Bonds of Harbin Bank Co., Ltd." of RMB8.0 billion and the "2016 First Tranche of Huijin Credit Loan Asset-Backed Securities" of RMB2.2573 billion respectively. Besides, HB Leasing, a subsidiary of the Bank, issued the "2016 Financial Bonds of Harbin Bank Financial Leasing Co., Ltd." of RMB1.0 billion. For details of the issuance, please refer to "Report of the Board of Directors" – "Other Matters" – "Debentures".

(II) Previous Financial Bonds Issuance

1. Financial Bonds in 2012

According to the resolutions of the 31st meeting of the fourth session of the Board on 8 August 2011 and the 2011 first extraordinary general meeting of shareholders on 25 August 2011, the Board and the shareholders' general meeting approved the Proposal of Harbin Bank to Issue Financial Bonds and agreed the public issuance by the Bank of RMB2.5 billion of ordinary (non-subordinated) financial bonds in the interbank market of China.

According to the "Approval for Harbin Bank to Issue Financial Bonds" issued by the CBRC (Yin Jian Fu [2011] No. 570) on 15 December 2011 and the "Administrative Approval Decision of the People's Bank of China" (Banking Market License [2012] No. 19) on 21 March 2012 issued by PBOC, the Bank obtained the consent and permission from the CBRC and the PBOC for the issuance of the financial bonds in 2012.

According to the "Prospectus for 2012 Financial Bonds Raising of Harbin Bank Co., Ltd." prepared in May 2012, the terms of the bond issuance were as follows: the issuing scale was not more than RMB2.5 billion; the variety and maturity were as 5-year financial bonds of commercial banks; the coupon rate was a fixed interest rate; the final coupon rate shall be determined by book keeping and centralised allocation and shall not be changed during the bond duration; it shall be calculated annually in simple interest with no compound interest, and no more interest shall be accounted after maturity; and its short name was "12 Harbin Bank Financial Bonds" (bond code: 1220008).

2. Financial Bonds in 2014

According to the resolutions of the 14th meeting of the fifth session of the Board on 10 September 2013 and the 2013 second extraordinary general meeting of the Bank on 26 September 2013, the Board and the shareholders' general meeting approved the issuance of "agriculture, rural areas and farmers" special financial bonds of not more than RMB10.0 billion.

According to the "Approval for Harbin Bank to Issue 'Agriculture, Rural Areas and Farmers' Special Financial Bonds" issued by the CBRC (Yin Jian Fu [2014] No. 615) dated on 12 September 2014 and the "Administrative Approval Decision of the People's Bank of China" (Banking Market License [2014] No. 241) dated 5 December 2014 issued by PBOC, the issuance by the Bank of financial bonds of not more than RMB6.0 billion in the interbank market was approved. The Bank obtained the consent and permission from the CBRC and the PBOC for the issuance of the first tranche of the financial bonds in 2014 on 15 December 2014.

The first tranche of financial bonds of Harbin Bank Co., Ltd in 2014 amounted to RMB2.0 billion with the term of three years. The coupon rate was 4.60% and the interest was calculated annually at a fixed rate. The short name of the bonds is "14 Harbin Bank 01" (bond code: 11420045).

3. Financial Bonds in 2015

According to the resolutions of the 14th meeting of the fifth session of the Board on 10 September 2013 and the 2013 second extraordinary general meeting of the Bank on 26 September 2013, the Board and the shareholders' general meeting approved the issuance of "agriculture, rural areas and farmers" special financial bonds of not more than RMB10.0 billion.

According to the "Approval for Harbin Bank to Issue 'Agriculture, Rural Areas and Farmers' Special Financial Bonds" issued by the CBRC (Yin Jian Fu [2014] No. 615) dated 12 September 2014 and the "Administrative Approval Decision of the People's Bank of China" (Banking Market License [2014] No. 241) dated 5 December 2014 issued by the PBOC, the issuance by the Bank of financial bonds of not more than RMB6.0 billion in the interbank market was approved. The Company obtained the consent and permission from the CBRC and the PBOC for the issuance of the 2015 first tranche of the financial bonds on 26 May 2015.

The first tranche of financial bonds of Harbin Bank Co., Ltd in 2015 amounted to RMB4.0 billion with the term of three years. The coupon rate was 4.20% and the interest was calculated annually at a fixed rate. The short name of the bonds is "15 Harbin Bank 01" (bond code: 1520022).

(III) Proposed Issuance of Financial Bonds

1. According to the resolutions of the 8th meeting of the sixth session of the Board on 22 March 2016 and the 2015 annual general meeting of the Bank on 19 May 2016, the Board and the shareholders' general meeting approved the proposal on the issuance of green financial bonds, pursuant to which the public issuance of green financial bonds of not more than RMB5.0 billion for a term of not more than five years (inclusive) by the Bank in the interbank market of China was approved. The proceeds raised from the issuance of the bonds will be used to invest in green loans. According to the "Approval for Harbin Bank to Issue Green Financial Bonds" issued by the Heilongjiang Office of the CBRC (Hei Yin Jian Fu [2016] No. 211) dated 2 November 2016 and the "Administrative Approval Decision of the People's Bank of China" (Banking Market License [2017] No. 5) dated 18 January 2017 issued by the PBOC, the issuance by the Bank of green financial bonds of not more than RMB5.0 billion in the interbank market was approved.

Important Events

2. According to the resolutions of the 10th meeting of the sixth session of the Board on 15 August 2016 and the 2016 second extraordinary general meeting of the Bank on 13 October 2016, the Board and the shareholders' general meeting approved the proposal on the issuance of non-capital financial bonds, pursuant to which the public issuance of non-capital financial bonds of not more than RMB10.0 billion by the Bank in the interbank market of China was approved. The bond types include but not limited to non-capital financial bonds such as ordinary financial bonds and/or special financial bonds for small and micro enterprises, special financial bonds for "agriculture, rural area and farmer" and green financial bonds. Each bond will have a term of no longer than 10 years. In the planning of issue scale and before the planning of issuance, the specific proportion and size of various types of bonds would be finalised according to the Bank's actual demand, market conditions or investors' level of subscription. Relevant matters in respect of the proposed issuance of non-capital financial bonds have been disclosed in the circular dated 29 August 2016 and the announcement dated 13 October 2016.

III. Proposed Non-Public Issuance of Offshore Preference Shares

According to the resolution of the 12th meeting of the sixth session of the Board on 15 December 2016, the Board considered and approved the Proposal on the Non-Public Issuance of Offshore Preference Shares; the plan on the issuance of offshore preference shares was also considered and approved at the 2017 first extraordinary general meeting, the 2017 first class meeting of holders of domestic shares and the 2017 first class meeting of holders of H shares held on 10 February 2017, pursuant to which the Bank proposed to conduct a non-public issuance of not more than 80 million offshore preference shares to raise proceeds not exceeding RMB8.0 billion or its equivalent to replenish the Bank's additional tier 1 capital. Relevant matters in respect of the proposed issuance of preference shares have been disclosed in the circular dated 23 December 2016.

The Bank is working on the implementation of the non-public issuance of offshore preference shares as planned and will disclose further information and progress in due course.

IV. Initial Public Offering of A Shares

The Proposal on the Initial Public Offering and the Listing of A Shares was considered and approved at the 2015 first extraordinary general meeting, the 2015 first domestic shareholders' class meeting and the 2015 first H shareholders' class meeting of the Bank held on 30 June 2015. The proposal on the extension of the validity period of the plan of initial public offering and listing of A Shares was considered and approved at the 2015 annual general meeting, the 2016 first domestic shareholders' class meeting and the 2016 first H shareholders' class meeting of the Bank on 19 May 2016. For the relevant matters in respect of the proposed offering of A Shares and the extension of the validity period of the plan of offering and listing of A Shares, please refer to the relevant circulars published by the Bank on 14 May 2015 and 1 April 2016, respectively. The Board has considered and approved relevant resolutions in relation to further extension of the validity period of the plan of offering and listing of A Shares at a meeting held on 29 March 2017, which will be submitted to the 2016 annual general meeting and respective Shareholders' class meeting for consideration and approval. Please refer to the circular of the Bank dated 30 March 2017 for details of such resolutions.

The Bank submitted application materials in respect of the offering and listing of A Shares to the CSRC on 31 August 2015, and the CSRC accepted the application. The Bank also issued the announcement of the progress of A shares on 16 November 2015. On 25 March 2016, the Bank submitted application materials, including the supplementary A Share prospectus covering the financial information for the twelve months ended 31 December 2015, to the CSRC. On 9 September 2016, the Bank submitted application materials, including the supplementary A Share prospectus covering the financial information for the six months ended 30 June 2016, to the CSRC, and the CSRC accepted the application. The Bank will disclose further information and progress of the A Share Offering in due course.

V. Material Legal Proceedings and Arbitrations

As at the end of the Reporting Period, the value of the subject matters of the pending legal proceedings in which the Bank was involved as a defendant or a third party amounted to RMB50 million. In the opinion of the Bank, such legal proceedings would not have any material impact on the Bank's operating activities. During the Reporting Period, there were no other material legal proceedings or arbitrations which had substantial impact on the operating activities of the Bank.

VI. Penalties Imposed on the Bank and Directors, Supervisors and Senior Management of the Bank

During the Reporting Period, the Bank and all its Directors, Supervisors and senior management had no records of being imposed on inspections, administrative penalties and circulating criticisms by CSRC or public censures by the Hong Kong Stock Exchange, or penalties by relevant regulatory authorities that posed significant impact on the Bank's operation.

VII. Material Contracts and Their Performance

During the Reporting Period, the Bank had no material contracts or their performance.

VIII. Audit Review

The Bank's audited consolidated financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards had been audited by Ernst & Young, who had issued an unqualified audit report. The Bank's audited consolidated financial statements for the year ended 31 December 2016 had been reviewed by the Audit Committee of the Board and the Board of Directors.

IX. Material Acquisition and Disposal of Assets and Merger of Enterprises

During the Reporting Period, the Bank had no material acquisition, disposal of assets or merger of enterprises.

X. Profit Distribution during the Reporting Period

The 2015 profit distribution plan of the Bank was considered and approved at the 2015 annual general meeting held on 19 May 2016. A dividend of RMB0.107 per Share (inclusive of tax) was paid on 15 July 2016.

Directors, Supervisors, Senior Management, Employees and Organizations

I. Incumbent Directors, Supervisors and Senior Management

Directors

Name	Gender	Age	Position	Term of office
Guo Zhiwen	Male	49	Executive Director and Chairman of the Board	June 2015-June 2018
Liu Zhuo	Male	53	Executive Director and Vice Chairman of the Board	June 2015-June 2018
Zhang Qiguang	Male	44	Executive Director, President and Chief Financial Officer	July 2015-June 2018
Zhang Taoxuan	Male	55	Non-executive Director	June 2015-June 2018
Ma Pao-Lin	Male	54	Non-executive Director	August 2015-June 2018
Peng Xiaodong	Male	46	Non-executive Director	December 2016-June 2018
Cui Luanyi	Male	36	Non-executive Director	June 2015-June 2018
Chen Danyang	Male	43	Non-executive Director	June 2015-June 2018
Zhang Shengping	Male	51	Independent non-executive Director	June 2015-June 2018
He Ping	Male	51	Independent non-executive Director	June 2015-June 2018
Du Qingchun	Male	45	Independent non-executive Director	June 2015-June 2018
Wan Kam To	Male	64	Independent non-executive Director	June 2015-June 2018
Kong Siu Chee	Male	70	Independent non-executive Director	June 2015-June 2018

Supervisors

Name	Gender	Age	Position	Term of office
Gao Shuzhen	Female	53	Chairman of the Board of Supervisors and Employee Representative Supervisor	June 2015-June 2018
Wang Ying	Female	45	Employee Representative Supervisor	June 2015-June 2018
Yang Dazhi	Male	39	Employee Representative Supervisor	June 2015-June 2018
Lu Yujuan	Female	32	Shareholder Representative Supervisor	June 2015-June 2018
Wang Jiheng	Male	52	External Supervisor	June 2015-June 2018
Bai Fan	Female	42	External Supervisor	June 2015-June 2018
Meng Rongfang	Female	51	External Supervisor	June 2015-June 2018

Directors, Supervisors, Senior Management, Employees and Organizations

Senior Management

Name	Gender	Age	Position	Term of office
Zhang Qiguang	Male	44	Executive Director, President and Chief Financial Officer	July 2015-June 2018
Lv Tianjun	Male	50	Vice President and Chief Risk Officer	June 2015-June 2018
Lu Weidong	Male	46	Vice President and Chief Information Officer	June 2015-June 2018
Xu Shaoguang	Male	56	Chief Credit Approval Officer	June 2015-June 2018
Wang Haibin	Male	47	Vice President	August 2015-June 2018
Sun Jiawei	Female	47	Vice President	August 2015-June 2018
Sun Feixia	Female	46	Secretary of the Board of Directors and Joint Company Secretary	June 2015-June 2018
Liu Yang	Male	47	Assistant to the President	September 2015-June 2018

II. Information on Remuneration Paid to Directors, Supervisors and Senior Management for 2016

Please refer to Notes 11 and 12 to the Financial Statements for the details of the remuneration of Directors, Supervisors and senior management.

The remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration band	Number of individuals
RMB1 million and below	0
RMB1 million to RMB2 million	6
RMB2 million and above	2

III. Information on Directors, Supervisors, Senior Management and Other Persons

(I) Information on Directors

Executive Directors

Mr. Guo Zhiwen (郭志文), has been the chairman of our Board and the legal representative of the Bank since October 2008. Mr. Guo has been an executive Director of the Bank since May 2004 and secretary of the Party Committee of the Bank since December 2003. He is also currently a Deputy to the 12th People's Congress of Heilongjiang Province. From July 1997 to October 2008, he worked as the president of the Longqing Sub-branch of the Bank, assistant to the president, vice president and the president of the Bank. Prior to joining the Bank, from August 1994 to July 1997, Mr. Guo worked at Heilongjiang Longqing Urban Credit Cooperatives as the deputy general manager and general manager. Between August 1994 and December 1995, Mr. Guo also concurrently served as general manager of the Exploitation Division of the Youth Development Foundation of Heilongjiang. Prior to that, from July 1988 to August 1994, Mr. Guo was the deputy general manager of the Operational Department of Heilongjiang Youth Social Service Centre and the deputy general manager of the Exploitation Division of the Youth Development Foundation of Heilongjiang. Mr. Guo received an EMBA degree from Peking University in July 2008. He is a senior economist as accredited by the Personnel Department of Heilongjiang Province.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Liu Zhuo (劉卓), has been the vice chairman of the Bank since April 2012, executive Director of the Bank since September 2007 and the chairman of Dacheng Fund Management Co., Ltd. since December 2014. From October 2000 to April 2012, Mr. Liu held a number of positions in the Bank, including Office general manager, deputy chairman of the Labor Union, general manager of the Business Department and assistant to the president of the Bank. Mr. Liu has also been the secretary to the Board from September 2008 to December 2014. Prior to joining the Bank, from May 1990 to October 2000, Mr. Liu held various positions in the Harbin Municipal Committee of the Communist Youth League, including section officer of the Industrial Office, deputy head of the Urban Areas Department. From August 1986 to May 1990, Mr. Liu worked at the Technological Section of Harbin Municipal Shipyard. Mr. Liu received a Bachelor's degree in Engineering from Wuhan Water Transportation Engineering Institute in July 1986.

Mr. Zhang Qiguang (張其廣), has been an executive Director and president of the Bank since July 2015 and has concurrently served as the president of the Bank's interbank finance headquarters since September 2015. He has been the Chief Financial Officer of the Bank since May 2011. Mr. Zhang has been the vice president of the Bank from April 2012 to July 2015 and the president of our Harbin Branch from March 2012 to February 2015. Mr. Zhang is also currently a Deputy to the 15th People's Congress of Harbin City, a vice-chairman of the Youth Federation of Harbin and the legal advisor of the People's Government of Harbin City. From June 2001 to September 2012, Mr. Zhang held a number of positions in the Bank, including general manager of the Business Department at the Headquarters, executive deputy general manager of the Harbin Management Department and general manager of the Financial Planning Department of the Bank. Prior to joining the Bank, from November 1993 to June 2001, Mr. Zhang worked at the PBOC Harbin Central Sub-branch. From July 1993 to November 1993, Mr. Zhang worked at Harbin Securities Company. Mr. Zhang received a Doctoral degree in Business Administration from Harbin Institute of Technology in November 2015. He is a registered accountant as accredited by the MOF.

Non-executive Directors

Mr. Zhang Taoxuan (張濤軒), has been a non-executive Director of the Bank since May 2012. Mr. Zhang has been the general manager of Harbin Economic Development, head of the treasury division and general manager of the payment centre of Harbin Municipal Finance Bureau since April 2011. From December 2005 to April 2011, Mr. Zhang was the deputy head of the treasury division and deputy general manager of the payment center in Harbin Municipal Finance Bureau, and the deputy general manager and general manager of Harbin Microcredit Loan Guarantee Centre for the Laid-off and Unemployed. From November 1996 to December 2005, Mr. Zhang held a number of positions in Harbin Municipal Finance Bureau, including associate chief officer and chief officer of budget division, chief officer of the treasury division. From June 1990 to November 1996, Mr. Zhang held a number of positions in Songhuajiang Municipal Finance Bureau, including officer in industry division, chief accountants and deputy general manager in budget division. From March 1981 to June 1990, Mr. Zhang worked at the Harbin Tonghe Sub-branch of Agricultural Bank of China. Mr. Zhang received a Master's degree in Agriculture Popularisation from Northeast Agricultural University in January 2010. He is an accountant as accredited by the MOF.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Ma Pao-Lin (馬寶琳), has been a non-executive Director of the Bank since August 2015. Mr. Ma has been a deputy general manager of Fubon Life Insurance, a wholly-owned subsidiary of Fubon Financial Holding Co., Ltd. (TWSE: 2881) since July 2007, and was promoted to executive deputy general manager in July 2012. Mr. Ma has been the manager of Fubon Financial Holding Co., Ltd. since October 2008 and a director of Fubon Financial Holding Venture Capital Corp. since October 2009. He has been a director of Diamond BioFund Inc. since January 2013, a director of Diamond Capital Inc. since January 2013 and a director of New Bright Bio Technology Investment Co., Ltd. (新耀生技投資股份有限公司) since December 2015. Mr. Ma has held positions in different companies since August 1988, including Yung Li Securities Co., Ltd., Bankers Trust Company, Da-Fa Investment Trust Co., Ltd., International Investment Trust Company Ltd. Aetna Life Insurance Co., of America Taiwan Branch office, ING-CHB Trust Company and Fubon Securities Investment Trust Co., Ltd. He obtained a Master's degree in industrial administration from National Cheng Kung University in June 1986.

Mr. Peng Xiaodong (彭曉東), has been a non-executive Director of the Bank since December 2016. Mr. Peng has been appointed as the secretary of the board of directors of Hua Xia Life Insurance Co., Ltd. since August 2010. Mr. Peng served as the chief officer of the department of capital operation of Tianshi Xingye Investment Co., Ltd. (天實興業投資有限公司) from January 2010 to August 2010, the deputy general manager of Times Shengheng Technology Co., Ltd. (時代勝恒科技有限公司) from March 2006 to December 2009, the deputy general manager of Beijing Global Wangxing Technology Co., Ltd. (北京全球網星科技有限公司) from April 2002 to March 2006, and the general manager of bond rating department and the general manager of Tianjin branch of China Chengxin Securities Rating Co., Ltd. (中國誠信證券評估有限公司) from March 1999 to March 2002. Mr. Peng was a lecturer in the department of finance in Beijing Institute of Business from August 1993 to August 1996. Mr. Peng received a Master's degree from Beijing Institute of Business (currently known as Beijing Technology and Business University) in January 1999.

Mr. Cui Luanyi (崔鸞懿), has been a non-executive Director of the Bank since May 2011. Mr. Cui has been the chief business officer of Heilongjiang Tiandi Yuanyuan Network Technology Company Limited since May 2006. Prior to that, from September 2003 to May 2006, Mr. Cui worked as a teacher at the Telecommunications School of Tianjin University. Mr. Cui received a Master's degree in Economics from University of International Business and Economics in June 2009.

Mr. Chen Danyang (陳丹陽), has been a non-executive Director of the Bank since April 2006. Mr. Chen has been the vice president of Heilongjiang Tuokai Economic and Trading Company Limited since October 2003. Prior to that, Mr. Chen used to work at the Haikou Office of China Cinda Asset Management Co., Ltd. and China Construction Bank. Mr. Chen received a Bachelor's degree in Economics from Hunan College of Finance and Economics in June 1995 and is an accountant as accredited by the MOF.

Directors, Supervisors, Senior Management, Employees and Organizations

Independent Non-executive Directors

Mr. Zhang Shengping (張聖平), has been an independent non-executive Director of the Bank since June 2012. Mr. Zhang has been the deputy dean of Guanghua School of Management of Peking University since July 2015, member of the Party Committee of Guanghua School of Management of Peking University since July 2011, executive director of the ExEd (Executive Education) of Guanghua School of Management of Peking University since May 2011, associate professor of Guanghua School of Management of Peking University since August 2002, and assistant to the dean of Guanghua School of Management of Peking University from May 2011 to June 2015. Mr. Zhang has been independent director of Guangdong No. 2 Hydropower Engineering Company (listed on Shenzhen Stock Exchange, stock code: 002060) from November 2013 to December 2015. Mr. Zhang has been an independent director of Huizhou Speed Wireless Technology Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 300322) from January 2012 to December 2015, an independent director of Tianjin Guangyu Development Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 000537) from July 2014 to December 2015, an independent director of Cinda Property Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600657) from January 2015 to December 2015, and an external supervisor of Bank of Zhengzhou Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 06196) from June 2015 to December 2015. Before that, from July 2000 to June 2002, Mr. Zhang was a Post Doctorate of Guanghua School of Management of Peking University. From July 1987 to June 2000, Mr. Zhang worked as a teaching assistant, lecturer and associate professor at the School of Economics of Shandong University. Mr. Zhang received a Doctor's degree in Economics from Nankai University in July 2000.

Mr. He Ping (何平), has been an independent non-executive Director of the Bank since October 2012. Mr. He has been teaching in the School of Finance of Renmin University of China since 1991 and is currently the deputy dean, professor and doctoral tutor of the School. He studied in Renmin University of China as a Master's degree candidate from 1988 to 1991. Prior to that and from July 1985 to August 1988, Mr. He worked at the Enshi Autonomous Prefecture Bureau of Cultural Affairs, Hubei Province. Mr. He received a Doctor's degree in History from Renmin University of China in July 1996.

Mr. Du Qingchun (杜慶春), has been an independent non-executive Director of the Bank since October 2012. Mr. Du has been a partner of Beijing Dacheng Law Offices since August 2013. From April 2002 to July 2013, Mr. Du was the executive partner and a lawyer of Beijing Weiming Law Firm. From July 1998 to January 2001, Mr. Du worked at China Construction Bank. He studied in Peking University as a Master's degree candidate from 1995 to 1998. He worked at the Political Management Cadre School of Heilongjiang Province from July 1992 to July 1995. Mr. Du received a Master's degree in Law from Peking University in July 1998.

Mr. Wan Kam To (尹錦滔), has been an independent non-executive director of the Bank since October 2013. Mr. Wan has been an independent non-executive director of China World Trade Center Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600007) since 23 November 2016, an independent non-executive director of Target Insurance (Holdings) Limited (listed on Hong Kong Stock Exchange, stock code: 06161) since November 2014, an independent non-executive director of Kerry Logistics Network Limited (listed on Hong Kong Stock Exchange, stock code: 00636) since November 2013. Mr. Wan has been independent non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 02607; listed on Shanghai Stock Exchange, stock code: 601607) since June 2013, independent non-executive director of S. Culture International Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 01255) since May 2013, independent non-executive director of KFM Kingdom Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 03816) since September 2012, independent non-executive director of Dalian Port (PDA) Company Limited (listed on Hong Kong Stock Exchange, stock code: 02880; listed on Shanghai Stock Exchange, stock code: 601880) since June 2011, independent non-executive director of Huaneng Renewables Corporation Limited (listed on Hong Kong Stock Exchange, stock code: 00958) since August 2010, independent non-executive director of Fairwood Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 00052) since September 2009, and independent non-executive director of China Resources Land Limited (listed on Hong Kong Stock Exchange, stock code: 01109) since March 2009. Prior to that, Mr. Wan has been an independent non-executive director of GreaterChina Professional Services Limited (stock code: 8193) from May 2011 to November 2013, independent director of RDA Microelectronics, Inc. (listed on NASDAQ, stock code: RDA) from November 2010 to July 2014, and independent director of Mindray Medical International Limited (listed on New York Stock Exchange, stock code: MR) from September 2008 to December 2014. From July 1975 to June 2008, Mr. Wan held various positions in PricewaterhouseCoopers Hong Kong, including audit manager, audit director and partner. Mr. Wan received Advanced Diploma in Accounting from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in October 1975 and has been a Hong Kong Chartered Accountant and a member of Hong Kong Institute of Certified Public Accountants since June 1989 and the Association of Chartered Certified Accountants since September 1983.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Kong Siu Chee (江紹智), has been an independent non-executive director of the Bank since October 2013. Mr. Kong has been an independent non-executive director of Chinney Kin Wing Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 1556) since October 2015, and independent non-executive director of China New Town Development Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 01278) since November 2006. From March 2014 to October 2014, Mr. Kong has been an independent non-executive director of Digital Hong Kong (listed on Hong Kong Stock Exchange, stock code: 8007, changed its name to Global Strategic Group Limited in December 2014). Prior to that, from May 1999 to December 2005, he was a director and alternate chief executive officer of CITIC Ka Wah Bank. From 1993 to 1994, he was a director of Champion Technology Holdings Limited. Mr. Kong joined Standard Chartered Bank in 1969 and had served the Bank for almost 24 years, during which period, he was a senior administrative member. Mr. Kong received an MBA degree from the Chinese University of Hong Kong in December 1980, and received a diploma in Banking from the Chartered Banker Institute in London in December 1973.

(II) Information on Supervisors

Ms. Gao Shuzhen (高淑珍), has been the chairman of the Board of Supervisors and employee representative Supervisor of the Bank since June 2015. Ms. Gao has been an executive Director of the Bank from May 2011 to June 2015, president of the Bank from May 2010 to June 2015, and president of the board of directors of HB Leasing (a subsidiary of the Bank) since June 2014. From January 2001 to May 2010, she held a number of positions in the Bank, including general manager of the Market Development Department, general manager of the Personal Banking Department, assistant to the president and vice president. Prior to joining the Bank, from July 1988 to January 2001, Ms. Gao worked at the Harbin Branch of Agricultural Bank of China as the section chief of the System Management Section under the International Business Department, vice president of the Huijin sub-branch and deputy general manager of the Market Development Department. Ms. Gao received a Doctor's degree in Management from Northeast Agricultural University in June 2006 and an EMBA degree from Tsinghua University in June 2011. She is a senior economist as accredited by Agricultural Bank of China.

Ms. Wang Ying (王穎), has been an employees' representative Supervisor of the Bank since June 2007 and has also been general manager of the Internal Audit Department of the Bank since September 2012. From July 1997 to September 2012, she has held several positions in the Bank, including assistant to the general manager of the Office of the Supervisory Board, deputy general manager and assistant to the general manager of the Internal Audit Department. From August 1992 to July 1997, prior to joining the Bank, Ms. Wang worked as a cashier and an accountant respectively of Harbin Urban Credit Union. Ms. Wang received a Master's degree in Law from China University of Political Science and Law in 2010. Ms. Wang is a senior accountant and senior auditor as accredited by Heilongjiang Human Resources and Social Security Bureau.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Yang Dazhi (楊大治), has been an employees' representative Supervisor of the Bank since June 2015. Mr. Yang joined the Bank in April 2015 as the deputy general manager of the Financial and Accounting Department of the Bank. He also worked as the general manager of the Asset and Liability Management Department of the Bank since September 2015. Prior to joining the Bank, from July 1999 to April 2015, he worked at the headquarters of Industrial and Commercial Bank of China and was an officer of the accounting division under the accounting and settlement department, an officer, associate chief officer, chief officer and deputy head of the accounting management division under the accounting and settlement department, deputy head and head of the accounting division under the financial and accounting department, and head of the overseas and controlling company financial management division under the financial and accounting department. Mr. Yang obtained a master's degree in business administration from the University of Hong Kong in August 2014. He is currently an assistant accountant as accredited by Industrial and Commercial Bank of China.

Ms. Lu Yujuan (盧育娟), has been the shareholders' representative Supervisor of the Bank since September 2013. Ms. Lu has been chief executive officer of Heilongjiang Keruan Software Technologies Company Limited since June 2010. From December 2008 to June 2010, Ms. Lu was vice manager of the Beijing Office of Heilongjiang Keruan Software Technologies Company Limited. From March 2008 to August 2008, Ms. Lu worked at the Office of Television Bureau of Changge, Henan Province. From November 2003 to December 2004, Ms. Lu was a first sergeant of Jinan Armed-police Command School. From November 2002 to November 2003, Ms. Lu was a first sergeant of Beidaihe Sanatorium of the Air Force. From September 2002 to November 2002, Ms. Lu was a first sergeant of Third Brigade of the Third Department of the Air Defense. From December 2000 to September 2002, Ms. Lu served as a sergeant in the Telecom Battalion of the 199 Infantry Division. Ms. Lu received a Master's degree in Arts from Communication University of China in June 2012.

Mr. Wang Jiheng (王吉恒), has been an external Supervisor of the Bank since August 2011. Mr. Wang has taught as a professor at Northeast Agricultural University since August 2003, and was appointed as a doctoral tutor in June 2004. From July 1985 to July 2003, he was a teacher of Heilongjiang Bayi Agricultural University. Mr. Wang received a Doctor's degree in Management from Northeast Agricultural University in June 2003.

Ms. Bai Fan (白帆), has been an external Supervisor of the Bank since July 2013. Ms. Bai has been an associate professor of School of Business Administration of Sichuan Tourism University since February 2015. From March 2004 to February 2015, she worked in Sichuan Staff University of Science and Technology, and served as an associate professor of Sichuan Staff University of Science and Technology since November 2011 and assistant to the head of its Business Administration Department since September 2010. From February 2002 to February 2004, Ms. Bai was an assistant to the general manager of Sichuan Fangzheng Agriculture Joint Stock Limited Company. Ms. Bai received a Doctor's degree in Economics from Southwestern University of Finance and Economics in December 2012.

Directors, Supervisors, Senior Management, Employees and Organizations

Ms. Meng Rongfang (孟榮芳), has been an external Supervisor of the Bank since September 2013. Ms. Meng has been a director, senior partner, and general manager of the Risk Management Committee of BDO China Shu Lun Pan Certified Public Accountants LLP since January 2000. From August 1988 to December 1999, Ms. Meng worked successively as an assistant, registered accountant, assistant to the director and vice director accountant of Shanghai Certified Public Accountants. Ms. Meng was a member of the 10th and 11th Public Offering Review Committee of the CSRC. From December 2006 to December 2008, Ms. Meng studied at the EMPAcc Program jointly held by the Chinese University of Hong Kong and Shanghai National Accounting Institute, and received a Master's degree in Accounting from the Chinese University of Hong Kong. Ms. Meng is a senior accountant as accredited by Shanghai Human Resources and Social Security Bureau.

(III) Information on Senior Management

For the biography of Mr. Zhang Qiguang (張其廣), executive Director and president of the Bank, please see "Executive Directors".

Mr. Lv Tianjun (呂天君), has been a vice president of the Bank since April 2012 and Chief Risk Officer of the Bank since May 2011. From June 2001 to April 2012, Mr. Lv held a number of positions in the Bank, including general manager of the Human Resources Department, general manager of the Risk Management Department and deputy secretary-general of the Discipline Committee of the Bank. Prior to joining the Bank, from January 1999 to June 2001, Mr. Lv worked at the PBOC Harbin Central Sub-branch as a reporter and an editor at Editorial Office, and from July 1988 to December 1998, Mr. Lv worked at the Heilongjiang Branch of the PBOC successively as staff at its Treasury Division and a reporter and an editor at its Research Institute. Mr. Lv received a Master's degree in Business Administration from China Europe International Business School in October 2013. He is an economist accredited by the PBOC.

Mr. Lu Weidong (盧衛東), has been a vice president and Chief Information Officer of the Bank since August 2013 and has concurrently served as the president of the Bank's mobile finance headquarters since September 2015. Prior to joining the Bank, from April 2005 to August 2013, Mr. Lu held various positions in Deloitte Consulting (Shanghai) Co., Ltd. including being a partner. From May 2002 to March 2005, he worked at Bearing Point (Shanghai) Management Consulting Co., Ltd. From March 2001 to April 2002, he was a senior consultant of Andersen Management Consulting (Shanghai) Co., Ltd. From November 2000 to February 2001, he worked at the Shanghai Branch of China Star Corporation. From December 1999 to October 2000, he worked at Shanghai International Enterprises Cooperative Corp. and from August 1996 to December 1999, he worked at Shanghai Institute of Telecommunication Technology Research. Mr. Lu received a Master's degree in Science from Fudan University in July 1996.

Mr. Xu Shaoguang (徐紹光), has been the Chief Credit Approval Officer of the Bank since May 2011. From July 1997 to September 2012, Mr. Xu held a number of positions in the Bank, including the president of the Zhongda Sub-branch, president of the Longjiang Sub-branch, general Manager of the Risk Management Department and general Manager of the Credit Approval Department of the Bank. Prior to that, from September 1996 to July 1997, Mr. Xu was an officer of Zhongda Urban Credit Union. From May 1992 to September 1996, Mr. Xu was an officer of the Credit Department of Harbin Urban Credit Union. From July 1982 to May 1992, Mr. Xu worked in various departments, including Technological Renovation Department, Chief Engineer Office and Computer Centre, of Harbin Cigarette Factory. Mr. Xu received a Bachelor's degree in Science from Heilongjiang University in July 1982. He is a senior engineer as accredited by the Personnel Department of Heilongjiang Province.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Wang Haibin (王海濱), has been a vice president of the Bank since August 2015 and the president of the Bank's Harbin Branch since February 2015. From July 1997 to August 2015, Mr. Wang held a number of positions in the Bank, including the president of the Bank's Dazhi Sub-branch, general manager of the Operational Management Office, general manager of the Corporate Finance Department, general manager of the Human Resources Department, executive vice president of the Bank's Harbin Branch and assistant to the president of the Bank. Prior to joining the Bank, from February 1997 to July 1997, Mr. Wang worked as a general officer of the Preparatory Office set for the establishment of the Bank. From August 1991 to February 1997, he worked as a vice director officer at the Harbin Branch of the PBOC. Mr. Wang received a Master's degree in Engineering from Northeast Forestry University in January 2007. He is an economist accredited by the PBOC.

Ms. Sun Jiawei (孫嘉巍), has been a vice president of the Bank since August 2015, and the chairman of the board of directors of HBCF, a subsidiary of the Bank, since January 2017. She has concurrently served as the president of the Bank's retail finance headquarters since September 2015. Ms. Sun has been an assistant to the president of the Bank from April 2012 to August 2015. Ms. Sun joined the Bank in July 1997. From July 1997 to December 2013, Ms. Sun held various positions in the Bank, including the vice president of our Dongli Sub-branch, general manager of the Personal Wealth Management Department, general manager of the Microcredit R&D Centre, deputy general manager of Personal Finance Department and Corporate Finance Department (chairman), general manager of Small Enterprises Banking Department and general manager of Rural Banking Department. From November 1989 to July 1997, Ms. Sun worked as a deputy general Manager of the Business Department of Longguang Credit Union. Ms. Sun received an MBA degree from Harbin Engineering University in December 2011. She is an economist as accredited by the Ministry of Human Resources and Social Security.

Ms. Sun Feixia (孫飛霞), has been the secretary of the Board of Directors since January 2015, the joint company secretary of the Bank since January 2014, and the general manager of the Board Office since March 2008. From January 2013 to March 2017, she engaged in post doctoral research with China's Industrial Security Research Center of Beijing Jiaotong University and obtained a post doctoral certificate. Ms. Sun has been the general manager of the Investment Management Office under the Board from November 2012 to August 2015. Ms. Sun held positions such as credit general officer of the Bank's Wenchang Branch, general officer of the Legal Department and the Internal Audit Department, as well as assistant to the general manager and the deputy general manager of the Office of the Board from July 1997 to March 2008. From February 1997 to July 1997, Ms. Sun also helped with the preparation for the establishment of the Bank as general officer at the Debt Clearance Office. Form July 1993 to February 1997, Ms. Sun was the general manager of the Securities Department of Harbin Urban Credit Union. Ms. Sun received a Doctor's degree in Management from Northeast Agricultural University in June 2011. Ms. Sun is a senior economist as accredited by the Personnel Department of Heilongjiang Province.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Liu Yang (劉陽), has been an assistant to the president of the Bank since September 2015 and has concurrently served as the president of the Bank's corporate finance headquarters. Mr. Liu was the president of Chengdu Branch of the Bank from January 2015 to January 2016. From September 2008 to January 2015, Mr. Liu was the president of Tianjin Branch of the Bank. Mr. Liu joined the Bank in February 1997. He held a number of positions in the Bank, including credit section chief, assistant to general manager, deputy general manager of the Business Department, deputy general manager of the Asset Operation Centre, vice-president and president of Longqing Sub-branch from February 1997 to September 2008. Prior to that, Mr. Liu worked at Harbin Coal Mining Machinery Research Institute (哈爾濱市煤礦機械研究所), Harbin Coal Mine Electrical Appliance Factory (哈爾濱市煤礦電器廠) and the Business Department of Harbin Urban Credit Cooperatives Union (哈爾濱市城市信用合作社聯社) from July 1990 to February 1997. Mr. Liu received a Master's degree in business administration from Harbin Institute of Technology in July 2006. He is an intermediate accountant as accredited by the MOF.

(IV) Information on Joint Company Secretaries

For the biography of Ms. Sun Feixia (孫飛霞), the secretary of the Board and joint company secretary of the Bank, please see "Senior Management".

Mr. Ngai Wai Fung (魏偉峰), FCIS, FCS (PE), CPA and FCCA, joined the Bank since January 2014 as the Bank's joint company secretary. Mr. Ngai is also currently the director and chief executive officer of SW Corporate Services Group Limited and was the president of Hong Kong Institute of Chartered Secretaries ("HKICS") from 2014 to 2015. Mr. Ngai possesses extensive experience in serving as company secretary. Mr. Ngai is a fellow member of HKICS, a fellow member of the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Ngai was engaged as a finance expert consultant of Ministry of Finance of the PRC in June 2016. In January 2013, Mr. Ngai was appointed as a non-official member of the Working Group on Professional Services under the Economic Development Commission led by the Chief Executive of Hong Kong SAR and a member of Qualification and Examinations Board by Hong Kong Institute of Certified Public Accountants. He is also an adjunct professor of Law of Hong Kong Shue Yan University since September 2012. Mr. Ngai obtained a Master's Degree in Business Administration from Andrews University of the United States, Bachelor's Degree in Law (Honour) from the University of Wolverhampton, the United Kingdom, Master's Degree in Corporate Finance from the Hong Kong Polytechnic University and Doctorate Degree in Finance from the Shanghai University of Finance and Economic.

IV. Information on Evaluation and Incentive Scheme and Annual Remuneration for Directors, Supervisors and Senior Management

In accordance with Methods of Evaluation of Duty Performance of Directors, Methods of Evaluation of Duty Performance of Supervisors and Methods of Evaluation by Board of Supervisors on Duty Performance of Directors, the Bank has completed the evaluation on Directors through self-evaluation, mutual evaluation, evaluation by Board and evaluation by Board of Supervisors; and evaluation on Supervisors through evaluation by Board of Supervisors and mutual evaluation between Supervisors; the Nomination and Remuneration Evaluation Committee under the Board of Directors has set up scientific and reasonable evaluation indicators and systems pursuant to the Management Measures of Performance Review of Senior Management based on the principle of tying performance to remuneration and the combination of qualitative and quantitative methods, in order to mobilise the enthusiasm and creativity of senior management to the largest extent.

Directors, Supervisors, Senior Management, Employees and Organizations

The Bank provides allowance to independent non-executive Directors, non-executive Directors, external Supervisors and shareholders representative Supervisors in accordance with provisions of Directors' Subsidies Management Measures and Supervisors' Subsidies Management Measures, and provides remuneration for executive Directors and employee representative Supervisors and senior management in accordance with provisions of Remuneration Management Measures. Remuneration for senior management should be in strict compliance with requirements of Guidelines on Supervising the Stable Payment of Commercial Banks released by CBRC.

V. Confirmation of Independence of Independent Non-executive Directors

The Bank had already received letters of confirmation on independence submitted by independent non-executive Directors in accordance to Rule 3.13 of the Hong Kong Listing Rules. Hence, the Bank believes that all independent non-executive Directors are in compliance with the rules regarding independence under the Hong Kong Listing Rules during the Reporting Period.

The Bank's independent non-executive Directors neither have any business or financial interests in the Bank and its subsidiaries nor hold any management position in the Bank. They are all elected for a term of three years. They may continue to serve for three years upon re-election after the expiration of the term.

VI. Share Incentive Plan during the Reporting Period

The Bank did not adopt any share incentive plan during the Reporting Period.

VII. Employees

(I) Personnel composition

As at 31 December 2016, the Bank (excluding subsidiaries) had 6,969 employees, among which 970 were headquarters staff, accounting for 13.92% of the total, and 2,425 were Harbin Branch staff, accounting for 34.8% of the total. Regarding the age composition, the average age of employees of the Bank is 34.23. 2,534 are between 26 and 30 years old, accounting for 36.32% of the total. Regarding the educational background, there are 5,906 employees with a bachelor's degree or above, accounting for 84.75% of the total. Regarding the number of years of services, the Bank had 1,374 employees with 10 years of banking experiences, accounting for 19.69% of the total. Staff turnover rate of the Bank (excluding subsidiaries) was 4.87%. Key talents' turnover rate of the Bank was 3.54%. Subsidiaries had 998 employees in total.

(II) Staff training programs

During the Reporting Period, centring on the work theme of "Year of Products", the Bank enhanced its training standards, improved the training design system, and focused on the in-depth integration of internet and daily work. Focusing on the needs of customers, the Bank was on its way to build itself into a "learning organisation" which featured on life-long learning and continuously improving.

During the Reporting Period, the Bank formulated training programs according to the 2016 Training Plan, which were implemented among different levels of employees. Both training completion rate and coverage rate were 100%. The trainings covered all employees across the Bank, and primarily focused on customer relationship, new products introduction, mobile and internet integration, staff skill training, code of conduct of financial industry and general management skills. In 2016, departments at the headquarter of the Bank (excluding subsidiaries) implemented 182 trainings in total, including 108 internal trainings, and 74 external trainings for selected staff. The total attendance of the staff training sessions amounted to 4,584, and the total training hours amounted to 2,154.

Directors, Supervisors, Senior Management, Employees and Organizations

(III) Staff incentive policy

The Bank has established a scientific and reasonable staff evaluation system to implement comprehensive performance management. At the beginning of each year, the Bank sets up performance goal for each staff by breaking down the bank's strategic objectives layer by layer, and carries out review every half year. In order to be scientific to the largest extent in staff review, apart from the performance review on business, the Bank has also adopted multi-dimensional measurement to evaluate employee performance and a forced distribution method for the performance review results which ensures truthful staff performance evaluation. In addition, the effective performance communication helps the employee reach their performance goals.

The Bank has established a series of staff incentive policies in line with the bank's development needs based on scientific performance review results: firstly, the Bank has adopted a broadband salary system to provide staff with incentive remuneration by raising and lowering remuneration grades; secondly, the Bank has established a career development platform to facilitate scientific selection and rotation of personnel and created multiple career paths through talents exchange and secondment for getting experience; thirdly, the Bank has created various strategic talent reserve plans including "Leaders" Training Program, Professional Managers Training Program to broaden the channels for career development; fourthly, the Bank has set up a high level staff education and training mechanism by innovating training methods, breaking down training into three levels and providing overseas training; fifthly, the Bank has given full play to the staff incentive policy by effectively combining material and spiritual incentives.

(IV) Remuneration policy for employees

The Bank has successfully established a broadband salary management system with diversified composition, standardised management and systematic implementation and adopted a market-oriented and diversified management by region in order to scientifically and effectively motivate the Bank's employees and ensure the smooth implementation of the Bank's strategic development. The Bank's remuneration package is composed of fixed remuneration, short-term incentive, long-term incentive and welfare income, setting up differentiated combination of elements of remuneration for different groups. Meanwhile, the Bank is able to strictly comply with regulatory requirements in remuneration payment by adopting deferred payment and setting up a lock-up period for paying senior management as well as employees holding positions that may exert significant influence to risks in order to tie job duties with risk management responsibilities. As of the end of 2016, staff costs of the Bank were RMB2,014.5 million.

(V) Retirement and benefits

The Bank pays the welfare benefits for employees who have not yet reached the statutory retirement age limit but are approved by the Bank to voluntarily retire from their employment from the internal retirement date to the statutory retirement age limit.

Directors, Supervisors, Senior Management, Employees and Organizations

VIII. Basic Information of Branches under the Parent Company

No.	Name of branch	Business address	Notes
1	Harbin branch	No. 160, Shangzhi Street, Daoli District, Harbin	144 sub-branches
2	Shuangyashan Branch	Jinyu Building, Xinxing Street, Jianshan District, Shuangyashan	12 sub-branches
3	Dalian Branch	Yinzhou International Plaza, No. 11 Qiyi Street, Zhongshan District, Dalian City	14 sub-branches
4	Tianjin Branch	No. 223, Yong'an Road, Hexi District, Tianjin	15 sub-branches
5	Chengdu Branch	No. 210 Xiyulong Street, Qingyang District, Chengdu	10 sub-branches
6	Hegang Branch	North of Railway Station Square, Hegang	8 sub-branches
7	Shenyang Branch	No. 200 Shifu Road, Heping District, Shenyang City	12 sub-branches
8	Suihua Branch	Crossing of Huanghe North Road and Xinhua Street, Beilin District, Suihua	9 sub-branches
9	Jixi Branch	No. 253 Zhongxin Street, Jiguan District, Jixi	11 sub-branches
10	Chongqing Branch	No. 197 Wuyi Road, Yuzhong District, Chongqing	19 sub-branches
11	Daqing Branch	H-A, Jingsan Street, Dongfengxin Village, Saertu District, Daqing	6 sub-branches
12	Qitaihe Branch	No. 57 Dongjin Street, Taoshan District, Qitaihe	5 sub-branches
13	Mudanjiang Branch	No. 137, Guanghua Street, Dong'an District, Mudanjiang	5 sub-branches
14	Jiamusi Branch	Crossroads between Zhongshan Street and Binjiang Road, Xiangyang District, Jiamusi	3 sub-branches
15	Qiqihaer Branch	No. 37 Longsha Road, Jianhua District, Qiqihaer City	2 sub-branches
16	Yichun Branch	South Shop, 1/F China Unicom Building, No. 70 Tonghe Road, Yichun District, Yichun City	
17	Farms and Land Reclamation Branch	Crossroads between Shengli Street and Yingbin Road, Heilongjiang Province Reclamation Area Jiansanjiang Administration	4 sub-branches
18	Small Business Financial Service Centre	No. 160, Shangzhi Street, Daoli District, Harbin	

Financial Statements

I. Independent Auditor's Report

II. Financial Statements (Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows)

III. Notes to Consolidated Financial Statements

IV. Unaudited Supplementary Financial Information

Independent Auditor's Report

22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

To the shareholders of Harbin Bank Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Harbin Bank Co., Ltd (the "Bank"). and its subsidiaries (the "Group") set out on pages 157 to 271, which comprise the consolidated statements of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by International Audit and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Hong Kong Institute of Certified Public Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provided the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers and debt instruments classified as receivables	
The assessment of impairment of loans and advances to customers and debt instruments classified as receivables involves significant judgement. The Group adopts an individual impairment assessment approach for individually significant loans and advances to customers and debt instruments classified as receivables; and a collective impairment assessment approach for loans and advances to customers and debt instruments classified as receivables not individually significant or not individually impaired. Under the collective approach, assessment of future cash flows for portfolios of loans and advances to customers and debt instruments classified as receivables is based on historical loss experience of these assets with similar credit risk characteristics, with adjustments based on the impact from changes of and uncertainties in the macro-economic environment. The future cash flows of loans and advances to customers and debt instruments classified as receivables without collateral or guarantees, or that are not adequately collateralised, are subject to higher uncertainties. Since impairment assessment involves judgement and assumptions, and in view of the significance of the amount (as at 31 December 2016, the aggregated gross balances of loans and advances to customers and debt instruments classified as receivables amounted to RMB345.82 billion, representing 63% of total assets, and the aggregated balances of impairment allowance for loans and advances to customers and debt instruments classified as receivables amounted to RMB6.98 billion), impairment of loans and advances to customers and debt instruments classified as receivables is considered a key audit matter. Relevant disclosures are included in Note 22, 24 and 51(a) to the consolidated financial statements.	We evaluated and tested the effectiveness of design and implementation of key controls related to the credit and debt instruments classified as receivables approval process, post approval credit management, credit grading system, collateral monitoring and impairment assessment, including testing of relevant data quality and information systems. We adopted a risk-based sampling approach in our loans and advances to customers and debt instruments classified as receivables review procedures. We assessed the debtors' repayment capacity and evaluated the Group's credit classification, taking into consideration post-lending and post-investing investigation reports, debtors' financial information, collateral valuation reports and other available information. We assessed the collective impairment model and considered management's assumptions on the migration rate, loss ratio and impact of macro-economic changes for various types of loans and advances to customers and debt instruments classified as receivables portfolio. We tested the discounted cash flow models and the related assumptions used in individual impairment assessment by assessing the amount, timing and likelihood of estimated future cash flows, including cash flows from collateral. We compared the assumptions with available external information. Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of structured entities	
The Group has managed and invested in a number of structured entities (primarily wealth management products, trust and asset management plans). The Group assesses its control over these structured entities when determining whether to consolidate them. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration power arising from rights, variable returns, and link between power and returns. The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. As at December 31 2016, the balance of unconsolidated non-principal-guaranteed wealth management products managed by the Group was RMB59.54 billion, and the amount of investments in unconsolidated structured entities invested by the Group disclosed in the consolidated statement of financial position was RMB144.53 billion. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation or non-consolidation of structured entities is considered a key audit matter. Relevant disclosures are included in Note 47 to the consolidated financial statements.	We evaluated and tested the design and operating effectiveness of the key controls related to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities based on the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE BANK'S 2016 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Bank or to cease operations or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Shing Kit.

Ernst & Young
Certified Public Accountants

Hong Kong
29 March 2017

Consolidated Statement of Profit or Loss

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December 2016	2015
Interest income	5	**22,602,732**	20,642,844
Interest expense	5	**(11,029,399)**	(11,009,905)
NET INTEREST INCOME	5	**11,573,333**	9,632,939
Fee and commission income	6	**2,571,566**	2,134,699
Fee and commission expense	6	**(178,203)**	(175,281)
NET FEE AND COMMISSION INCOME	6	**2,393,363**	1,959,418
Net trading income/(loss)	7	**(74,469)**	159,912
Net gain on financial investments	8	**13,129**	31,313
Other operating income, net	9	**266,613**	161,781
OPERATING INCOME		**14,171,969**	11,945,363
Operating expenses	10	**(4,522,203)**	(4,736,895)
Impairment losses on:			
Loans and advances to customers	22	**(1,857,200)**	(893,527)
Others	13	**(1,437,529)**	(444,948)
OPERATING PROFIT		**6,355,037**	5,869,993
Share of profits of an associate		**90,529**	48,969
PROFIT BEFORE TAX		**6,445,566**	5,918,962
Income tax expense	14	**(1,483,327)**	(1,409,362)
PROFIT FOR THE YEAR		**4,962,239**	4,509,600
Attributable to:			
Owners of the parent	15	**4,876,602**	4,457,607
Non-controlling interests		**85,637**	51,993
		4,962,239	4,509,600
EARNINGS PER SHARE (RMB yuan)			
– basic and diluted	17	**0.44**	0.41

Details of the dividends declared, paid and proposed are disclosed in note 16 to consolidated financial statements.

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

		Years ended 31 December	
	Note	**2016**	2015
Profit for the year		**4,962,239**	4,509,600
Other comprehensive income/(loss) (net of tax):	42		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent years:			
Net income/(loss) on available-for-sale financial assets		**(279,329)**	184,170
Share of other comprehensive income/(loss) of an associate		**(12,656)**	61,835
Total of other comprehensive income/(loss) for the year (net of tax)		**(291,985)**	246,005
Total comprehensive income for the year		**4,670,254**	4,755,605
Total comprehensive income attributable to:			
Owners of the parent		**4,584,736**	4,703,493
Non-controlling interests		**85,518**	52,112
Total		**4,670,254**	4,755,605

Consolidated Statement of Financial Position

As at 31 December 2016
(In RMB thousands, unless otherwise stated)

	Note	As at 31 December 2016	2015
ASSETS			
Cash and balances with the Central Bank	18	**67,010,336**	54,566,094
Due from banks and other financial institutions	19	**34,000,064**	30,035,064
Financial assets held for trading	20	**1,704,229**	2,840,042
Reverse repurchase agreements	21	**14,538,618**	51,027,890
Loans and advances to customers	22	**196,488,246**	145,061,523
Derivative financial assets	23	**70,775**	19,287
Financial investments	24	**190,453,189**	136,140,459
Finance lease receivables	25	**15,096,318**	10,447,874
Investment in an associate	26	**–**	1,156,296
Property and equipment	27	**8,717,934**	8,735,459
Deferred income tax assets	28	**1,414,660**	649,443
Asset held for sale	29	**1,234,169**	–
Other assets	30	**8,287,683**	4,171,837
TOTAL ASSETS		**539,016,221**	444,851,268
LIABILITIES			
Due to the Central Bank		**506,960**	764,253
Borrowings from banks and other financial institutions	31	**12,382,462**	8,137,937
Due to banks	32	**80,513,305**	52,028,920
Derivative financial liabilities	23	**90,392**	23,914
Repurchase agreements	33	**13,694,050**	12,145,000
Due to customers	34	**343,151,034**	306,817,669
Income tax payable		**825,756**	507,725
Debt securities issued	35	**41,883,393**	23,269,878
Other liabilities	36	**8,633,835**	7,308,013
TOTAL LIABILITIES		**501,681,187**	411,003,309
EQUITY			
Equity attributable to owners of the parent			
Share capital	37	**10,995,600**	10,995,600
Capital reserve	38	**7,635,709**	7,635,709
Other comprehensive income/(loss)	42	**(28,417)**	263,449
Surplus reserves	39	**2,409,731**	1,957,736
General and regulatory reserves	40	**5,481,049**	4,064,056
Undistributed profits	41	**10,014,136**	8,183,051
		36,507,808	33,099,601
Non-controlling interests		**827,226**	748,358
TOTAL EQUITY		**37,335,034**	33,847,959
TOTAL EQUITY AND LIABILITIES		**539,016,221**	444,851,268

Guo Zhiwen	**Zhang Qiguang**	**Yang Dazhi**
Chairman	President	General Manager of Finance and Accounting Department

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

	Equity attributable to owners of the parent							
	Share capital	**Capital reserve**	**Other comprehensive income/(loss)**	**Surplus reserves**	**General and regulatory reserves**	**Undistributed profits**	**Non-controlling interests**	**Total**
Balance as at 1 January 2016	**10,995,600**	**7,635,709**	**263,449**	**1,957,736**	**4,064,056**	**8,183,051**	**748,358**	**33,847,959**
Movements in this year	–	–	(291,866)	451,995	1,416,993	1,831,085	78,868	3,487,075
Total comprehensive income	–	–	(291,866)	–	–	4,876,602	85,518	4,670,254
Profit distribution	–	–	–	451,995	1,416,993	(3,045,517)	(6,650)	(1,183,179)
1. Appropriation to surplus reserves	–	–	–	451,995	–	(451,995)	–	–
2. Appropriation to general and regulatory reserves (i)	–	–	–	–	1,416,993	(1,416,993)	–	–
3. Dividends-2015 final (Note 16)	–	–	–	–	–	(1,176,529)	(6,650)	(1,183,179)
Balance as at 31 December 2016	**10,995,600**	**7,635,709**	**(28,417)**	**2,409,731**	**5,481,049**	**10,014,136**	**827,226**	**37,335,034**

(i) Includes the appropriation made by subsidiaries in the amount of RMB104,283 thousand.

	Equity attributable to owners of the parent							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Non-controlling interests	Total
Balance as at 1 January 2015	10,995,600	7,637,329	17,563	1,547,372	3,845,356	5,487,055	632,346	30,162,621
Movements in this year	–	(1,620)	245,886	410,364	218,700	2,695,996	116,012	3,685,338
Total comprehensive income	–	–	245,886	–	–	4,457,607	52,112	4,755,605
Capital contributed by owners	–	–	–	–	–	–	62,280	62,280
Profit distribution	–	–	–	410,364	218,700	(1,761,611)	–	(1,132,547)
1. Appropriation to surplus reserves	–	–	–	410,364	–	(410,364)	–	–
2. Appropriation to general and regulatory reserves (i)	–	–	–	–	218,700	(218,700)	–	–
3. Dividend-2014 final (Note 16)	–	–	–	–	–	(1,132,547)	–	(1,132,547)
Others	–	(1,620)	–	–	–	–	1,620	
Balance as at 31 December 2015	10,995,600	7,635,709	263,449	1,957,736	4,064,056	8,183,051	748,358	33,847,959

(i) Includes the appropriation made by subsidiaries in the amount of RMB11,689 thousand.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6,445,566**	5,918,962
Adjustments for:			
Share of profits of an associate		**(90,529)**	(48,969)
Depreciation and amortisation	10	**528,654**	436,695
Net trading (gain)/loss	7	**74,469**	(159,912)
Dividend income	8	**(1,541)**	(797)
Interest income on financial investments		**(7,981,573)**	(5,436,616)
Impairment loss on loans and advances to customers	22	**1,857,200**	893,527
Impairment loss on other assets	13	**1,437,529**	444,948
Unrealised foreign exchange (gain)/loss		**(101,737)**	51,518
Interest expense on issuance of bonds	5	**1,149,016**	432,152
Accreted interest on impaired loans	22	**(97,813)**	(46,707)
Net gain on disposal of financial investments	8	**(11,588)**	(30,516)
Net gain on disposal of property and equipment and other assets		**(288)**	(2,937)
		3,207,365	2,451,348
Net decrease/(increase) in operating assets:			
Due from the Central Bank		**(4,004,846)**	1,428,532
Due from banks and other financial institutions		**5,338,294**	(6,208,000)
Reverse repurchase agreements		**14,748,872**	4,989,137
Loans and advances to customers		**(55,831,940)**	(24,894,080)
Financial lease receivables		**(4,725,518)**	(6,354,730)
Other assets		**(545,089)**	(1,219,299)
		(45,020,227)	(32,258,440)
Net increase/(decrease) in operating liabilities:			
Due to the Central Bank		**(257,293)**	(952,657)
Borrowings from banks and other financial institutions		**4,244,525**	4,737,937
Due to banks		**28,484,385**	(7,591,559)
Repurchase agreements		**1,549,050**	6,142,479
Due to customers		**36,333,365**	74,620,513
Other liabilities		**1,165,168**	1,834,366
		71,519,200	78,791,079
Net cash flows from operating activities before tax		**29,706,338**	48,983,987
Income tax paid		**(1,837,403)**	(1,644,595)
Net cash flows from operating activities		**27,868,935**	47,339,392

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December 2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment, intangible assets and other long term assets		**(551,511)**	(1,312,833)
Proceeds from disposal of items of property and equipment		**450**	53,700
Cash paid for investments		**(985,130,678)**	(265,800,449)
Proceeds from sales and redemptions of investments		**929,723,226**	213,352,150
Dividends received		**1,541**	797
Return on investments		**7,578,336**	5,420,717
Net cash flows used in investing activities		**(48,378,636)**	(48,285,918)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		**–**	62,280
Proceeds from issue of other debt securities		**68,085,823**	18,694,280
Payment for redemption of other debt securities		**(49,510,567)**	–
Interest paid on debt securities		**(921,223)**	(254,404)
Dividends paid on ordinary shares		**(1,207,336)**	(1,116,388)
Distribution of dividends to non-controlling shareholders		**(4,724)**	–
Net cash flows from financing activities		**16,441,973**	17,385,768
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(4,067,728)**	16,439,242
Cash and cash equivalents at beginning of the year		**63,675,778**	47,182,813
Effect of exchange rate changes on cash and cash equivalents		**70,018**	53,723
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	43	**59,678,068**	63,675,778
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES INCLUDE:			
Interest received		**14,421,837**	14,854,048
Interest paid		**(9,438,578)**	(10,269,714)

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND GROUP STRUCTURE

Harbin Bank Co., Ltd. (the "Bank") is a joint-stock commercial bank established on 25 July 1997 based on the authorisation of the People's Bank of China ("PBOC") designated as YinFu [1997] No.69 "Approval upon the opening of Harbin Urban Cooperative Bank".

The Bank obtained its finance permit No. B0306H223010001 from the China Banking Regulatory Commission of the PRC ("CBRC"). The Bank obtained its business licence No. 912301001275921118 from the Market Supervision Administration of Harbin. The legal representative is Guo Zhiwen and the registered office is located at No. 160 Shangzhi Avenue, Daoli District, Harbin, Heilongjiang Province.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") comprise deposit services, loan services, payment and settlement services and financial leasing services, as well as other financial services approved by the CBRC.

The subsidiaries of the Bank as at 31 December 2016 are as follows:

Company name	Note	Date of establishment	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest owned by the Bank/ Voting rights	Amount invested by the Bank	Principal activities
Bayan Rongxing Village and Township Bank Co., Ltd.		6 Jan 2009	Bayan, Heilongjiang	50,000	90.00	45,000	Village and township bank
Huining Huishi Village and Township Bank Co., Ltd.		19 May 2009	Huining, Gansu	30,000	100.00	30,000	Village and township bank
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	(i)	4 Jan 2010	Huairou, Beijing	200,000	85.00	207,600	Village and township bank
Yushu Rongxing Village and Township Bank Co., Ltd.		21 Jan 2010	Yushu, Jilin	30,000	100.00	30,000	Village and township bank
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.		11 June 2010	Baoan, Shenzhen	200,000	70.00	140,000	Village and township bank
Yanshou Rongxing Village and Township Bank Co., Ltd.		10 Aug 2010	Yanshou, Heilongjiang	30,000	100.00	30,000	Village and township bank
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	(ii)	15 Dec 2010	Dadukou, Chongqing	150,000	80.00	144,420	Village and township bank
Suining Anju Rongxing Village and Township Bank Co., Ltd.		22 Dec 2010	Suining, Sichuan	80,000	75.00	60,000	Village and township bank
Huachuan Rongxing Village and Township Bank Co., Ltd.		27 Jan 2011	Huachuan, Heilongjiang	50,000	98.00	49,000	Village and township bank
Baiquan Rongxing Village and Township Bank Co., Ltd.		7 Apr 2011	Baiquan, Heilongjiang	30,000	100.00	30,000	Village and township bank

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND GROUP STRUCTURE (Continued)

Company name	Note	Date of establishment	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest owned by the Bank/ Voting rights	Amount invested by the Bank	Principal activities
Yanshi Rongxing Village and Township Bank Co., Ltd.		19 Apr 2011	Yanshi, Henan	30,000	100.00	30,000	Village and township bank
Leping Rongxing Village and Township Bank Co., Ltd.		25 Apr 2011	Leping, Jiangxi	30,000	100.00	30,000	Village and township bank
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.		9 May 2011	Rudong, Jiangsu	100,000	80.00	80,000	Village and township bank
Honghu Rongxing Village and Township Bank Co., Ltd.		16 May 2011	Honghu, Hubei	30,000	100.00	30,000	Village and township bank
Zhuzhou Rongxing Village and Township Bank Co., Ltd.		4 May 2011	Zhuzhou, Hunan	55,000	80.00	40,000	Village and township bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.		1 June 2011	Wulong, Chongqing	50,000	70.00	35,000	Village and township bank
Xin'an Rongxing Village and Township Bank Co., Ltd.		8 June 2011	Xin'an, Henan	30,000	100.00	30,000	Village and township bank
Anyi Rongxing Village and Township Bank Co., Ltd.		20 June 2011	Anyi, Jiangxi	30,000	100.00	30,000	Village and township bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.		16 June 2011	Yingcheng, Hubei	30,000	100.00	30,000	Village and township bank
Leiyang Rongxing Village and Township Bank Co., Ltd.		17 June 2011	Leiyang, Hunan	50,000	100.00	50,000	Village and township bank
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.		6 July 2011	Baoting, Hainan	30,000	96.67	29,000	Village and township bank
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.		28 May 2012	Shapingba, Chongqing	100,000	80.00	80,000	Village and township bank
Hejian Ronghui Village and Township Bank Co., Ltd.		25 June 2012	Hejian, Hebei	50,000	100.00	50,000	Village and township bank
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.		24 May 2012	Youyang, Chongqing	60,000	100.00	60,000	Village and township bank
Harbin Bank Financial Leasing Co., Ltd.		11 June 2014	Harbin, Heilongjiang	2,000,000	80,00	1,600,000	Leasing company

1. CORPORATE INFORMATION AND GROUP STRUCTURE (Continued)

Statutory financial statements of the subsidiaries of the Bank prepared under China Accounting Standards ("CASs") for the years ended 31 December 2016 and 2015 have been audited by Ernst and Young Hua Ming Certified Public Accountants LLP.

During the years ended 31 December 2016 and 2015, the major changes to the structure of the Group are as follows:

(i) On 17 August 2015, the Bank, along with Beijing Huazhongxingong Trading Co., Ltd., jointly made an additional capital injection of RMB147 million into Beijing Huairou Rongxing Village and Township Bank Co., Ltd. ("Huairou Rongxing"). After the injection, the total registered capital has increased to RMB200 million. The Bank's equity interest in Huairou Rongxing has decreased from 90% to 85% but is still the controlling shareholder of Huairou Rongxing.

(ii) On 25 February 2015, the Bank, along with Tiantai Investment Management Co., Ltd., Chongqing Nanhai Cement Factory and Chongqing Manyuanchun Garden Co. Ltd., made an additional capital injection of RMB123.3 million into Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd. ("Dadukou Rongxing"). After the injection, the total registered capital has increased to RMB150 million, The Bank's equity interest in Dadukou Rongxing has decreased from 90% to 80% but is still the controlling shareholder of Dadukou Rongxing.

2.1 BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations promulgated by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2016, together with the relevant transitional provisions, have been early adopted by the Group in preparation of the Financial Information throughout the reporting periods.

These consolidated financial statements have been prepared under the historical cost convention, except for financial assets held for trading, available-for-sale financial assets and derivative financial instruments (unless the fair value cannot be reliably measured) which have been measured at fair value, as further explained in the respective accounting policies below. Assets held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Bank. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Bank has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2016

On 1 January 2016, the Group adopted the following new standards, amendments and interpretations.

IAS 27 Amendments	*Equity Method in Separate Financial Statements*
IFRS 10, IFRS 12 and IAS 28 Amendments	*Investment Entities: Applying the Consolidation Exception*
IAS 1 Amendments	*Disclosure Initiative*
IFRS 11 Amendments	*Accounting for Acquisitions of Interests in Joint Operations*
IAS 16 and IAS 38 Amendments	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Annual Improvements to *IFRSs 2012-2014 Cycle* (issued in September 2014)	

IAS 27 Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The amendments to IFRS 10, IFRS 12 and IAS 28 address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exception from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

The amendments to IAS 1 include narrow-focus improvements in materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments.

The amendments to IFRS 11 require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a "business" (as defined in *IFRS 3 Business Combinations*).

The amendments to IAS 16 and IAS 38 clarify that revenue reflects a pattern of economic benefits that are generated from operating a business rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2016 (Continued)

Annual Improvements to IFRSs 2012-2014 Cycle:

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendments clarify that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

IFRS 7 Financial Instruments: Disclosures

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance in IFRS 7 for continuing involvement in order to assess whether the disclosures are required. In addition, the amendments clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

IAS 19 Employee Benefits

The amendments clarify that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

IAS 34 Interim Financial Reporting

The amendments clarify that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

The adoption of the above standards and amendments does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs (including IASs), that have been issued but are not yet effective, in these financial statements.

		Effective for annual periods beginning on or after
IAS 7 Amendments	*Statement of Cash Flows*	1 January 2017
IAS 12 Amendments	*Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017
IAS 40 Amendments	*Transfers of Investment Property*	1 January 2018
IFRS 2 Amendments	*Share-based Payment*	1 January 2018
IFRS 4 Amendments	*Insurance Contracts*	1 January 2018
IFRS 9	*Financial Instruments*	1 January 2018
IFRS 15 Amendments	*Revenue from Contracts with Customers*	1 January 2018
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*	1 January 2018
IFRS 16	*Leases*	1 January 2019
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	(effective date has been deferred indefinitely)
Annual Improvements to *IFRSs 2014-2016 cycle* (issued in December 2016)		

The amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments to IAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IAS 40 Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The IASB issued amendments to IFRS 4 that address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

IFRIC Interpretation 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IFRS 16 Leases requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The scope of the new standard includes leases of all assets, with certain exceptions.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

Annual Improvements to IFRSs 2014-2016 Cycle:

IAS 28 Investments in Associates and Joint Ventures

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. The amendments are effective from 1 January 2018.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Short-term exemptions for first-time adopters in IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018.

IFRS 12 Disclosure of Interests in Other Entities

The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017.

The Group is in the process of assessing the impact of these new standards, amendments and interpretations on the consolidated and separate financial statements of the Group and the Bank respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is accounted for under the equity method of accounting. Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The results of the associate are included in the Group's statement of profit or loss to the extent of dividends received and receivable. The Group's investment in an associate is stated at cost less any impairment losses.

The reporting periods of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for transactions and events in similar circumstances.

(2) Foreign currency translation

The consolidated financial statements of the Group are presented in RMB, which is the functional and presentation currency of the Bank and its subsidiaries.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition of financial instruments

At initial recognition, financial assets are classified into four categories: financial assets at fair value through profit or loss, held-to-maturity financial investments, loans and receivables and available-for-sale financial assets.

At initial recognition, financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

A financial asset or financial liability is measured initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Measurement of fair value

The fair value of a financial asset or financial liability traded in active markets is based on its quoted market price.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include making reference to the prices from recent arm's length market transactions between knowledgeable and willing parties, if available, current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities held for trading and financial assets or financial liabilities designated as at fair value through profit or loss.

Financial assets or financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if:

(i) it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;

(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or

(iii) it is a derivative.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Financial assets or financial liabilities held for trading (Continued)

Financial assets held for trading mainly include bond investments.

Financial assets or financial liabilities held for trading are measured at fair value after initial recognition. Realised or unrealised income or expenses are recognised in the statement of profit or loss.

Financial assets or financial liabilities designated as at fair value through profit or loss

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;

(ii) it applies to a group of financial assets, financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or

(iii) the financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Gains and losses are recognised in the statement of profit or loss when the held-to-maturity financial investments are derecognised or impaired, as well as through the amortisation process. All the held-to-maturity financial investments are bond investments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Held-to-maturity financial investments (Continued)

The Group shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held to maturity during the current financial year or during the two preceding financial years, if the Group has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

(i) is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for impairment losses. Gains and losses are recognised in the statement of profit or loss when such assets are derecognised or impaired, as well as through the amortisation process. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Group to its customers based on the bank bill acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and are taken to the statement of profit or loss as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of other comprehensive income until the financial asset is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in other comprehensive income are transferred to the statement of profit or loss. Dividend and interest income on available-for-sale financial assets are recorded in the statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Available-for-sale financial assets (Continued)

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost less any impairment loss.

Other financial liabilities

Other financial liabilities are carried at amortised cost using the effective interest rate method.

(4) Impairment of financial assets

An assessment on the carrying amount of financial assets is made at the end of each reporting period. Impairment is recognised if there is objective evidence of impairment of financial assets, i.e., one or more events that occurred after the initial recognition of those assets and have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, they would probably enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and shall include the value of any relevant collateral. The original effective interest rate is the rate used to determine the values of financial assets at initial recognition. With respect to floating-rate loans, receivables and held-to-maturity investments, the discount rate could be the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the statement of profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of profit or loss, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

When an item of loans and receivables is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. The amount of the provision for loan impairment in the statement of profit or loss decreases due to subsequent recoveries of the amounts previously written off.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on the financial asset, the amount of impairment loss, measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, is recognised in the statement of profit or loss. In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, the amount of impairment loss is recognised in the statement of profit or loss. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If there is objective evidence that the financial asset is impaired, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Impairment of financial assets (Continued)

Available-for-sale financial assets (Continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. The Group considers the time period and continuity of the magnitude of the decline to evaluate whether the decline in fair value is prolonged. More significantly the fair value declines relative to the cost, the less the volatility moves, and the longer the decline lasts or the more obvious the continuity of the magnitude of the decline is, the more likely the equity investment is impaired. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognised as other comprehensive income.

In the case of debt instruments classified as available for sale, if, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impaired loss is reversed through the statement of profit or loss.

(5) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset; or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Derecognition of financial assets and liabilities (Continued)

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

(6) Trade date accounting

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(7) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(8) Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Property and equipment

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value and annual depreciation rate of each item of property and equipment are as follows:

	Estimated useful life	Estimated residual value rate	Annual depreciation rate
Properties and buildings	30 years	5%	3.17%
Office equipment	3-10 years	0 or 5%	9.5%-31.67%
Motor vehicles	5 years	5%	19.00%
Operating lease fixed assets	20 years	5%	4.75%
Leasehold improvements	Over the shorter of the economic useful lives and remaining lease terms		

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognised.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Land use rights

Land use rights are recognised at cost, which is the consideration paid. The rights are amortised using the straight-line basis over the period of the leases.

(11) Repossessed assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(12) Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the assets or disposal groups must be available for immediate sale in their present conditions subject only to terms that are usual and customary for the sale of such assets or disposal groups and their sale must be highly probable.

Such non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

(13) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(13) Business combinations and goodwill (Continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as gain on bargain purchase.

(14) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

(15) Asset impairment

Impairment losses on assets, except for deferred tax assets, financial assets and goodwill, are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Asset impairment (Continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(16) Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with the Central Bank, amounts due from banks and other financial institutions and reverse repurchase agreements with original maturity of less than three months.

(17) Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

Statutory defined contribution plans

In accordance with the relevant laws and regulations, employees of the Group participate in various social insurance schemes like basic pension insurance, medical insurance, unemployment insurance and housing fund schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies the above pension and insurance schemes using applicable contribution basis and rates stipulated in the relevant local regulations in the period the employees providing their services to the Group. Contributions to these plans are recognised in the statement of profit or loss as incurred.

Early retirement benefits

According to the Bank's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Bank. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the statement of profit or loss as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(18) Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group, as a trustee approved by regulatory authorities, signs custody agreements with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

The Group grants entrusted loans on behalf of trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which are recognised ratably over the period in which the service is provided. The risk of loss is borne by those trustors.

(19) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(19) Recognition of income and expense (Continued)

Fee and commission income

Fee and commission income is recognised after services have been rendered, and the chargeable amount is reasonably estimated.

The fair value of the award credits granted to the bank card holders is deferred and recognised as fee and commission income when the award credits are redeemed or expire.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

Net trading income

Net trading income arising from trading activities include the gains and losses from changes in fair value for financial assets held for trading.

(20) Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the statement of profit or loss except that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(i) Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Income tax (Continued)

Deferred income tax (Continued)

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(i) Where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(21) Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

Operating leases

Rental payments applicable to operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) Leases (Continued)

Operating leases (Continued)

When the Group is the lessor under operating leases, the assets subject to operating leases are accounted for as the Group's assets. Rental income is recognised as "other operating income, net" in the statement of profit or loss on the straight-line basis over the lease term.

Finance lease

When the Group is a lessor under a finance lease, at the lease commencement date, the minimum lease receivables and initial direct costs are recognised as finance lease receivables and any unguaranteed residual value is recognised at the same time. The difference between the sum of minimum lease receivables, initial direct costs, the unguaranteed residual value and their present value is accounted for as unearned finance income.

The unearned finance income is amortised using the effective interest method over the lease period.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies set out in note 3(4).

(22) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(22) Related parties (Continued)

(b) the party is an entity where any of the following conditions applies: (Continued)

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a party, provides key management personnel services to the Group or the parent of the Group.

(23) Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised ratably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to a financial guarantee is taken to the statement of profit or loss.

(24) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

(25) Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(26) Structured entities

A structured entity is an entity that has been designed so that voting right is not a dominant factor in deciding who controls the entity. Unconsolidated structured entities refer to equity in other entities which have no significant impact on the Group, including but not limited to equity or debt instruments or any other involvements. The Group's unconsolidated structured entities mainly include off-balance sheet non-guaranteed wealth management products sponsored by the Group disclosed in note 47 of the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall reclassify the whole held-to-maturity investment portfolio as available for sale.

Impairment losses on loans and advances, financial lease receivables, amounts due from banks and other financial institutions, and debt instruments classified as receivables

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances, financial lease receivables, amounts due from banks and other financial institutions, and debt instruments classified as receivables. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using valuation techniques. These valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes a maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

Early retirement benefit obligations

The Bank has established liabilities in connection with benefits payable to early retired employees. These amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which the differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee early retirement benefit obligations.

Judgement of the control level to investees

Management determines whether the Bank controls related investment funds, non-guaranteed wealth management products, asset-backed securities, specific asset management plans and investment trust plans according to Note 2.1.

The Bank manages or invests several investment funds, non-guaranteed wealth management products, asset-backed securities, specific asset management plans and trust fund plans. When determining whether to control structural entities of these types, the Bank mainly estimates the whole economy benefit it has in these structural entities (including revenues by holding directly and expected fees) or the range of power of decision-making in the entities. The Bank determines whether to consolidate the structural entities into the financial statements according to whether the Bank is an agent or a main responsible party and whether the economy interest of the Bank in the entities is significant.

Classification between finance leases and operating leases

Leases are required to be classified as either finance leases (which transfer substantially all the risks and rewards of ownership, and give rise to asset and liability recognition by the lessee and a receivable by the lessor) or operating leases (which result in expense recognition by the lessee, with the asset remaining recognised by the lessor).

The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the leases and this involves critical judgements by management.

(In RMB thousands, unless otherwise stated)

5. NET INTEREST INCOME

	Year ended 31 December	
	2016	2015
Interest income on:		
Loans and advances to customers	**11,780,816**	11,200,118
– Corporate loans and advances	**5,849,681**	7,093,565
– Personal loans	**5,790,669**	3,856,791
– Discounted bills	**140,466**	249,762
Reverse repurchase agreements	**427,536**	2,072,791
Available-for-sale financial assets	**586,787**	521,222
Held-to-maturity financial investments	**1,146,222**	931,765
Debt instruments classified as receivables	**6,248,564**	3,983,629
Due from the Central Bank	**624,928**	633,495
Due from banks and other financial institutions	**944,996**	883,372
Financial lease receivables	**842,883**	416,452
Subtotal	**22,602,732**	20,642,844
Interest expense on:		
Due to customers	**(7,296,894)**	(6,558,005)
Repurchase agreements	**(321,736)**	(354,098)
Due to banks	**(1,852,653)**	(3,302,980)
Debt securities issued	**(1,149,016)**	(432,152)
Due to the Central Bank	**(16,237)**	(38,417)
Borrowings from other financial institutions	**(392,863)**	(324,253)
Subtotal	**(11,029,399)**	(11,009,905)
Net interest income	**11,573,333**	9,632,939
Included: interest income on impaired loans	**97,813**	46,707
Interest income from:		
Listed debt instruments	**1,733,009**	1,452,987
Unlisted debt instruments	**20,869,723**	19,189,857
Subtotal	**22,602,732**	20,642,844

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6. NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2016	2015
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	**1,100,821**	842,268
Agency and custodian fees	**1,103,106**	941,632
Including: Non-guaranteed wealth management products	**544,241**	496,598
Bank card fees	**132,734**	166,082
Settlement and clearing fees	**166,021**	115,130
Others	**68,884**	69,587
Subtotal	**2,571,566**	2,134,699
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	**(20,639)**	(19,559)
Agency fees	**(16,403)**	(14,039)
Bank card fees	**(112,420)**	(110,307)
Others	**(28,741)**	(31,376)
Subtotal	**(178,203)**	(175,281)
NET FEE AND COMMISSION INCOME	**2,393,363**	1,959,418

7. NET TRADING INCOME/(LOSS)

	Year ended 31 December	
	2016	2015
Debt securities	**(59,479)**	163,939
Others	**(14,990)**	(4,027)
	(74,469)	159,912

The above amounts include gains and losses arising from the purchase and sale of, interest income on, and changes in fair value of financial assets held for trading, and changes in fair value of derivative financial instruments.

(In RMB thousands, unless otherwise stated)

8. NET GAIN ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2016	2015
Dividends from available-for-sale equity investments	**1,541**	797
Gain on disposal of held-to-maturity investments	**–**	1,982
Gain on disposal of available-for-sale financial assets, net	**11,588**	28,534
Total	**13,129**	31,313

9. OTHER OPERATING INCOME, NET

	Year ended 31 December	
	2016	2015
Net gain on sale of property and equipment	**336**	2,456
Net gain on sale of repossessed assets	**–**	564
Gain from foreign exchange, net	**171,755**	2,206
Leasing income	**13,933**	30,423
Government grants and subsidies	**65,867**	108,844
Penalty and compensation payments	**12**	34
Others	**14,710**	17,254
Total	**266,613**	161,781

10. OPERATING EXPENSES

	Year ended 31 December	
	2016	2015
Staff costs:		
Salaries, bonuses and allowances	**1,592,457**	1,499,026
Social insurance	**198,506**	191,171
Housing fund	**84,790**	85,945
Staff benefits	**112,236**	125,737
Labour union expenditure and education costs	**20,086**	14,614
Early retirement benefits	**6,427**	7,642
Subtotal	**2,014,502**	1,924,135
General and administrative expenses	**683,027**	668,089
Tax and surcharges	**468,435**	943,682
Depreciation and amortisation	**528,654**	436,695
Leasing expense	**375,825**	317,228
Auditors' remuneration	**6,200**	5,800
Others	**445,560**	441,266
Total	**4,522,203**	4,736,895

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11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' emoluments before tax are as follows:

		Year ended 31 December 2016						
Name	Position	Fees RMB'000 (1)	Remuneration paid RMB'000 (2)	Discretionary bonuses RMB'000 (3)	Contributions to defined contribution schemes RMB'000 (4)	Total emoluments before tax RMB'000 (5)=(1)+(2)+(3)+(4)	Of which: deferred payment RMB'000 (6)	Actual amount of remuneration paid (pre-tax) RMB'000 (7)=(5)-(6)
Guo Zhiwen	Executive Director and Chairman	–	774	3,209	43	4,026	1,920	2,106
Liu Zhuo	Executive Director and Vice Chairman	316	–	–	–	316	–	316
Zhang Qiguang	Executive Director, President and Chief Financial Officer	–	576	2,093	41	2,710	991	1,719
Chen Danyang	Non-executive Director	144	–	–	–	144	–	144
Zhang Taoxuan	Non-executive Director	145	–	–	–	145	–	145
Cui Luanyi	Non-executive Director	145	–	–	–	145	–	145
Ma Baolin	Non-executive Director	145	–	–	–	145	–	145
Peng Xiaodong	Non-executive Director	12	–	–	–	12	–	12
Qin Hongfu	Non-executive Director	97	–	–	–	97	–	97
Zhang Shengping	Independent non-executive Director	–	–	–	–	–	–	–
He Ping	Independent non-executive Director	–	–	–	–	–	–	–
Du Qingchun	Independent non-executive Director	240	–	–	–	240	–	240
Kong Siu Chee	Independent non-executive Director	344	–	–	–	344	–	344
Wan Kam To	Independent non-executive Director	373	–	–	–	373	–	373
Gao Shuzhen	Chairman of the Board of Supervisors and Employee Supervisor	–	1,790	1,425	42	3,257	1,306	1,951
Lu Yujuan	Supervisor	60	–	–	–	60	–	60
Wang Ying	Employee Supervisor	–	434	220	40	694	70	624
Yang Dazhi	Employee Supervisor	–	708	635	54	1,397	368	1,029
Wang Jiheng	External Supervisor	144	–	–	–	144	–	144
Bai Fan	External Supervisor	120	–	–	–	120	–	120
Meng Rongfang	External Supervisor	144	–	–	–	144	–	144

Note: Pursuant to the relevant PRC regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors (the "Board"), the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred.

(i) At the tenth meeting of the sixth Board held on 15 August 2016, Qin Hongfu ceased to act as a non-executive Director of the Bank.

(ii) At the second extraordinary general meeting for 2016 held on 13 October 2016, Peng Xiaodong was elected as a non-executive Director of the Bank.

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11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

		Year ended 31 December 2015						
Name	Position	Fees RMB'000 (1)	Remuneration paid RMB'000 (2)	Discretionary bonuses RMB'000 (3)	Contributions to defined contribution schemes RMB'000 (4)	Total emoluments before tax RMB'000 (5)=(1)+(2)+(3)+(4)	Of which: deferred payment RMB'000 (6)	Actual amount of remuneration paid (pre-tax) RMB'000 (7)=(5)-(6)
Guo Zhiwen	Executive Director, Chairman	–	774	3,840	36	4,650	1,920	2,730
Liu Zhuo	Executive Director, Vice Chairman	321	–	–	–	321	–	321
Zhang Qiguang	Executive Director, President and Chief Financial Officer	–	504	3,300	35	3,839	1,403	2,436
Chen Danyang	Non-executive Director	146	–	–	–	146	–	146
Zhang Taoxuan	Non-executive Director	145	–	–	–	145	–	145
Qin Hongfu	Non-executive Director	146	–	–	–	146	–	146
Cui Luanyi	Non-executive Director	146	–	–	–	146	–	146
Ma Baolin	Non-executive Director	61	–	–	–	61	–	61
Zhang Shengping	Independent non-executive Director	130	–	–	–	130	–	130
He Ping	Independent non-executive Director	254	–	–	–	254	–	254
Du Qingchun	Independent non-executive Director	283	–	–	–	283	–	283
Kong Siu Chee	Independent non-executive Director	451	–	–	–	451	–	451
Wan Kam To	Independent non-executive Director	351	–	–	–	351	–	351
Gao Shuzhen	Chairman of the Board of Supervisors and Employee Supervisor	–	1,406	2,590	35	4,031	1,322	2,709
Lu Yujuan	Supervisor	60	–	–	–	60	–	60
Wang Ying	Employee Supervisor	–	434	363	35	832	144	688
Yang Dazhi	Employee Supervisor	–	531	997	37	1,565	199	1,366
Wang Jiheng	External Supervisor	144	–	–	–	144	–	144
Bai Fan	External Supervisor	120	–	–	–	120	–	120
Meng Rongfang	External Supervisor	144	–	–	–	144	–	144

Note: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred.

(i) At the annual general meeting for 2014 held on 30 June 2015, Zhang Qiguang was elected as the Executive Director of the Bank. Ma Baolin was elected as a non-executive Director of the Bank. Gao Shuzhen ceased to act as the Executive Director and President of the Bank.

(ii) At the annual general meeting for 2014 held on 30 June 2015, Gao Shuzhen and Yang Dazhi were appointed as the Employee Supervisors of the Bank. Zhang Bin, Cheng Yun and Chen Yutao ceased to act as the Supervisors of the Bank.

(In RMB thousands, unless otherwise stated)

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

(iii) At the first meeting of the sixth Board held on 30 June 2015, as proposed by Guo Zhiwen, Sun Feixia has been appointed as the Secretary to the sixth Board and the joint secretary of the Bank, Zhang Qiguang has been appointed as the President and the Chief Financial Officer of the Bank. As proposed by Zhang Qiguang, Lv Tianjun, Lu Weidong, Wang Haibin and Sun Jiawei have been appointed as the Vice Presidents of the Bank. Xu Shaoguang has been appointed as the Chief Credit approval Officer of the Bank. Liu Yang has been appointed as the assistant to the President of the Bank.

(iv) At the sixth meeting of the sixth Board held on 7 December 2015, Ma Yongqiang ceased to act as an independent non-executive Director of the Bank.

During the year ended 31 December 2016, Zhang Shengping and He Ping, two Independent non-executive Directors of the Bank, agreed to waive remuneration before tax of RMB245 thousand and RMB234 thousand, respectively (2015: Zhang Shengping, an Independent non-executive Director of the Bank, agreed to waive remuneration before tax of RMB155 thousand).

During the year ended 31 December 2016, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or were payable to such persons upon joining the Group or as compensation for loss of office (2015: Nil).

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank. Their emoluments were determined based on the prevailing market rates of the region where the Bank operates. During the years ended 31 December 2016 and 2015, the five highest paid individuals of the Group comprised two directors and one supervisor and two directors and one supervisor of the Bank, respectively, whose emoluments are disclosed in notes 11 and 49(b) to consolidated financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Year ended 31 December	
	2016	2015
Salaries, allowances and discretionary bonuses	**15,659**	19,839
Contribution to defined contribution schemes	**165**	141
Total	**15,824**	19,980

(In RMB thousands, unless otherwise stated)

12. FIVE HIGHEST PAID INDIVIDUALS (Continued)

The number of non-director and non-supervisor employees whose emoluments fell within the following bands is set out below.

	Number of employees	
	Year ended 31 December	
	2016	2015
RMB2,000,001 to RMB2,500,000	**1**	–
RMB3,500,001 to RMB4,000,000	**1**	2
Total	**2**	2

During the year ended 31 December 2016, no emoluments were paid by the Group to any of these non-director and non-supervisor individuals as an inducement to join or were payable to such persons upon joining the Group or as compensation for loss of office (2015: Nil).

13. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	Year ended 31 December	
	2016	2015
Impairment losses on:		
Debt instruments classified as receivables	**1,360,455**	377,667
Financial lease receivables	**77,074**	67,281
	1,437,529	444,948

14. INCOME TAX EXPENSE

(a) Income tax

	Year ended 31 December	
	2016	2015
Current income tax	**2,155,434**	1,659,823
Deferred income tax	**(672,107)**	(250,461)
	1,483,327	1,409,362

(In RMB thousands, unless otherwise stated)

14. INCOME TAX EXPENSE (Continued)

(b) Reconciliation between income tax and accounting profit

The income tax of the Group's institutions has been provided at the statutory rate of 25%. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December	
	2016	2015
Profit before tax	**6,445,566**	5,918,962
Tax at the PRC statutory income tax rate	**1,611,391**	1,479,740
Effect of different tax rates for certain subsidiaries	**(15,233)**	(3,627)
Items not deductible for tax purposes	**28,685**	40,080
Non-taxable income (i)	**(111,982)**	(75,552)
Adjustment for income tax from previous years	**(6,902)**	(19,037)
Profits attributable to an associate	**(22,632)**	(12,242)
Tax expense at the Group's effective income tax rate	**1,483,327**	1,409,362

(i) The non-taxable income mainly represents interest income arising from the PRC government bonds, micro-loans to farmers, etc, which are exempted from income tax, under tax regulations of the PRC.

15. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2016 includes a profit of RMB4,520 million (2015: RMB4,103 million) which has been dealt with in the financial statements of the Bank.

16. DIVIDENDS

	Year ended 31 December	
	2016	2015
Dividends on ordinary shares declared and paid:		
Final dividend for 2015: RMB0.107 per share** (2014: RMB0.103 per share*)	**1,176,529**	1,132,547
Dividends on ordinary shares proposed for approval (not recognised as at 31 December):		
Final dividend for 2016: did not declare any dividend *** (2015: RMB0.107 per share**)	**–**	1,176,529

* Based on the total number of shares at 31 December 2014 at RMB0.103 per share, distributed in cash.

** Based on the total number of shares as at 31 December 2015 at RMB0.107 per share, distributed in cash.

*** The Bank did not declare any dividend for the year ended 31 December 2016.

17. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Year ended 31 December	
	2016	2015
Earnings:		
Profit attributable to owners of the parent	**4,876,602**	4,457,607
Shares:		
Weighted average number of ordinary shares in issue (in thousands)	**10,995,600**	10,995,600
Basic and diluted earnings per share (in RMB yuan)	**0.44**	0.41

The Group had no potential ordinary shares for both the current and prior years.

Basic earnings per share for the years ended 31 December 2016 and 2015 was computed by dividing the profit attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares in issue during the years.

18. CASH AND BALANCES WITH THE CENTRAL BANK

	As at 31 December	
	2016	2015
Cash and balances with the Central Bank:		
Cash on hand	**845,338**	691,250
Mandatory reserves with the Central Bank (i)	**38,761,014**	34,754,118
Surplus reserves with the Central Bank (ii)	**27,369,303**	19,083,995
Fiscal deposits with the PBOC	**34,681**	36,731
Total	**67,010,336**	54,566,094

(i) The Group is required to place mandatory reserve deposits with the PBOC. Mandatory reserve deposits with the Central Bank are not available for use in the Group's daily operations. As at 31 December 2016 and 2015, the mandatory deposit reserve ratios of the branches and subsidiaries of the Bank in respect of customer deposits denominated in RMB and foreign currencies complied with the requirements of the PBOC.

(ii) Surplus reserves with the PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

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19. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2016	2015
Nostro accounts:		
Banks operating in Mainland China	**31,599,932**	26,752,488
Banks operating outside Mainland China	**1,396,020**	1,349,076
	32,995,952	28,101,564
Less: Allowance for impairment losses	**–**	–
	32,995,952	28,101,564
Placements with banks and other financial institutions:		
Banks operating in Mainland China	**400,057**	1,271,160
Banks operating outside Mainland China	**604,055**	662,340
	1,004,112	1,933,500
Less: Allowance for impairment losses	**–**	–
	1,004,112	1,933,500
	34,000,064	30,035,064

20. FINANCIAL ASSETS HELD FOR TRADING

	As at 31 December	
	2016	2015
Debt securities	**1,704,229**	2,840,042
Debt securities analysed into:		
Listed in Mainland China	**1,704,229**	2,840,042

(In RMB thousands, unless otherwise stated)

21. REVERSE REPURCHASE AGREEMENTS

	As at 31 December	
	2016	2015
Reverse repurchase agreements analysed by counterparty:		
Banks	**13,402,778**	51,027,890
Other financial institutions	**1,135,840**	–
	14,538,618	51,027,890
Reverse repurchase agreements analysed by collateral:		
Securities	**13,739,270**	2,700,000
Bills	**799,348**	48,177,890
Trust beneficial rights	**–**	150,000
	14,538,618	51,027,890

As part of the reverse repurchase agreements, the Group has received securities/bills that are allowed to sell or repledge in the absence of default by their owners. As at 31 December 2016, the Group had no such securities (31 December 2015: Nil). As at 31 December 2016, the Group also had no such bills (31 December 2015: RMB13,798 million). As at 31 December 2016, none of these bills have been repledged under repurchase agreements (31 December 2015: Nil). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

22. LOANS AND ADVANCES TO CUSTOMERS

	As at 31 December	
	2016	2015
Corporate loans and advances	**95,024,689**	86,649,602
Personal loans	**105,793,366**	61,596,453
Discounted bills	**809,878**	428,770
	201,627,933	148,674,825
Less: Allowance for impairment	**(5,139,687)**	(3,613,302)
	196,488,246	145,061,523

(In RMB thousands, unless otherwise stated)

22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements of allowance for impairment losses during the year are as follows:

	Individually assessed	Collectively assessed	Total
As at 1 January 2016	**328,112**	**3,285,190**	**3,613,302**
Exchange difference	**3,421**	**1,626**	**5,047**
Impairment loss:	**475,207**	**1,381,993**	**1,857,200**
Impairment allowances charged	**530,296**	**1,381,993**	**1,912,289**
Reversal of impairment allowances	**(55,089)**	**–**	**(55,089)**
Accreted interest on impaired loans (note 5)	**(31,892)**	**(65,921)**	**(97,813)**
Write-offs	**(1,628)**	**(339,800)**	**(341,428)**
Recoveries of loans and advances previously written off	**–**	**103,379**	**103,379**
As at 31 December 2016	**773,220**	**4,366,467**	**5,139,687**
As at 1 January 2015	230,990	2,685,081	2,916,071
Exchange difference	2,163	1,095	3,258
Impairment loss:	76,970	816,557	893,527
Impairment allowances charged	102,877	816,557	919,434
Reversal of impairment allowances	(25,907)	–	(25,907)
Accreted interest on impaired loans (note 5)	(13,862)	(32,845)	(46,707)
Write-offs	–	(223,837)	(223,837)
Recoveries of loans and advances previously written off	31,851	39,139	70,990
As at 31 December 2015	328,112	3,285,190	3,613,302

(In RMB thousands, unless otherwise stated)

22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	As at 31 December	
	2016	2015
Loans and advances:		
Unimpaired loans and advances (i)	**198,545,954**	146,596,175
Impaired loans and advances to customers (ii)		
Individually assessed	**1,515,517**	902,157
Collectively assessed	**1,566,462**	1,176,493
	201,627,933	148,674,825
Less: Allowance for impairment losses:		
Unimpaired loans and advances (i)	**(3,545,763)**	(2,805,551)
Impaired loans and advances to customers (ii)		
Individually assessed	**(773,220)**	(328,112)
Collectively assessed	**(820,704)**	(479,639)
	(5,139,687)	(3,613,302)
Net loans and advances:		
Unimpaired loans and advances (i)	**195,000,191**	143,790,624
Impaired loans and advances to customers (ii)		
Individually assessed	**742,297**	574,045
Collectively assessed	**745,758**	696,854
	196,488,246	145,061,523
Percentage of impaired loans and advances	**1.53%**	1.40%

(i) Unimpaired loans and advances should be collectively assessed for impairment.

(ii) Impaired loans and advances to customers include those with objective evidence of impairment.

(In RMB thousands, unless otherwise stated)

23. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into interest/currency rate related derivative financial instruments for trading and clients.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest/currency rates relative to their terms.

	As at 31 December					
	2016			2015		
	Contractual/ notional amount	**Fair value**		Contractual/ notional amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
Derivative financial instruments						
FX forward	**3,124,852**	**70,775**	**90,392**	1,651,030	3,629	18,196
FX swap	**–**	**–**	**–**	841,499	15,658	5,718
	3,124,852	**70,775**	**90,392**	2,492,529	19,287	23,914

24. FINANCIAL INVESTMENTS

	As at 31 December	
	2016	2015
Debt instruments classified as receivables (a)	**144,192,982**	90,082,859
Held-to-maturity investments (b)	**30,500,981**	25,244,149
Available-for-sale financial assets (c)	**17,597,348**	21,291,118
Subtotal	**192,291,311**	136,618,126
Less: Allowance for impairment losses	**(1,838,122)**	(477,667)
Net balance	**190,453,189**	136,140,459

(In RMB thousands, unless otherwise stated)

24. FINANCIAL INVESTMENTS (Continued)

(a) Debt instruments classified as receivables

The debt instruments classified as receivables are unlisted and stated at amortised cost and comprise the following:

	As at 31 December	
	2016	2015
Certificate treasury bonds	**75,628**	82,527
Asset management plans (i)	**83,680,576**	45,880,543
Trust fund plans (ii)	**60,436,778**	44,119,789
Subtotal	**144,192,982**	90,082,859
Less: Allowance for impairment losses	**(1,838,122)**	(477,667)
Net balance	**142,354,860**	89,605,192

(i) Assets management plans are purchased from security companies and other financial institutions, with no active market quotes, definite period lengths (1 to 10 years), and the interest rate is fixed or determinable (from 4% to 10%). These include investments in trust loans, trust beneficial rights, and designated loans, etc.

(ii) The trust fund plans are purchased from trust companies, with no active market quotes, definite period lengths (1 to 5 years), and the interest rate is fixed or determinable (4% to 11%). These include investments in trust loans and trust beneficial rights, etc.

(b) Held-to-maturity investments

Held-to-maturity investments are stated at amortised cost and comprise the following:

	As at 31 December	
	2016	2015
Debt securities analysed into:		
Listed in Mainland China	**30,500,981**	25,244,149

(In RMB thousands, unless otherwise stated)

24. FINANCIAL INVESTMENTS (Continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	As at 31 December	
	2016	2015
Debt securities analysed into:		
Listed in Mainland China	**17,193,762**	11,239,220
Unlisted:		
Equity investments at cost (i)	**24,620**	24,620
Wealth management products	**352,270**	4,000,794
Funds	**–**	6,000,284
Others	**26,696**	26,200
	17,597,348	21,291,118
Market value of listed debt securities	**17,193,762**	11,239,220

(i) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

25. FINANCE LEASE RECEIVABLES

	As at 31 December	
	2016	2015
Finance lease receivables	**16,898,232**	11,708,466
Less: Unearned finance lease income	**(1,615,535)**	(1,151,287)
Present value of minimum finance lease receivables	**15,282,697**	10,557,179
Less: Allowance for impairment losses	**(186,379)**	(109,305)
Including: collective assessment	**(186,379)**	(109,305)
Net balance	**15,096,318**	10,447,874

(In RMB thousands, unless otherwise stated)

25. FINANCE LEASE RECEIVABLES (Continued)

Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by maturity are listed as follows:

	As at 31 December					
	2016			2015		
	Finance lease receivables	**Unearned finance lease income**	**Minimum finance lease receivables**	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables
Less than 1 year	**5,213,674**	**(693,713)**	**4,519,961**	3,925,190	(513,927)	3,411,263
1 year to 2 years	**4,567,402**	**(460,375)**	**4,107,027**	2,764,393	(316,378)	2,448,015
2 years to 3 years	**3,596,618**	**(275,249)**	**3,321,369**	2,338,578	(193,575)	2,145,003
3 years to 5 years	**3,312,247**	**(167,408)**	**3,144,839**	2,521,846	(123,173)	2,398,673
More than 5 years	**208,291**	**(18,790)**	**189,501**	158,459	(4,234)	154,225
	16,898,232	**(1,615,535)**	**15,282,697**	11,708,466	(1,151,287)	10,557,179

26. INVESTMENT IN AN ASSOCIATE

	As at 31 December	
	2016	2015
Investment in an associate	**–**	1,156,296

Details of the Group's associate are as follows:

Name	Percentage of equity/voting rights		Place of incorporation/ registration	Principal activities
	2016-12-31	2015-12-31		
	%	%		
Unlisted investments directly held:				
Guangdong Huaxing Bank Company Limited ("Huaxing Bank")	**Not applicable**	16	Guangdong, PRC	Commercial banking

Note: Though the Group controls 16% of the voting rights of Huaxing Bank, it is the second largest shareholder of Huaxing Bank and holds position of a director, and is thus capable to exert significant influence on the operating and financial decisions of the investee. Accordingly, the Group classified it as an associate. As at 31 December 2016, the Group has classified the investment in Huaxing Bank as an asset held for sale, details are disclosed in note 29.

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26. INVESTMENT IN AN ASSOCIATE (Continued)

The following table illustrates the summarised financial information of the Group's associate:

	As at 31 December	
	2016	2015
Assets	**Not applicable**	106,211,279
Liabilities	**Not applicable**	(100,233,184)
Net assets	**Not applicable**	5,978,095
Proportion of the Group's ownership	**Not applicable**	16%
Share of the net assets	**Not applicable**	956,296
Goodwill on acquisition	**Not applicable**	200,000
Carrying amount of the investment	**Not applicable**	1,156,296

	For the nine-months period ended 30 September 2016	2015
Revenue	**1,997,653**	1,733,876
Continuing operating profit	**708,640**	385,018
Non-continuing operating profit/(loss)	**(1,124)**	991
Profit for the year/(period)	**563,025**	306,058
Group's share of profit	**90,529**	48,969
Total comprehensive income	**483,926**	693,770
Dividends received	**–**	–

The financial information above was extracted from the financial statements of the associate.

During the nine-months period ended 30 September 2016 and the year ended 31 December 2015, contingent liabilities of the associate mainly included bank bill acceptance, loan commitments and letters of credit.

(In RMB thousands, unless otherwise stated)

27. PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improve-ments	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Cost:							
At 1 January 2016	5,472,447	2,493,305	442,563	1,473,969	76,950	294,317	10,253,551
Additions	57,317	213,226	27,688	125,148	1,773	20,081	445,233
Transfers from Construction in progress	163,532	(163,532)	–	–	–	–	–
Disposals	–	(2,942)	–	(690)	(2,149)	–	(5,781)
At 31 December 2016	5,693,296	2,540,057	470,251	1,598,427	76,574	314,398	10,693,003
At 1 January 2015	2,831,401	4,273,731	395,154	1,213,538	75,171	294,317	9,083,312
Additions	379,604	552,383	47,409	201,905	6,980	–	1,188,281
Transfers from Construction in progress	2,267,301	(2,326,705)	–	59,404	–	–	–
Disposals	(5,859)	(6,104)	–	(878)	(5,201)	–	(18,042)
At 31 December 2015	5,472,447	2,493,305	442,563	1,473,969	76,950	294,317	10,253,551
Accumulated depreciation:							
At 1 January 2016	471,319	–	236,486	744,082	52,209	13,996	1,518,092
Depreciation charge for the year	161,637	–	67,295	205,946	8,856	15,920	459,654
Disposals	–	–	–	(638)	(2,039)	–	(2,677)
At 31 December 2016	632,956	–	303,781	949,390	59,026	29,916	1,975,069
At 1 January 2015	364,992	–	166,652	552,678	46,778	–	1,131,100
Depreciation charge for the year	107,065	–	69,834	191,788	8,872	13,996	391,555
Disposals	(738)	–	–	(384)	(3,441)	–	(4,563)
At 31 December 2015	471,319	–	236,486	744,082	52,209	13,996	1,518,092
Net carrying amount:							
At 31 December 2016	5,060,340	2,540,057	166,470	649,037	17,548	284,482	8,717,934
At 31 December 2015	5,001,128	2,493,305	206,077	729,887	24,741	280,321	8,735,459

The carrying values of the Group's properties and buildings are analysed based on the remaining terms of the land leases as follows:

	As at 31 December	
	2016	2015
Held in China		
Over 50 years	**1,829,358**	1,891,056
10 to 50 years	**3,194,081**	3,071,934
Less than 10 years	**36,901**	38,138
	5,060,340	5,001,128

(In RMB thousands, unless otherwise stated)

27. PROPERTY AND EQUIPMENT (Continued)

As at 31 December 2016, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,592 million (31 December 2015: RMB2,802 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operations of the Group.

28. DEFERRED INCOME TAX ASSETS

(a) Analysed by nature

	As at 31 December			
	2016		2015	
	Deductible temporary differences	**Deferred income tax assets**	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	**4,955,659**	**1,229,556**	2,522,404	630,601
Change in fair value of available-for-sale financial assets	**124,371**	**31,092**	–	–
Change in fair value of financial assets held for trading	**45,399**	**11,350**	–	–
Change in fair value of derivatives	**19,618**	**4,905**	4,628	1,157
Salaries, bonuses, allowances and subsidies payable	**42,932**	**10,366**	24,936	6,234
Early retirement benefits	**18,556**	**4,639**	17,636	4,409
Deferred revenue	**491,008**	**122,752**	309,480	77,370
Subtotal	**5,697,543**	**1,414,660**	2,879,084	719,771
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	**–**	**–**	(248,072)	(62,018)
Change in fair value of financial assets held for trading	**–**	**–**	(33,240)	(8,310)
Subtotal	**–**	**–**	(281,312)	(70,328)
Net deferred income tax	**5,697,543**	**1,414,660**	2,597,772	649,443

(In RMB thousands, unless otherwise stated)

28. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements in deferred income tax

	At 1 January 2016	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2016
Deferred income tax assets:				
Allowance for impairment losses	630,601	598,955	–	1,229,556
Change in fair value of available-for-sale financial assets	–	–	31,092	31,092
Change in fair value of financial assets held for trading	–	11,350	–	11,350
Changes in fair value of derivatives	1,157	3,748	–	4,905
Salaries, bonuses, allowances and subsidies payable	6,234	4,132	–	10,366
Early retirement benefits	4,409	230	–	4,639
Deferred revenue	77,370	45,382	–	122,752
Subtotal	719,771	663,797	31,092	1,414,660
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(62,018)	–	62,018	–
Change in fair value of financial assets held for trading	(8,310)	8,310	–	–
Subtotal	(70,328)	8,310	62,018	–
Total	649,443	672,107	93,110	1,414,660

(In RMB thousands, unless otherwise stated)

28. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements in deferred income tax (Continued)

	At 1 January 2015	Total gains/ (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	At 31 December 2015
Deferred income tax assets:				
Allowance for impairment losses	418,266	212,335	–	630,601
Changes in fair value of derivatives	150	1,007	–	1,157
Salaries, bonuses, allowances and subsidies payable	6,057	177	–	6,234
Early retirement benefits	3,720	689	–	4,409
Deferred revenue	36,902	40,468	–	77,370
Subtotal	465,095	254,676	–	719,771
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(627)	–	(61,391)	(62,018)
Change in fair value of financial assets held for trading	(4,096)	(4,214)	–	(8,310)
Subtotal	(4,723)	(4,214)	(61,391)	(70,328)
Total	460,372	250,462	(61,391)	649,443

29. ASSET HELD FOR SALE

	As at 31 December	
	2016	2015
Asset held for sale	**1,234,169**	–

As approved at the 29th meeting of the fifth Board, the Group decided to dispose of its 16% interest in Huaxing Bank. On 21 October 2016, the Group entered into a sale and purchase agreement with Keenstar Holding Co., Ltd (as buyer), in relation to the proposed sale and purchase of the Group's investment in Huaxing Bank, with a transfer price of RMB1.52 billion. As at 31 December 2016, the Group has classified its investment in Huaxing Bank as an asset held for sale with a carrying amount of RMB1,234,169 thousand.

(In RMB thousands, unless otherwise stated)

30. OTHER ASSETS

	As at 31 December	
	2016	2015
Interest receivable (a)	**3,593,039**	2,959,729
Land use rights (b)	**4,802**	4,977
Advance payments	**237,939**	279,174
Settlement and clearing accounts	**3,714,041**	657,106
Intangible assets (c)	**158,830**	133,948
Prepaid investment funds	**419,000**	–
Other receivables	**153,306**	133,029
Others	**6,726**	3,874
	8,287,683	4,171,837

(a) Interest receivable

	As at 31 December	
	2016	2015
Banks and other financial institution	**206,129**	193,954
Reverse repurchase agreements	**7,587**	263,144
Loans and advances to customers	**1,828,284**	1,385,580
Bond and other investments	**1,551,039**	1,117,051
	3,593,039	2,959,729

As at 31 December 2016, all interest receivables were due within one year.

(b) Land use rights

	As at 31 December	
	2016	2015
Located in Mainland China		
10 to 50 years	**4,802**	4,977

(c) Intangible assets

Intangible assets primarily consist of computer software, which is amortised within five years.

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31. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2016	2015
Unsecured borrowings	**11,150,000**	7,000,000
Pledged borrowings	**1,232,462**	1,137,937
	12,382,462	8,137,937

As at 31 December 2016 and 31 December 2015, the pledged borrowings of RMB1,232 million and RMB1,138 million were secured by the finance lease receivables of RMB1,462 million and RMB1,549 million. There was no credit limit remaining under these pledged borrowings.

32. DUE TO BANKS

	As at 31 December	
	2016	2015
Deposits:		
Banks operating in Mainland China	**79,613,055**	48,862,551
Banks operating outside Mainland China	**20,880**	14,004
	79,633,935	48,876,555
Placements:		
Banks operating in Mainland China	**879,370**	2,982,750
Banks operating outside Mainland China	**–**	169,615
	879,370	3,152,365
	80,513,305	52,028,920

Interests due to banks are calculated based on contract interest rates.

33. REPURCHASE AGREEMENTS

	As at 31 December	
	2016	2015
Repurchase agreements analysed by counterparty:		
Banks	**10,399,800**	12,145,000
Other financial institutions	**3,294,250**	–
	13,694,050	12,145,000
Repurchase agreements analysed by collateral:		
Bonds	**13,694,050**	12,145,000
	13,694,050	12,145,000

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34. DUE TO CUSTOMERS

	As at 31 December	
	2016	2015
Demand deposits:		
Corporate deposits	**105,653,901**	85,924,132
Personal deposits	**40,145,433**	39,089,262
	145,799,334	125,013,394
Time deposits:		
Corporate deposits	**130,044,237**	125,077,103
Personal deposits	**67,307,463**	56,727,172
	197,351,700	181,804,275
	343,151,034	306,817,669

35. DEBT SECURITIES ISSUED

	As at 31 December	
	2016	2015
Financial bonds issued	**9,495,318**	8,496,302
Tier 2 capital bonds issued	**7,997,793**	–
Negotiable certificates of deposit issued	**24,390,282**	14,773,576
	41,883,393	23,269,878

As approved by the PBOC and the CBRC, the Group issued financial bonds through the open market in 2012, 2014, 2015 and 2016, and issued the tier 2 capital bonds through the open market in 2016. These bonds were traded in the inter-bank bond market. The Group has not had any defaults of principal or interest or other breaches with respect to the bonds issued during the year ended 31 December 2016 (2015: Nil). The relevant information on these financial bonds is set out below:

Name	Issue date	Issued price	Coupon rate	Value date	Maturity date	Issue amount
		(RMB)				(RMB)
12 Harbin Bank financial bonds	15 May 2012	100	4.55%	16 May 2012	16 May 2017	2,500 million
14 Harbin Bank financial bonds	15 Dec 2014	100	4.60%	17 Dec 2014	17 Dec 2017	2,000 million
15 Harbin Bank financial bonds	26 May 2015	100	4.20%	28 May 2015	28 May 2018	4,000 million
16 Harbin Bank Tier 2 capital bonds	14 June 2016	100	4.00%	16 June 2016	16 June 2026	8,000 million
16 Harbin Bank leasing financial bonds	27 July 2016	100	3.50%	29 July 2016	29 July 2019	1,000 million

(In RMB thousands, unless otherwise stated)

35. DEBT SECURITIES ISSUED (Continued)

In 2016 and 2015, the Group issued 57 tranches and 18 tranches of interbank negotiable certificates of deposit through domestic interbank bond markets respectively, at a face value of RMB100 and the certificates were sold at discount. As at 31 December 2016 and 31 December 2015, 32 tranches and 12 tranches of negotiable certificates of deposit issued by the Group have not yet expired, the balances of which were RMB24.39 billion and RMB14.77 billion respectively, with maturities from 1 month to 1 year and coupon rates from 2.8% to 3.6%.

36 OTHER LIABILITIES

	As at 31 December	
	2016	2015
Interest payable (a)	**4,524,786**	3,893,447
Wealth management products payable	**8,084**	54,556
Settlement and clearing accounts	**564,660**	387,529
Accounts payable from agency services	**121,532**	115,403
Salaries, bonuses, allowances and subsidies payable (b)	**584,079**	544,312
Sundry tax payables	**239,838**	267,406
Deferred revenue (c)	**646,987**	458,748
Dividends payable	**36,521**	65,402
Accrued expenses	**41,554**	56,105
Lease guarantee fee	**1,062,944**	702,635
Other payables	**802,850**	762,470
	8,633,835	7,308,013

(a) Interest payable

	As at 31 December	
	2016	2015
Borrowings from banks and other financial institutions	**911,709**	884,488
Due to customers	**3,244,652**	2,823,864
Repurchase agreements	**3,092**	9,296
Bonds payable	**365,333**	175,799
	4,524,786	3,893,447

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36. OTHER LIABILITIES (Continued)

(b) Salaries, bonuses, allowances and subsidies payable

	As at 31 December	
	2016	2015
Salaries, bonuses and allowances	**546,054**	503,133
Social insurance	**6,075**	6,686
Housing fund	**3,555**	3,668
Employee benefits	**–**	449
Labour union expenditure and education costs	**9,839**	12,738
Early retirement benefits	**18,556**	17,638
	584,079	544,312

(c) Deferred revenue

Deferred revenue mainly consists of deferred revenue from intermediary services. Deferred revenue will be recognised in the next few years in accordance with the corresponding amortisation expense that is charged to the statement of profit or loss.

	As at 31 December	
	2016	2015
Intermediary services	**646,985**	457,637
Others	**2**	1,111
	646,987	458,748

37. SHARE CAPITAL

	As at 31 December			
	2016		2015	
	Number of shares (thousands)	**Nominal value**	Number of shares (thousands)	Nominal value
Opening balance	**10,995,600**	**10,995,600**	10,995,600	10,995,600
Shares issued	**–**	**–**	–	–
Closing balance	**10,995,600**	**10,995,600**	10,995,600	10,995,600

(In RMB thousands, unless otherwise stated)

38. CAPITAL RESERVE

	Share premium	Other capital reserve	Total
At 1 January 2015	7,624,993	12,336	7,637,329
Increase during the year	–	–	–
Decrease during the year	–	(1,620)	(1,620)
At 31 December 2015	7,624,993	10,716	7,635,709
Increase during the year	–	–	–
Decrease during the year	–	–	–
At 31 December 2016	7,624,993	10,716	7,635,709

39. SURPLUS RESERVES

	Statutory surplus reserve	Discretionary surplus reserve	Total
At 1 January 2015	1,521,186	26,186	1,547,372
Appropriation during the year	410,364	–	410,364
At 31 December 2015	1,931,550	26,186	1,957,736
Appropriation during the year	451,995	–	451,995
At 31 December 2016	2,383,545	26,186	2,409,731

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after this capitalisation is not less than 25% of the registered capital immediately before capitalisation.

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year determined under PRC GAAP to the discretionary surplus reserve upon approval by the shareholders in general meetings. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

(In RMB thousands, unless otherwise stated)

40. GENERAL AND REGULATORY RESERVES

	Year ended 31 December	
	2016	2015
Balance as at the beginning of the year	**4,064,056**	3,845,356
Increase during the year	**1,416,993**	218,700
Balance as at the end of the year	**5,481,049**	4,064,056

From 1 July 2012, according to the requirements of the Ministry of Finance ("MOF"), the Group is required to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year ending balance of its risk assets.

41. UNDISTRIBUTED PROFITS

	Year ended 31 December	
	2016	2015
Balance as at the beginning of the year	**8,183,051**	5,487,055
Profit for the year attributable to owners of the parent	**4,876,602**	4,457,607
Net of：		
Appropriation to surplus reserves	**451,995**	410,364
Appropriation to general and regulatory reserves	**1,416,993**	218,700
Dividends	**1,176,529**	1,132,547
Balance as at the end of the year	**10,014,136**	8,183,051

An ordinary share dividend of RMB0.107 per share in respect of the profit for the year ended 31 December 2015 was approved by the equity holders of the Group at the Annual General Meeting held on May 2016 and was distributed during the year.

An ordinary share dividend of RMB0.103 per share in respect of the profit for the year ended 31 December 2014 was approved by the equity holders of the Group at the Annual General Meeting held on June 2015 and was distributed during the year.

(In RMB thousands, unless otherwise stated)

42. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Transactions of other comprehensive income attributed to owners of the parent in consolidated statement of profit or loss:

	Year ended 31 December	
	2016	2015
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income	**(389,951)**	239,715
Transfer to the statement of profit or loss arising from disposal	**17,671**	5,687
Income tax effect	**93,070**	(61,351)
	(279,210)	184,051
Share of other comprehensive income of an associate	**(12,656)**	61,835
	(291,866)	245,886

Other comprehensive income attributed to owners of the parent in the consolidated statement of financial position:

	2016 1 January	**Changes during the year**	**2016 31 December**
Share of other comprehensive income of an associate to be reclassified to profit or loss subsequently under the equity method	**77,516**	**(12,656)**	**64,860**
Changes in fair value of available-for-sale financial assets	**185,933**	**(279,210)**	**(93,277)**
	263,449	**(291,866)**	**(28,417)**

	2015 1 January	Changes during the year	2015 31 December
Share of other comprehensive income of an associate to be reclassified to profit or loss subsequently under the equity method	15,681	61,835	77,516
Changes in fair value of available-for-sale financial assets	1,882	184,051	185,933
	17,563	245,886	263,449

(In RMB thousands, unless otherwise stated)

43. CASH AND CASH EQUIVALENTS

On the consolidated statement of cash flows, cash and cash equivalents with an original maturity of less than three months are as follows:

	As at 31 December	
	2016	2015
Cash on hand (note 18)	**845,338**	691,250
Balances with the Central Bank (note 18)	**27,369,303**	19,083,995
Due from banks and other financial institutions	**16,924,809**	7,621,515
Reverse repurchase agreements	**14,538,618**	36,279,018
	59,678,068	63,675,778

During the years ended 31 December 2016 and 2015, the Group were not involved in non-cash investing and financing activities.

44. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At the end of the reporting period, the Group had capital commitments as follows:

	As at 31 December	
	2016	2015
Contracted, but not provided	**894,189**	1,164,489
	894,189	1,164,489

(b) Operating lease commitments

Operating lease commitments – Lessee

At the end of the reporting period, the Group leased certain of its office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	As at 31 December	
	2016	2015
Within one year	**240,585**	219,731
Between one year and five years	**667,559**	515,228
Over five years	**145,150**	263,005
	1,053,294	997,964

(In RMB thousands, unless otherwise stated)

44. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank bill acceptance comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptance to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limits are under the assumption that the amounts will be fully advanced. The amounts for bank bill acceptance, letters of credit and guarantee issued represent the maximum potential losses that would be recognised at the end of the reporting period if the counterparties failed to perform as contracted.

	As at 31 December	
	2016	2015
Bank bill acceptance	**54,882,985**	49,452,513
Letters of guarantee issued	**8,504,659**	6,884,397
Letters of credit	**5,460,144**	1,275,761
Undrawn credit card limits	**4,152,494**	1,289,077
	73,000,282	58,901,748

(d) Credit risk-weighted amount of financial guarantees and credit related commitments

	As at 31 December	
	2016	2015
Financial guarantees and credit related commitments	**16,517,199**	18,662,882

The credit risk-weighted amount of financial guarantees and credit related commitments refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

(e) Legal proceedings

As at 31 December 2016, significant legal proceedings outstanding against the Group amounted to RMB50,000 thousand. Management expects that there will be no loss caused by these litigations and no provisions need to be made. As at 31 December 2015, there were no significant legal proceedings outstanding against the Group.

(In RMB thousands, unless otherwise stated)

44. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(f) Redemption commitments of government bonds

As an underwriting agent of the Government, the Group underwrites certain PRC government bonds and sells the bonds to the general public, in which the Group is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2016, the Group had underwritten and sold bonds with an accumulated amount of RMB2,986 million (31 December 2015: RMB2,752 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Group prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

(g) Risk fund rescue obligation

The Group has been a member of the Asia Financial Cooperation Association ("AFCA") since 31 December 2012, which has established a risk fund divided into equal shares. The price per share was equal to RMB100 million as at the fund establishment date. The Group subscribed for 2 shares with 10% cash and 90% cooperative obligation. This means the Group has the obligation of providing support to the AFCA members through certain methods such as placement, within the limit of RMB180 million.

45 FIDUCIARY ACTIVITIES

Designated funds and loans

	As at 31 December	
	2016	2015
Designated funds	**7,044,027**	7,827,344
Designated loans	**7,044,027**	7,827,344

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group does not bear any risk. The designated funds represent the funding that the trustors have instructed the Group to use to grant loans to third parties as designated by them. The credit risk remains with the trustors.

The Group provides custody, trust and asset management services to third parties. Revenue from these activities is included in "Net Fee and Commission Income" in note 6 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

46. TRANSFERS OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose trusts. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase. The counterparties are allowed to sell or repledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognised a financial liability for cash received as collateral.

As at 31 December 2015 and 2016, none of the above-mentioned financial assets was transferred to third parties while that did not qualify for derecognition.

Securitisation transaction

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. The Group may acquire some subordinated tranches of securities and accordingly may retain part of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

As at 31 December 2016, the Group derecognised the transferred credit assets in their entirety in the securitisation transactions. The total carrying amount as at the transfer date of credit assets transferred by the Group into the special purpose trust was RMB2,257,307 thousand for the year ended 31 December 2016 (2015: Nil).

47. INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments, asset management and asset securitisation transactions. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on the Group's controls on them. The interests held by the Group in the unconsolidated structured entities are set out as follows:

Structured entities sponsored by the Group

(a) Financing products

When conducting the wealth management business, the Group established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 31 December 2016, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB59,539 million (31 December 2015: RMB47,225 million). For the year ended 31 December 2016, fee and commission income includes commission, custodian fee and management fee income from the wealth management business amounting to RMB544,241 thousand (for the year ended 31 December 2015: RMB496,598 thousand).

For the purpose of asset-liability management, wealth management products may trigger short-term financing needs for the Group and other banks. However, the Group is not contractually obliged to provide financing. For the year ended 31 December 2016, the Group did not provide any financing to the unconsolidated wealth management products (for the year ended 31 December 2015: Nil).

(b) Asset securitisation business

Another type of structured entity managed by the Group but not yet consolidated is the special purpose trust set up by the third trust company due to the Group's asset securitisation transactions. The Group acts as the loan service agency of the special purpose trust and charges the corresponding fees and commissions. The Group believes that its variable returns on this structured entity are not significant. The corresponding total carrying amount of the asset-backed securities held by the Group was RMB33,473 thousand as at 31 December 2016 (31 December 2015: Nil), which also approximates to the Group's maximum exposure to loss.

As at 31 December 2016, the overall scale of these special purpose trusts not consolidated by the Group amounted to RMB675 million (31 December 2015: Nil).

(In RMB thousands, unless otherwise stated)

47. INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

Structured entities sponsored by other financial institutions

As at 31 December 2016, the interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out as follows:

	As at 31 December 2016			
	Available-for-sale financial assets	**Debt instruments classified as receivables**	**Total**	**Maximum exposure to loss**
Wealth management products	**352,270**	**–**	**352,270**	**352,270**
Investment trusts and asset management plans	**–**	**144,117,354**	**144,117,354**	**142,279,232**
Others	**26,696**	**–**	**26,696**	**26,696**

	As at 31 December 2015			
	Available-for-sale financial assets	Debt instruments classified as receivables	Total	Maximum exposure to loss
Fund	6,000,284	–	6,000,284	6,000,284
Wealth management products	4,000,794	–	4,000,794	4,000,794
Investment trusts and asset management plans	–	90,000,332	90,000,332	89,522,665
Others	26,200	–	26,200	26,200

48. ASSETS PLEDGED AS SECURITY

Financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly arising from repurchase agreements and negotiated deposits. As at 31 December 2016, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB17,663 million (31 December 2015: RMB17,981 million).

(In RMB thousands, unless otherwise stated)

49. RELATED PARTY DISCLOSURES

(a) Significant related party disclosures

(i) Shareholders of the Group with ownership of 5% or above

	Share percentage in the Bank	
	As at 31 December	
Name	**2016**	2015
	%	%
Harbin Economic Development and Investment Company	**19.65**	19.65
Fubon Life Insurance Company Limited	**7.03**	7.03
Harbin Kechuang Xingye Investment Company Limited	**6.55**	6.55
Heilongjiang Keruan Software Technology Company Limited	**6.55**	6.55
Heilongjiang Xin Yongsheng Trading Company Limited	**5.82**	5.82
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**5.20**	5.20

(ii) Subsidiaries of the Bank

Details of the subsidiaries of the Bank are set out in note 1 Corporate Information and Group Structure.

(iii) Associate

The basic information of the associate is disclosed in note 26 to consolidated financial statements.

(iv) Key management personnel of the Group and their close family members.

(v) Entities controlled or jointly controlled or significantly influenced by the key management personnel of the Group and their close family members.

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49. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions

1. *Transactions between the Group and related parties*

(i) *Transactions between the Group and shareholders of the Group with ownership of 5% or above*

Deposit interest payments

	Year ended 31 December	
Name	**2016**	2015
Harbin Economic Development and Investment Company	**727.91**	0.13
Heilongjiang Xin Yongsheng Trading Company Limited	**98.09**	11.14
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**134.28**	28.53

(ii) *Transactions between the Group and key management personnel or their close family members*

	Year ended 31 December	
Name	**2016**	2015
Loan interest income	**744**	696
Deposit interest payments	**105**	39

(iii) *Transactions between the Bank and its subsidiaries*

	Year ended 31 December	
Name	**2016**	2015
Interest income	**117,196**	45,483
Interest payments	**22,681**	714
Commission income	**–**	10,000

(iv) *Transactions between the Group and its associates*

	Year ended 31 December	
Name	**2016**	2015
Interest income on placements with banks	**–**	43
Interest income on reverse repurchase agreements	**–**	262
Interest expense on repurchase agreements	**–**	4

(In RMB thousands, unless otherwise stated)

49. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

1. *Transactions between the Group and related parties (Continued)*

(v) Transactions between the Group and entities that are controlled or jointly controlled or significantly influenced by the key management personnel of the Group or their close family members.

Deposit interest payments

	Year ended 31 December	
Name	**2016**	2015
Dalian Port Company Limited	**60**	–
Huaxia Life Insurance Company Limited (i)	**7,671**	Not applicable

(i) On 13 October 2016, Peng Xiaodong was elected as a non-executive Director of the Bank, who is also served as the Board Secretary of Huaxia Life Insurance Company Limited.

Commission income

	Year ended 31 December	
Name	**2016**	2015
Da Cheng Fund Management Company Limited (ii)	**59**	25

(ii) The above commission income is from the sales of fund products of Da Cheng Fund Management Company Limited as an agent.

(In RMB thousands, unless otherwise stated)

49. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

1. Transactions between the Group and related parties (Continued)

(vi) Transactions with other related parties

	Year ended 31 December	
Name	**2016**	2015
Emoluments of key management personnel	**31,248**	35,550

In view of the management of the Group, the transactions with above related parties were conducted based on general business terms and conditions, general market prices for the pricing and according to the normal business procedures.

2. The balances with related parties

(i) Balances between the Group and shareholders of the Group with 5% or above ownership

Deposits

	As at 31 December	
Name	**2016**	2015
Harbin Economic Development and Investment Company	**1,000,728**	20
Heilongjiang Xin Yongsheng Trading Company Limited	**232**	126
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**504**	294

(In RMB thousands, unless otherwise stated)

49. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

2. The balances with related parties (Continued)

(ii) Balances between the Group and key management personnel or their close family members

	As at 31 December	
Name	**2016**	2015
Loans	**31,660**	18,325
Deposits	**10,585**	7,999

(iii) Balances between the Group and its subsidiaries

	As at 31 December	
Name	**2016**	2015
Due from banks	**480,000**	830,000
Due to banks	**3,330,893**	2,063,073
Interest receivable	**615**	20,241
Interest payable	**6,048**	390
Placements with banks	**–**	1,000,000
Other assets	**–**	47,550
Deposits	**20,587**	–

(iv) Balances between the Group and entities that are controlled or jointly controlled or significantly influenced by the key management personnel of the Group or their close family members.

Deposits

	As at 31 December	
Name	**2016**	2015
Dalian Port Company Limited	**240,000**	–
Huaxia Life Insurance Company Limited (i)	**5,000,000**	Not applicable

(i) On 13 October 2016, Peng Xiaodong was elected as a non-executive Director of the Bank, who is also served as the Board Secretary of Huaxia Life Insurance Company Limited.

50. SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into four different operating segments as below:

Corporate financial business

Corporate financial business covers the provision of financial products and services to corporate customers. The products and services include deposits, loans, settlement and clearing and other products and services relating to trading business.

Retail financial business

Retail financial business covers the provision of financial products and services to retail customers. The products and services include deposits, bank cards and credit cards, personal loans and collateral loans, and personal wealth management services.

Interbank financial business

Interbank financial business cover money market placements, investments and repurchasing, foreign exchange transactions, for the Group's own accounts or on behalf of customers.

Other business

This represents business other than corporate financial business, retail financial business and interbank financial business, whose assets, liabilities, income and expenses are not directly attributable or cannot be allocated to a segment on a reasonable basis.

(In RMB thousands, unless otherwise stated)

50. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
Year ended 31 December 2016					
External net interest income	1,199,554	3,734,388	6,639,391	–	11,573,333
Internal net interest income/(expense)	2,995,800	370,377	(3,366,177)	–	–
Net fee and commission income	470,888	84,489	1,837,986	–	2,393,363
Other income, net (i)	171,755	–	(62,882)	96,400	205,273
Operating income	4,837,997	4,189,254	5,048,318	96,400	14,171,969
Operating expenses	(1,840,265)	(1,147,038)	(1,446,994)	(87,906)	(4,522,203)
Impairment losses on:					
Loans and advances to customers	(881,700)	(975,500)	–	–	(1,857,200)
Others	(77,074)	–	(1,360,455)	–	(1,437,529)
Operating profit	2,038,958	2,066,716	2,240,869	8,494	6,355,037
Share of profits of an associate	–	–	–	90,529	90,529
Profit before tax	2,038,958	2,066,716	2,240,869	99,023	6,445,566
Income tax expense					(1,483,327)
Profit for the year					4,962,239
Other segment information:					
Depreciation and amortisation	215,020	132,649	177,087	3,898	528,654
Capital expenditure	224,316	138,384	184,744	4,067	551,511
As at 31 December 2016					
Segment assets	157,710,092	126,834,274	252,830,467	1,641,388	539,016,221
Segment liabilities	240,463,688	108,864,915	150,951,297	1,401,287	501,681,187
Other segment information:					
Credit commitments	68,847,788	4,152,494	180,000	–	73,180,282

(i) Includes trading income/loss, net gain/loss on financial investments and other net operating income

(In RMB thousands, unless otherwise stated)

50. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
Year ended 31 December 2015					
External net interest income	3,086,743	1,647,569	4,898,627	–	9,632,939
Internal net interest income/(expense)	1,114,830	1,235,650	(2,350,480)	–	–
Net fee and commission income	235,561	82,463	1,641,394	–	1,959,418
Other income, net (i)	2,206	–	190,428	160,372	353,006
Operating income	4,439,340	2,965,682	4,379,969	160,372	11,945,363
Operating expenses	(1,930,141)	(1,134,888)	(1,553,405)	(118,461)	(4,736,895)
Impairment losses on:					
Loans and advances to customers	(523,336)	(370,191)	–	–	(893,527)
Others	(67,281)	–	(377,667)	–	(444,948)
Operating profit	1,918,582	1,460,603	2,448,897	41,911	5,869,993
Share of profits of an associate	–	–	–	48,969	48,969
Profit before tax	1,918,582	1,460,603	2,448,897	90,880	5,918,962
Income tax expense					(1,409,362)
Profit for the year					4,509,600
Other segment information:					
Depreciation and amortisation	172,093	100,037	160,619	3,946	436,695
Capital expenditure	517,361	300,740	482,868	11,864	1,312,833
As at 31 December 2015					
Segment assets	138,113,649	76,423,269	228,703,932	1,610,418	444,851,268
Segment liabilities	214,465,058	96,925,070	98,141,590	1,471,591	411,003,309
Other segment information:					
Credit commitments	57,612,671	1,289,077	180,000	–	59,081,748

(i) Includes trading income/loss, net gain/loss on financial investments and other net operating income

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50. SEGMENT INFORMATION (Continued)

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows：

Heilongjiang Province:	Including Head Office, Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqiharas, Yichun and Nongken as well as Harbin Bank Financial Leasing Co., Ltd. And village and township banks operating within Heilongjiang.
Northeastern China:	Including Dalian, Shenyang, as well as village and township banks operating in Northeastern China excluding those in Heilongjiang.
Southwestern China:	Chengdu, Chongqing, as well as village and township banks operating in Southwestern China which are mainly located in Sichuan and Chongqing.
Northern China:	Tianjin' as well as village and township banks operating in Northern China which are mainly located in Beijing and Tianjin.
Other regions:	Village and township banks operating in regions other than those listed above.

All the information disclosed is based on the locations of the Bank branches.

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50. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

	Mainland China					
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	Total
Year ended 31 December 2016						
External net interest income	9,328,519	252,093	1,289,302	365,945	337,474	11,573,333
Internal net interest income/(expense)	(1,499,762)	789,320	390,532	304,651	15,259	–
Net fee and commission income	1,628,656	134,777	455,481	147,705	26,744	2,393,363
Other income, net (i)	138,420	5,487	45,403	6,989	8,974	205,273
Operating income	9,595,833	1,181,677	2,180,718	825,290	388,451	14,171,969
Operating expenses	(3,053,798)	(380,409)	(679,292)	(242,092)	(166,612)	(4,522,203)
Impairment losses on:						
Loans and advances to customers	(1,541,200)	(136,043)	(92,463)	(48,542)	(38,952)	(1,857,200)
Others	(1,437,529)	–	–	–	–	(1,437,529)
Operating profit	3,563,306	665,225	1,408,963	534,656	182,887	6,355,037
Share of profits of an associate	90,529	–	–	–	–	90,529
Profit before tax	3,653,835	665,225	1,408,963	534,656	182,887	6,445,566
Income tax expense						(1,483,327)
Profit for the year						4,962,239
Other segment information:						
Depreciation and amortisation	395,075	30,727	83,699	9,913	9,240	528,654
Capital expenditure	376,010	45,772	83,121	31,841	14,767	551,511
As at 31 December 2016						
Segment assets	396,145,599	44,028,664	65,115,276	22,974,996	10,751,686	539,016,221
Segment liabilities	296,375,947	63,716,346	90,437,912	41,439,060	9,711,922	501,681,187
Other segment information:						
Credit commitments	13,834,335	18,288,937	18,536,347	14,849,300	7,671,363	73,180,282

(i) Includes trading income/loss, net gain/loss on financial investments and other net operating income

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50. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

	Mainland China					
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	Total
Year ended 31 December 2015						
External net interest income	5,701,822	1,007,869	2,130,800	466,703	325,745	9,632,939
Internal net interest income/(expense)	148,241	16,541	(248,707)	83,925	–	–
Net fee and commission income	1,286,878	229,188	241,499	200,959	894	1,959,418
Other income, net (i)	281,959	1,578	41,690	5,788	21,991	353,006
Operating income	7,418,900	1,255,176	2,165,282	757,375	348,630	11,945,363
Operating expenses	(3,102,538)	(485,920)	(712,258)	(271,606)	(164,573)	(4,736,895)
Impairment losses on:						
Loans and advances to customers	(471,425)	(78,997)	(305,737)	(17,901)	(19,467)	(893,527)
Others	(444,948)	–	–	–	–	(444,948)
Operating profit	3,399,989	690,259	1,147,287	467,868	164,590	5,869,993
Share of profits of an associate	48,969	–	–	–	–	48,969
Profit before tax	3,448,958	690,259	1,147,287	467,868	164,590	5,918,962
Income tax expense						(1,409,362)
Profit for the year						4,509,600
Other segment information:						
Depreciation and amortisation	300,556	31,877	73,968	11,955	18,339	436,695
Capital expenditure	823,173	137,774	233,389	82,597	35,900	1,312,833
As at 31 December 2015						
Segment assets	309,839,829	35,661,628	74,061,031	17,083,485	8,205,295	444,851,268
Segment liabilities	261,945,526	45,388,134	70,451,816	25,983,110	7,234,723	411,003,309
Other segment information:						
Credit commitments	5,742,774	20,897,352	13,935,917	11,774,717	6,730,988	59,081,748

(i) Includes trading income/loss, net gain/loss on financial investments and other net operating income

51. FINANCIAL INSTRUMENT RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The Board has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Asset and Liability Management Committee. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Chief Risk Officer assists the President to supervise and manage various risks.

The Group has also assigned departments monitoring financial risks within the Group, including the Risk Management Department to monitor credit risk and operational risk as well as the Asset and Liability Management department together with the Risk Management Department to monitor market and liquidity risks. The Risk Management Department is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on credit risk, market risk, liquidity risk and operational risk and reporting directly to the Chief Risk Officer.

The Group maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the risk management departments of the branches report to both the corresponding risk management departments at the head office and management of the relevant branches.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. Credit risk affecting the group is primarily due to loans, debt instruments, guarantees, commitment as well as other risks both on and off the balance sheet.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;
- Stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and amounts due from or loans to banks and other financial institutions, credit risk also arises in other areas. In addition, the Group also provides guarantees to its customer which may require the Group to make payments on behalf of the customers. Those payments are collected from customers based on the terms of the agreements. The Group is then exposed to similar risks as loans, which are mitigated by the same control processes and policies.

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry, or geographic location or have comparable economic characteristics.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed loans

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the statement of profit or loss. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

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51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Impairment assessment (Continued)

Collectively assessed loans

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- Adverse changes in the payment status of borrowers in the group of loans; and
- National or local economic conditions that correlate with defaults on assets in the portfolio of loans.

The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics; and
- The current economic and credit environment and, whether these, in management's experience, indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

Reverse repurchase business is mainly collateralised by bills, loans or investment securities. As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. Fair value of collateral is shown in note 21.

Corporate loans are mainly collateralised by properties or other assets. As at 31 December 2016, the carrying value of corporate loans covered by collateral amounted to RMB57,713 million (31 December 2015: RMB55,739 million).

Personal loans are mainly collateralised by residential properties. As at 31 December 2016, the carrying value of personal loans covered by collateral amounted to RMB51,392 million (31 December 2015: RMB30,091 million).

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51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Collateral (Continued)

The Group prefers more liquid collateral with a relatively stable market value and does not accept the collateral that is illiquid, with difficulties in registration or high fluctuations in market value. The value of collateral should be assessed and confirmed by the Group or valuation agents identified by the Group. The value of collateral should adequately cover the outstanding balance of loans. The loan-to-value ratio depends on types of collateral, usage condition, liquidity, price volatility and realisation cost. All collateral has to be registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of collateral regularly.

Although collateral can be an important mitigation of credit risk, the Group grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flows, instead of the value of collateral. The necessity of collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. The fair values of collateral of past due but not impaired loans and impaired loans are disclosed in note 51(a)(iii).

The credit business management department monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) *Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

	As at 31 December	
	2016	2015
Balances with the Central Bank	**66,164,998**	53,874,844
Due from banks and other financial institutions	**34,000,064**	30,035,064
Financial assets held for trading	**1,704,229**	2,840,042
Reverse repurchase agreements	**14,538,618**	51,027,890
Loans and advances to customers	**196,488,246**	145,061,523
Derivative financial assets	**70,775**	19,287
Financial investments		
– Debt instruments classified as receivables	**142,354,860**	89,605,192
– Held-to-maturity investments	**30,500,981**	25,244,149
– Available-for-sale financial assets	**17,572,728**	21,266,498
Finance lease receivables	**15,096,318**	10,447,874
Others	**7,460,386**	3,749,864
	525,952,203	433,172,227
Credit commitments	**73,180,282**	59,081,748
Total maximum credit risk exposure	**599,132,485**	492,253,975

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Risk concentrations

By industry distribution

The credit risk exposures of the Group mainly comprise loans and advances to customers and investments in securities. Details of the composition of the Group's investments in debt securities are set out in note 51(a)(v) to consolidated financial statements. The composition of the Group's gross loans and advances to customers by industry is analysed as follows:

	As at 31 December	
	2016	2015
Agriculture, forestry, animal husbandry and fishing	**2,847,544**	3,528,214
Mining	**305,600**	321,156
Manufacturing	**11,604,372**	10,524,185
Production and supply of electricity, gas and water	**3,892,347**	1,933,727
Construction	**4,228,498**	3,551,403
Transportation, storage and postal services	**1,840,510**	3,191,879
Information transmission, computer services and software	**1,101,464**	708,506
Commercial trade	**30,356,637**	29,848,707
Lodging and catering	**2,511,497**	2,587,243
Finance	**51,320**	28,020
Real estate	**14,062,830**	10,657,555
Leasing and commercial services	**15,659,477**	13,324,448
Scientific research, technological services and geological prospecting	**425,050**	244,650
Water, environment and public utility management and investment industry	**3,044,832**	3,447,782
Resident services and other services	**508,467**	1,113,598
Education	**384,940**	420,576
Health, social security and social welfare	**1,382,254**	1,029,853
Culture, sports and entertainment	**392,050**	181,100
Public administration and social organisations	**425,000**	7,000
Subtotal for corporate loans and advances	**95,024,689**	86,649,602
Personal loans:		
Personal business	**26,768,088**	17,558,441
Personal consumption	**69,405,062**	34,320,391
Loans to farmers	**9,620,216**	9,717,621
Subtotal for personal loans	**105,793,366**	61,596,453
Discounted bills	**809,878**	428,770
Total for loans and advances to customers	**201,627,933**	148,674,825

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51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

	As at 31 December	
	2016	2015
Neither past due nor impaired	**194,313,194**	143,506,586
Past due but not impaired	**4,232,760**	3,089,589
Impaired	**3,081,979**	2,078,650
	201,627,933	148,674,825
Less: Allowance for impairment losses		
Collectively assessed	**(4,366,467)**	(3,285,190)
Individually assessed	**(773,220)**	(328,112)
	(5,139,687)	(3,613,302)
	196,488,246	145,061,523

Neither past due nor impaired

The loans and advances to customers of the Group that are neither past due nor impaired are classified as "Pass" or "Special mention" under the five-tier loan classification system maintained by the Group. Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the reporting period.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the reporting period:

	As at 31 December 2016		
	Pass	**Special Mention**	**Total**
Unsecured loans	**37,411,541**	**1,291,121**	**38,702,662**
Guaranteed loans	**46,508,737**	**1,060,380**	**47,569,117**
Loans secured by mortgages	**90,923,620**	**991,202**	**91,914,822**
Pledged loans	**16,126,593**	**–**	**16,126,593**
	190,970,491	**3,342,703**	**194,313,194**

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) *Loans and advances to customers (Continued)*

Neither past due nor impaired (Continued)

	As at 31 December 2015		
	Pass	Special Mention	Total
Unsecured loans	14,771,354	638,159	15,409,513
Guaranteed loans	42,029,872	266,444	42,296,316
Loans secured by mortgages	73,875,675	669,709	74,545,384
Pledged loans	11,251,371	4,002	11,255,373
	141,928,272	1,578,314	143,506,586

Past due but not impaired

The following tables present the ageing analysis of each type of loans and advances to customers of the Group that are subject to credit risk which are past due but not impaired as at the end of the reporting period:

	As at 31 December 2016		
	Corporate loans and advances	**Personal loans**	**Total**
Past due for：			
Less than one month	**1,800,403**	**388,794**	**2,189,197**
One to two months	**864,839**	**240,029**	**1,104,868**
Two to three months	**549,120**	**207,006**	**756,126**
Over three months	**75,735**	**106,834**	**182,569**
	3,290,097	**942,663**	**4,232,760**
Fair value of collateral held	**6,643,079**	**1,595,758**	**8,238,837**

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers (Continued)

Past due but not impaired (Continued)

	As at 31 December 2015		
	Corporate loans and advances	Personal loans	Total
Past due for：			
Less than one month	1,122,254	238,486	1,360,740
One to two months	686,874	237,428	924,302
Two to three months	606,118	108,092	714,210
Over three months	78,616	11,721	90,337
	2,493,862	595,727	3,089,589
Fair value of collateral held	6,315,341	872,108	7,187,449

Impaired

Impaired loans and advances are defined as those loans and advances have objective evidence of impairment as a result of one or more events that occurred after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

The fair values of collateral that the Group held relating to loans individually determined to be impaired as at 31 December 2016 amounted to RMB3,398,461 thousand (31 December 2015 the Group: RMB1,756,465 thousand). The collateral mainly consists of land, buildings and equipment.

Loans and advances rescheduled

Loans and advances rescheduled represent the loans and advances whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans and advances according to contractual terms. Forms of loans and advances rescheduled include deferral of payments, borrowing for repayment, deduction of interests or part of principals, modification of repayment method, improvement of collateral, changing type of guarantee, etc. As at 31 December 2016, gross value of the loans and advances rescheduled held by the Group amounted to RMB3.03 billion (31 December 2015: RMB1.61 billion).

(iv) Finance lease receivables

	As at 31 December	
	2016	2015
The lease amount		
Neither past due nor impaired	**15,282,697**	10,557,179
	15,282,697	10,557,179
Less: Allowance for impairment losses	**(186,379)**	(109,305)
Net amount	**15,096,318**	10,447,874

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Debt securities

The credit risk of debt securities mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities by type of issuers and investments:

	31 December 2016				
	Debt instruments classified as receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held for trading	Total
Neither past due nor impaired					
Governments and the Central Bank	75,628	5,632,680	1,517,277	849,497	8,075,082
Policy banks	–	18,339,311	14,051,106	753,602	33,144,019
Banks and other financial institutions	–	3,555,900	1,480,667	–	5,036,567
Corporate entities	143,061,020	2,973,090	523,678	81,130	146,638,918
Subtotal	143,136,648	30,500,981	17,572,728	1,684,229	192,894,586
Past due but not impaired					
Corporate entities	209,392	–	–	–	209,392
Subtotal	209,392	–	–	–	209,392
Impaired					
Corporate entities	846,942	–	–	20,000	866,942
Subtotal	846,942	–	–	20,000	866,942
Less: Allowance for impairment losses	(1,838,122)	–	–	–	(1,838,122)
Total	142,354,860	30,500,981	17,572,728	1,704,229	192,132,798

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51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Debt securities (Continued)

	31 December 2015				
	Debt instruments classified as receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held for trading	Total
Neither past due nor impaired					
Governments and the Central Bank	82,527	5,591,584	915,372	422,666	7,012,149
Policy banks	–	14,048,317	8,513,897	348,877	22,911,091
Banks and other financial institutions	–	3,440,632	10,027,278	1,493,304	14,961,214
Corporate entities	89,702,175	2,163,616	1,809,951	575,195	94,250,937
Subtotal	89,784,702	25,244,149	21,266,498	2,840,042	139,135,391
Impaired					
Corporate entities	298,157	–	–	–	298,157
Subtotal	298,157	–	–	–	298,157
Less: Allowance for impairment losses	(477,667)	–	–	–	(477,667)
Total	89,605,192	25,244,149	21,266,498	2,840,042	138,955,881

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at reasonable cost in a timely manner for the repayment of debts. This may arise from mismatches of amount or maturity between assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- optimising the structure of assets and liabilities;
- maintaining the stability of the deposit base;
- projecting cash flows and evaluating the level of current assets; and
- in terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

The Group expected remaining maturity of their financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

31 December 2016

	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with the Central Bank	–	28,214,641	–	–	–	–	–	38,795,695	67,010,336
Due from banks and other financial institutions	–	2,479,946	3,575,000	12,807,605	14,225,718	911,795	–	–	34,000,064
Financial assets held for trading	20,000	–	–	90,036	322,046	433,602	838,545	–	1,704,229
Reverse repurchase agreements	–	–	14,538,618	–	–	–	–	–	14,538,618
Loans and advances to customers	5,472,705	–	7,415,900	13,499,195	62,797,007	53,360,081	53,943,358	–	196,488,246
Derivative financial assets	–	–	1,083	76	69,616	–	–	–	70,775
Financial investments	673,089	–	9,696,510	12,792,613	59,976,043	83,710,397	23,553,221	26,696	190,428,569
Finance lease receivables	–	122,279	251,206	380,010	3,580,087	10,573,236	189,500.00	–	15,096,318
Other financial assets	192,377	162,350	4,711,738	866,533	1,378,176	135,351	13,861	–	7,460,386
Total financial assets	6,358,171	30,979,216	40,190,055	40,436,068	142,348,693	149,124,462	78,538,485	38,822,391	526,797,541
Financial liabilities:									
Due to the Central Bank	–	–	–	30,000	476,960	–	–	–	506,960
Borrowings from banks and other financial institutions	–	–	–	2,200,000	9,072,400	1,110,062	–	–	12,382,462
Due to banks	–	25,763	1,356,130	4,993,815	72,537,597	1,600,000	–	–	80,513,305
Derivative financial liabilities	–	–	1,002	–	89,390	–	–	–	90,392
Repurchase agreements	–	–	13,694,050	–	–	–	–	–	13,694,050
Due to customers	–	147,299,727	23,361,092	29,411,069	102,092,542	39,581,461	1,405,143	–	343,151,034
Debt securities issued	–	–	1,069,302	2,290,512	25,529,890	4,995,896	7,997,793	–	41,883,393
Other financial liabilities	–	747,208	453,704	581,305	2,392,980	2,939,384	11,829	–	7,126,410
Total financial liabilities	–	148,072,698	39,935,280	39,506,701	212,191,759	50,226,803	9,414,765	–	499,348,006
Net position	6,358,171	(117,093,482)	254,775	929,367	(69,843,066)	98,897,659	69,123,720	38,822,391	27,449,535

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (Continued)

31 December 2015

	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with the Central Bank	–	19,775,245	–	–	–	–	–	34,790,849	54,566,094
Due from banks and other financial institutions	–	6,490,565	1,535,000	2,839,673	18,669,826	500,000	–	–	30,035,064
Financial assets held for trading	–	–	260,291	1,603,604	341,475	391,471	243,201	–	2,840,042
Reverse repurchase agreements	–	–	10,321,436	25,957,582	14,748,872	–	–	–	51,027,890
Loans and advances to customers	4,190,483	–	7,821,152	9,429,396	49,264,220	39,557,064	34,799,208	–	145,061,523
Derivative financial assets	–	–	–	3,842	15,445	–	–	–	19,287
Financial investments	166,273	4,401,079	20,201,337	7,205,863	36,878,902	48,896,000	18,340,185	26,200	136,115,839
Finance lease receivables	–	–	211,105	282,637	2,808,217	6,991,690	154,225	–	10,447,874
Other financial assets	65,910	750,937	646,899	1,205,298	960,177	106,529	14,114	–	3,749,864
Total financial assets	4,422,666	31,417,826	40,997,220	48,527,895	123,687,134	96,442,754	53,550,933	34,817,049	433,863,477
Financial liabilities:									
Due to the Central Bank	–	–	38,837	236,035	489,381	–	–	–	764,253
Borrowings from banks and other financial institutions	–	–	200,000	1,830,000	4,970,000	1,137,937	–	–	8,137,937
Due to banks	–	2,608,220	16,816,000	9,150,000	21,754,700	1,700,000	–	–	52,028,920
Derivative financial liabilities	–	–	–	4,737	19,177	–	–	–	23,914
Repurchase agreements	–	–	12,145,000	–	–	–	–	–	12,145,000
Due to customers	–	133,608,435	21,045,151	33,612,018	90,185,683	27,891,304	475,078	–	306,817,669
Debt securities issued	–	–	2,196,369	2,484,489	10,092,718	8,496,302	–	–	23,269,878
Other financial liabilities	–	841,026	822,792	901,821	1,381,531	1,731,627	293,348	–	5,972,145
Total financial liabilities	–	137,057,681	53,264,149	48,219,100	128,893,190	40,957,170	768,426	–	409,159,716
Net position	4,422,666	(105,639,855)	(12,266,929)	308,795	(5,206,056)	55,485,584	52,782,507	34,817,049	24,703,761

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) **Liquidity risk** (Continued)

(ii) Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

31 December 2016

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows								
Financial assets:								
Cash and balances with the Central Bank	28,214,641	–	–	–	–	–	38,795,695	67,010,336
Due from banks and								
other financial institutions*	2,472,818	18,235,274	12,957,555	14,515,838	936,064	–	–	49,117,549
Financial assets held for trading	–	16,639	106,510	383,815	597,341	913,338	20,000	2,037,643
Loans and advances to customers	–	9,432,344	16,181,120	71,631,678	72,680,361	77,628,918	6,145,597	253,700,018
Financial investments	–	10,756,088	14,730,711	65,735,214	95,238,294	26,233,567	700,149	213,394,023
Finance lease receivables	129,796	244,864	682,232	4,099,413	11,533,637	208,290	–	16,898,232
Other financial assets	116,371	3,616,813	16,286	90,172	14,674	13,031	–	3,867,347
Total financial assets	30,933,626	42,302,022	44,674,414	156,456,130	181,000,371	104,997,144	45,661,441	606,025,148

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) *Maturity analysis of contractual undiscounted cash flows (Continued)*

31 December 2016

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Financial liabilities:								
Due to the Central Bank	–	1,031	31,879	482,103	–	–	–	515,013
Borrowings from banks and other financial institutions	–	40,978	2,272,311	9,183,426	1,209,338	–	–	12,706,053
Due to banks**	266,687	15,327,958	5,528,010	73,905,686	1,667,200	–	–	96,695,541
Due to customers	147,347,062	24,262,237	30,690,799	105,237,051	43,636,338	2,181,718	–	353,355,205
Debt securities issued	–	1,070,000	2,300,000	26,858,750	6,518,000	9,600,000	–	46,346,750
Other financial liabilities	520,893	18,081	63,250	829,272	1,165,537	8,756	–	2,605,789
Total financial liabilities	148,134,642	40,720,285	40,886,249	216,496,288	54,196,413	11,790,474	–	512,224,351
Net position	(117,201,016)	1,581,737	3,788,165	(60,040,158)	126,803,958	93,206,670	45,661,441	93,800,797
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	102,250	3,093,376	–	–	–	3,195,626
Total outflow	–	–	(102,092)	(3,113,152)	–	–	–	(3,215,244)
Credit commitments	4,152,494	5,466,434	7,859,952	53,360,065	2,158,050	3,287	180,000	73,180,282

* Includes reverse repurchase agreements

** Includes repurchase agreements

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) Maturity analysis of contractual undiscounted cash flows (Continued)

31 December 2015

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows								
Financial assets:								
Cash and balances with the Central Bank	19,775,245	–	–	–	–	–	34,790,849	54,566,094
Due from banks and other financial Institutions*	6,490,565	12,085,146	28,947,615	34,036,194	514,958	–	–	82,074,478
Financial assets held for trading	–	280,545	1,623,657	367,740	456,316	259,145	–	2,987,403
Loans and advances to customers	6,608	8,908,417	11,697,691	54,819,843	52,585,776	47,141,373	4,901,370	180,061,078
Financial investments	4,401,079	21,057,125	8,628,875	41,200,740	57,156,514	21,891,764	192,473	154,528,570
Finance lease receivables	–	230,664	496,423	3,198,103	7,624,817	158,458	–	11,708,465
Other financial assets	657,107	81,620	396	1,376	44,942	4,694	–	790,135
Total financial assets	31,330,604	42,643,517	51,394,657	133,623,996	118,383,323	69,455,434	39,884,692	486,716,223

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) *Maturity analysis of contractual undiscounted cash flows (Continued)*

31 December 2015

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Financial liabilities:								
Due to the Central Bank	–	40,488	238,766	494,429	–	–	–	773,683
Borrowings from banks and other financial institutions	–	235,630	1,893,065	5,074,329	1,275,485	–	–	8,478,509
Due to banks**	2,433,496	29,260,184	9,379,466	22,279,251	1,865,831	–	–	65,218,228
Due to customers	133,705,741	23,373,632	36,964,229	95,777,059	25,971,596	590,765	–	316,383,022
Debt securities issued	–	2,196,369	2,484,489	10,466,469	9,041,750	–	–	24,189,077
Other financial liabilities	596,748	263,575	392,926	38,915	697,646	88,888	–	2,078,698
Total financial liabilities	136,735,985	55,369,878	51,352,941	134,130,452	38,852,308	679,653	–	417,121,217
Net position	(105,405,381)	(12,726,361)	41,716	(506,456)	79,531,015	68,775,781	39,884,692	69,595,006
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	272,598	1,397,720	–	–	–	1,670,318
Total outflow	–	–	(273,492)	(1,401,452)	–	–	–	(1,674,944)
Credit commitments	1,435,698	6,257,295	15,748,977	33,013,447	2,446,331	–	180,000	59,081,748

* Includes reverse repurchase agreements

** Includes repurchase agreements

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on-and off-balance- sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group's market risk contains interest rate risk and currency risk.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly results from the risk arising from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities, and off-balance-sheet foreign exchange positions arising from derivative transactions.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Group uses different management methods to control market risk comprising trading book and banking book risks, respectively.

(i) Currency risk

The Group conducts it businesses mainly in RMB, with certain transactions denominated in USD, HKD, Russian ruble ("RUB") and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's treasury operations, foreign exchange dealings and overseas investments.

The exchange rate of RMB to USD is managed under a floating exchange rate system.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

The Group sets trading limits, stop-loss limits and exposure limits to foreign exchange transactions to manage foreign exchange risk and to keep currency risk within limits. Based on the guidelines provided by the Risk Management Committee, laws and regulations as well as evaluation of the current market, the Group sets its risk limits and minimises the possibility of mismatch through more reasonable allocation of foreign currency sources and deployment.

Notes to Consolidated Financial Statements

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51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

		Effect on profit before tax	
		As at 31 December	
Currency	Change in rate	**2016**	2015
USD	-1%	**(20,733)**	(19,797)
HKD	-1%	**191**	247
RUB	-1%	**(678)**	(1,974)

While the table above indicates the effect on profit before tax of 1% depreciation of USD, HKD and RUB, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

A breakdown of the assets and liabilities analysed by currency is as follows:

31 December 2016

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	RUB (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Financial assets:						
Cash and balances with the Central Bank	66,576,333	420,931	1,243	8,058	3,771	67,010,336
Due from banks and other financial institutions	31,955,867	1,858,016	17,403	74,680	94,098	34,000,064
Financial assets held for trading	1,704,229	–	–	–	–	1,704,229
Reverse repurchase agreements	14,538,618	–	–	–	–	14,538,618
Loans and advances to customers	194,343,854	2,118,137	–	–	26,255	196,488,246
Derivative financial assets	11	70,764	–	–	–	70,775
Financial investments	190,428,569	–	–	–	–	190,428,569
Finance lease receivables	15,096,318	–	–	–	–	15,096,318
Other financial assets	7,392,720	67,663	–	–	3	7,460,386
Total financial assets	522,036,519	4,535,511	18,646	82,738	124,127	526,797,541
Financial liabilities:						
Due to the Central Bank	506,960	–	–	–	–	506,960
Borrowings from banks and other institutions	12,382,462	–	–	–	–	12,382,462
Due to banks	78,239,586	2,233,171	–	4,440	36,108	80,513,305
Derivative financial liabilities	90,392	–	–	–	–	90,392
Repurchase agreements	13,694,050	–	–	–	–	13,694,050
Due to customers	342,830,678	217,151	1,257	10,510	91,438	343,151,034
Debt securities issued	41,883,393	–	–	–	–	41,883,393
Other financial liabilities	7,077,979	11,874	36,448	–	109	7,126,410
Total financial liabilities	496,705,500	2,462,196	37,705	14,950	127,655	499,348,006
Net position	25,331,019	2,073,315	(19,059)	67,788	(3,528)	27,449,535
Credit commitments	72,924,694	244,300	–	–	11,288	73,180,282

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) *Currency risk (Continued)*

A breakdown of the assets and liabilities analysed by currency is as follows: (Continued)

31 December 2015

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	RUB (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Financial assets:						
Cash and balances with the Central Bank	54,471,132	72,674	2,053	17,706	2,529	54,566,094
Due from banks and other financial institutions	27,135,355	2,421,357	16,054	223,680	238,618	30,035,064
Financial assets held for trading	2,840,042	–	–	–	–	2,840,042
Reverse repurchase agreements	51,027,890	–	–	–	–	51,027,890
Loans and advances to customers	143,679,430	1,361,134	–	–	20,959	145,061,523
Derivative financial assets	4,786	12,775	–	–	1,726	19,287
Financial investments	136,115,839	–	–	–	–	136,115,839
Finance lease receivables	10,447,874	–	–	–	–	10,447,874
Other financial assets	3,721,431	28,171	–	205	57	3,749,864
Total financial assets	429,443,779	3,896,111	18,107	241,591	263,889	433,863,477
Financial liabilities:						
Due to the Central Bank	764,253	–	–	–	–	764,253
Borrowings from banks and other institutions	8,137,937	–	–	–	–	8,137,937
Due to banks	50,870,005	1,148,717	–	939	9,259	52,028,920
Derivative financial liabilities	8,462	10,848	–	–	4,604	23,914
Repurchase agreements	12,145,000	–	–	–	–	12,145,000
Due to customers	305,678,282	1,030,170	7,076	10,034	92,107	306,817,669
Debt securities issued	23,269,878	–	–	–	–	23,269,878
Other financial liabilities	5,841,227	74,129	34,138	15,505	7,146	5,972,145
Total financial liabilities	406,715,044	2,263,864	41,214	26,478	113,116	409,159,716
Net position	22,728,735	1,632,247	(23,107)	215,113	150,773	24,703,761
Credit commitments	58,721,299	355,259	–	–	5,190	59,081,748

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) **Market risk** (Continued)

(ii) Interest rate risk

The Group's bank account interest rate risk mainly arises from the mismatches of the repricing dates between interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes interest rate policy for RMB which includes a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have an impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The sensitivity of the net interest income is the effect of the assumed changes in interest rates on the net interest income, arising from the financial assets and financial liabilities held at year end that are subject to repricing within the coming year. The sensitivity of equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing fixed rate available-for-sale financial assets held at year end.

Interest rate risk of the Group's trading book, mainly exists in transactions, including those of bonds. For the management of interest rate risk, the Group uses explicit criteria for the classification of financial assets in the trading account, re-evaluating the market value of trading account assets daily, setting trading limits, stop-loss limits and risk limitation for the purpose of limit management. The Group also monitors and controls this by frequency.

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(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net interest income and equity.

Change in basis points	Effect on net interest income 31 December 2016	Effect on net interest income 31 December 2015	Effect on equity 31 December 2016	Effect on equity 31 December 2015
+100 basis points	**(330,179)**	(206,449)	**(342,512)**	(171,677)
-100 basis points	**330,179**	206,449	**362,300**	181,528

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the proforma movements in net interest income and equity based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of all maturities fluctuate by the same amount and, therefore, do not reflect the potential impact on net interest income and equity in the case where some rates change while others remain unchanged.

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities:

31 December 2016

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Financial assets:						
Cash and balances with the Central Bank	66,164,998	–	–	–	845,338	67,010,336
Due from banks and other financial institutions	18,862,552	14,225,717	911,795	–	–	34,000,064
Financial assets held for trading	90,036	322,046	433,602	838,545	20,000	1,704,229
Reverse repurchase agreements	14,538,618	–	–	–	–	14,538,618
Loans and advances to customers	67,023,829	86,461,661	33,722,088	3,807,963	5,472,705	196,488,246
Derivative financial assets	–	–	–	–	70,775	70,775
Financial investments	34,631,700	53,412,998	79,897,710	21,780,405	705,756	190,428,569
Finance lease receivables	15,096,318	–	–	–	–	15,096,318
Other financial assets	–	–	–	–	7,460,386	7,460,386
Total financial assets	216,408,051	154,422,422	114,965,195	26,426,913	14,574,960	526,797,541
Financial liabilities:						
Due to the Central Bank	30,000	476,960	–	–	–	506,960
Borrowings from other financial institutions	2,200,000	9,072,400	1,110,062	–	–	12,382,462
Due to banks	6,375,708	72,537,597	1,600,000	–	–	80,513,305
Derivative financial liabilities	–	–	–	–	90,392	90,392
Repurchase agreements	13,694,050	–	–	–	–	13,694,050
Due to customers	199,813,995	102,092,542	39,581,461	1,405,143	257,893	343,151,034
Debt securities issued	3,359,814	25,529,890	4,995,896	7,997,793	–	41,883,393
Other financial liabilities	–	–	–	–	7,126,410	7,126,410
Total financial liabilities	225,473,567	209,709,389	47,287,419	9,402,936	7,474,695	499,348,006
Total interest sensitivity gap	(9,065,516)	(55,286,967)	67,677,776	17,023,977	N/A	N/A

(In RMB thousands, unless otherwise stated)

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) *Interest rate risk (Continued)*

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities: (Continued)

31 December 2015

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest-bearing	Total
Financial assets:						
Cash and balances with the Central Bank	53,874,844	–	–	–	691,250	54,566,094
Due from banks and other financial institutions	10,505,238	19,029,826	500,000	–	–	30,035,064
Financial assets held for trading	2,064,119	141,251	391,471	243,201	–	2,840,042
Reverse repurchase agreements	36,279,018	14,748,872	–	–	–	51,027,890
Loans and advances to customers	49,741,125	74,218,231	15,419,752	1,491,932	4,190,483	145,061,523
Derivative financial assets	–	–	–	–	19,287	19,287
Financial investments	48,265,226	28,858,637	43,161,477	15,631,289	199,210	136,115,839
Finance lease receivables	10,447,874	–	–	–	–	10,447,874
Other financial assets	–	–	–	–	3,749,864	3,749,864
Total financial assets	211,177,444	136,996,817	59,472,700	17,366,422	8,850,094	433,863,477
Financial liabilities:						
Due to the Central Bank	274,872	489,381	–	–	–	764,253
Borrowings from other financial institutions	2,030,000	4,970,000	1,137,937	–	–	8,137,937
Due to banks	28,374,220	21,954,700	1,700,000	–	–	52,028,920
Derivative financial liabilities	–	–	–	–	23,914	23,914
Repurchase agreements	12,145,000	–	–	–	–	12,145,000
Due to customers	188,059,967	90,185,683	27,891,304	475,078	205,637	306,817,669
Debt securities issued	4,680,858	10,092,719	8,496,301	–	–	23,269,878
Other financial liabilities	–	–	–	–	5,972,145	5,972,145
Total financial liabilities	235,564,917	127,692,483	39,225,542	475,078	6,201,696	409,159,716
Total interest sensitivity gap	(24,387,473)	9,304,334	20,247,158	16,891,344	N/A	N/A

51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(d) Capital management

The Group's objectives for capital management are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital using an efficient and risk-based approach to optimise the risk adjusted return to the shareholders; and
- To maintain an adequate capital base to support the development of its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust its profit distribution policy, issue or redeem own shares, long-term subordinated bonds, etc.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by the CBRC. The required information is filed with the CBRC by the Group and the Bank semi-annually and quarterly.

The capital adequacy ratios and related components of the Group are computed in accordance with the statutory financial statements of the Group prepared under PRC GAAP. During the year, the Group has complied in full with all its externally imposed capital requirements. The requirements pursuant to these regulations may have significant differences comparing to those applicable in Hong Kong and other countries.

Since 1 January 2013, the Group has begun to disclose the capital adequacy ratio in accordance with the "Capital Rules for Commercial Banks (Provisional)" and will continue to promote the content of this disclosure. According to the requirements of the CBRC, commercial banks should reach the regulatory requirements of capital adequacy ratio by the end of 2018. According to the regulatory requirements, a commercial bank is required to maintain its core tier 1 capital adequacy ratio above 7.5%, the tier 1 capital adequacy ratio above 8.5% and the capital adequacy ratio above 10.5%.

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51. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

	As at 31 December	
	2016	2015
Core capital		
Qualified part of share capital	**10,995,600**	10,995,600
Qualified part of capital reserve	**7,607,292**	7,712,515
Surplus reserve and general reserves	**7,890,780**	6,021,792
Retained earnings	**10,014,136**	8,183,051
Qualified part of non-controlling interests	**492,080**	748,358
Core tier 1 capital deductible items:		
Fully deductible items	**(158,830)**	(133,948)
Net core tier 1 capital	**36,841,058**	33,527,368
Net other tier 1 capital	**43,309**	–
Net tier 1 capital	**36,884,367**	33,527,368
Net tier 2 capital	**10,343,023**	1,534,651
Net capital	**47,227,390**	35,062,019
Total risk-weighted assets	**394,614,936**	301,091,379
Core tier 1 capital adequacy ratio	**9.34%**	11.14%
Tier 1 capital adequacy ratio	**9.35%**	11.14%
Capital adequacy ratio	**11.97%**	11.64%

(In RMB thousands, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy:

31 December 2016

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	–	70,775	–	70,775
Financial assets held for trading				
Debt securities	–	1,704,229	–	1,704,229
Available-for-sale financial assets				
Debt securities	–	17,193,762	–	17,193,762
Wealth management products	–	352,270	–	352,270
Others	–	26,696	–	26,696
	–	17,572,728	–	17,572,728
	–	19,347,732	–	19,347,732
Financial liabilities measured at fair value				
Derivative financial liabilities	–	90,392	–	90,392
Financial assets disclosed at fair value				
Debt instruments classified as receivables	–	142,352,152	–	142,352,152
Held-to-maturity investments	–	30,554,355	–	30,554,355
	–	172,906,507	–	172,906,507
Financial liabilities disclosed at fair value				
Financial bonds	–	9,661,698	–	9,661,698
Tier two capital bonds	–	7,957,504	–	7,957,504
Negotiable certificates of deposit	–	24,323,793	–	24,323,793
	–	41,942,995	–	41,942,995

(In RMB thousands, unless otherwise stated)

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy: (Continued)

31 December 2015

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	–	19,287	–	19,287
Financial assets held for trading				
Debt securities	–	2,840,042	–	2,840,042
Available-for-sale financial assets				
Debt securities	–	11,239,220	–	11,239,220
Wealth management products	–	4,000,794	–	4,000,794
Fund	–	6,000,284	–	6,000,284
Others	–	26,200	–	26,200
	–	21,266,498	–	21,266,498
	–	24,125,827	–	24,125,827
Financial liabilities measured at fair value				
Derivative financial liabilities	–	23,914	–	23,914
Financial assets disclosed at fair value				
Debt instruments classified as receivables	–	89,602,050	–	89,602,050
Held-to-maturity investments	–	26,898,046	–	26,898,046
	–	116,500,096	–	116,500,096
Financial liabilities disclosed at fair value				
Financial bonds	–	8,643,502	–	8,643,502
Negotiable certificates of deposit	–	14,781,750	–	14,781,750
	–	23,425,252	–	23,425,252

Financial assets held for trading, available-for-sale financial assets and derivative financial instruments are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available, the fair values will be estimated using the discounted cash flow or pricing models. For debt securities, the fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

52. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

(i) The debt instruments classified as receivables are not quoted in an active market. In the absence of any other relevant observable market, the fair values of debt instruments classified as receivables are estimated using the pricing or discounted cash flow models.

(ii) The fair values of held-to-maturity investments, subordinated bonds, financial bonds and negotiable certificates of deposit are determined with reference to the available market values. If quoted market prices are not available, the fair values will be estimated using the pricing or discounted cash flow models.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or reprised at current market rates frequently are as follows:

Assets	Liabilities
Balances with the Central Bank	Due to the Central Bank
Due from banks and other financial institutions	Borrowings from banks and other financial institutions
Reverse repurchase agreements	Due to banks
Loans and advances to customers	Repurchase agreements
Finance lease receivables	Due to customers
Other financial assets	Other financial liabilities

53. SUBSEQUENT EVENTS

As approved at the Board of Directors' meeting held on 29 March 2017, the profit distribution plan of 2016 was as follows:

1. 10% of 2016 net profit amounting to RMB451,995 thousand is appropriated to the statutory surplus reserve;

2. RMB1,127,416 thousand is appropriated to the general reserve;

3. The Bank did not declare any dividend for the year ended 31 December 2016, and is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting.

As at the date of this auditor's report, the Bank has newly set up two subsidiaries: (1) on 24 January 2017, Harbin Bank Consumer Finance Co., Ltd. obtained its business license from the Market Supervision Administration of Harbin with registered capital of RMB500 million. The Bank holds a 59% stake in the company; (2) on 25 January 2017, Ningan Rongxing Village and Township Bank Co., Ltd., a wholly-owned subsidiary of the Bank, obtained its business licence from Ningan State Administration for Industry & Commerce of the PRC with registered capital of RMB30 million.

Except for the above, there were no other significant events after the reporting period.

(In RMB thousands, unless otherwise stated)

54. STATEMENT OF FINANCIAL POSITION AND CHANGES IN EQUITY OF THE BANK

(a) Statement of financial position of the bank

	As at 31 December	
	2016	2015
ASSETS		
Cash and balances with the Central Bank	**63,037,117**	52,636,333
Due from banks and other financial institutions	**30,932,328**	26,895,726
Financial assets held for trading	**1,704,229**	2,840,042
Reverse repurchase agreements	**14,538,618**	51,027,890
Loans and advances to customers	**184,750,461**	135,040,440
Derivative financial assets	**70,775**	19,287
Financial investments	**190,453,189**	135,739,665
Investments in subsidiaries	**2,970,020**	2,970,020
Investment in an associate	**–**	1,156,296
Property and equipment	**8,271,985**	8,281,406
Deferred income tax assets	**1,358,823**	611,471
Asset held for sale	**1,234,169**	–
Other assets	**7,593,359**	4,019,488
TOTAL ASSETS	**506,915,073**	421,238,064
LIABILITIES		
Due to banks	**83,799,198**	53,886,993
Derivative financial liabilities	**90,392**	23,914
Repurchase agreements	**13,694,050**	12,145,000
Due to customers	**325,388,399**	293,049,315
Income tax payable	**774,561**	468,238
Debt securities issued	**40,886,505**	23,269,878
Other liabilities	**6,925,341**	6,090,127
TOTAL LIABILITIES	**471,558,446**	388,933,465
EQUITY		
Share capital	**10,995,600**	10,995,600
Capital reserve	**7,639,362**	7,639,362
Other comprehensive income/(loss)	**(28,417)**	262,973
Surplus reserves	**2,409,731**	1,957,736
General and regulatory reserves	**5,295,564**	3,982,854
Undistributed profits	**9,044,787**	7,466,074
TOTAL EQUITY	**35,356,627**	32,304,599
TOTAL EQUITY AND LIABILITIES	**506,915,073**	421,238,064

Guo Zhiwen	**Zhang Qiguang**	**Yang Dazhi**
Chairman	President	General Manager of Finance and Accounting Department

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

54. STATEMENT OF FINANCIAL POSITION AND CHANGES IN EQUITY OF THE BANK (Continued)

(b) Statement of changes in equity of the Bank

	Share capital	Capital reserve	Other Comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Total
Balance as at 1 January 2016	**10,995,600**	**7,639,362**	**262,973**	**1,957,736**	**3,982,854**	**7,466,074**	**32,304,599**
Movements in this year	**–**	**–**	**(291,390)**	**451,995**	**1,312,710**	**1,578,713**	**3,052,028**
Total comprehensive income	**–**	**–**	**(291,390)**	**–**	**–**	**4,519,947**	**4,228,557**
Profit distribution	**–**	**–**	**–**	**451,995**	**1,312,710**	**(2,941,234)**	**(1,176,529)**
1. Appropriation to surplus reserves	**–**	**–**	**–**	**451,995**	**–**	**(451,995)**	**–**
2. Appropriation to general and regulatory reserves	**–**	**–**	**–**	**–**	**1,312,710**	**(1,312,710)**	**–**
3. Dividend-2015 final	**–**	**–**	**–**	**–**	**–**	**(1,176,529)**	**(1,176,529)**
Balance as at 31 December 2016	**10,995,600**	**7,639,362**	**(28,417)**	**2,409,731**	**5,295,564**	**9,044,787**	**35,356,627**
Balance as at 1 January 2015	10,995,600	7,639,362	17,563	1,547,372	3,775,843	5,112,359	29,088,099
Movements in this year	–	–	245,410	410,364	207,011	2,353,715	3,216,500
Total comprehensive income	–	–	245,410	–	–	4,103,637	4,349,047
Profit distribution	–	–	–	410,364	207,011	(1,749,922)	(1,132,547)
1. Appropriation to surplus reserves	–	–	–	410,364	–	(410,364)	–
2. Appropriation to general and regulatory reserves	–	–	–	–	207,011	(207,011)	–
3. Dividend-2014 final	–	–	–	–	–	(1,132,547)	(1,132,547)
Balance as at 31 December 2015	10,995,600	7,639,362	262,973	1,957,736	3,982,854	7,466,074	32,304,599

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2017.

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplemental financial information as follows:

(A) LIQUIDITY RATIO

	As at 31 December	
	2016	2015
RMB current assets to RMB current liabilities	**44.66%**	43.04%
Foreign currency current assets to foreign currency current liabilities	**94.18%**	131.44%

These liquidity ratios are calculated based on relevant regulations provided by the CBRC and Chinese accounting policies.

(B) CURRENCY CONCENTRATIONS

	USD	HKD	RUB	Others	Total
31 December 2016					
Spot assets	**4,535,511**	**18,646**	**82,738**	**124,127**	**4,761,022**
Spot liabilities	**(2,462,196)**	**(37,705)**	**(14,950)**	**(127,655)**	**(2,642,506)**
Forward purchases	**1,643,000**	**–**	**–**	**–**	**1,643,000**
Forward sales	**(1,642,998)**	**–**	**–**	**–**	**(1,642,998)**
Net long/(short) position	**2,073,317**	**(19,059)**	**67,788**	**(3,528)**	**2,118,518**
31 December 2015					
Spot assets	3,896,111	18,107	241,591	263,889	4,419,698
Spot liabilities	(2,263,864)	(41,214)	(26,478)	(113,116)	(2,444,672)
Forward purchases	1,221,055	–	–	317,455	1,538,510
Forward sales	(670,811)	–	–	(317,455)	(988,266)
Net long/(short) position	2,182,491	(23,107)	215,113	150,773	2,525,270

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

(C) CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include amounts due from banks and other financial institutions.

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

	As at 31 December	
	2016	2015
Due from banks and other financial institutions		
Asia Pacific excluding Mainland China	**60,738**	39,407
– of which attributed to Hong Kong	**21,137**	38,157
Europe	**1,028,863**	979,076
North and South America	**306,419**	330,593
Total	**1,396,020**	1,349,076

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

(D) LOANS AND ADVANCES TO CUSTOMERS

(i) Overdue loans and advances to customers

	As at 31 December	
	2016	2015
Balances of overdue loans and advances to customers		
Between 3 and 6 months	**179,969**	90,337
Between 6 and 12 months	**1,369,046**	1,352,806
Over 12 months	**1,663,342**	722,201
As a percentage of the total gross loans and advances to customers		
Between 3 and 6 months	**0.09%**	0.06%
Between 6 and 12 months	**0.68%**	0.91%
Over 12 months	**0.82%**	0.49%
	1.59%	1.46%

(ii) Overdue loans and advances to customers by geographical location

	As at 31 December	
	2016	2015
Balances of overdue loans and advances to customers		
Heilongjiang region	**3,627,355**	2,177,741
Northeastern China	**947,436**	1,095,804
Southwestern China	**1,983,609**	1,489,792
Northern China	**426,169**	208,011
Other regions	**302,228**	193,927
	7,286,797	5,165,275

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2016
(In RMB thousands, unless otherwise stated)

(E) OVERDUE AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 31 December 2016 and 2015, there were no overdue amounts due from banks and other financial institutions in respect of principal or interest.

(F) OVERDUE PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 31 December 2016 and 2015, there were no overdue placements with banks and other financial institutions in respect of principal or interest.

(G) EXPOSURES TO MAINLAND CHINA NON-BANK ENTITIES

	As at 31 December	
	2016	2015
On-balance-sheet exposure	**211,910,526**	155,305,035
Off-balance-sheet exposure	**73,180,282**	59,081,748
Individually assessed allowance for impairment losses	**1,141,368**	459,996

In addition to those disclosed above, exposures to other non-bank counterparties outside Mainland China to which credit is granted to be used in Mainland China are considered insignificant to the Group.

Documents for Inspection

I. Financial Statements with Signature and Seal of Legal Representative, Person in Charge of Accounting Work and Person in Charge of Accounting Firms

II. Original Audit Report with Accounting Firms' Seals and Certified Public Accountants' Signatures and Seals

III. Text of Annual Report Autographed by Directors of the Company

IV. Articles of Association of the Company

哈尔滨银行
HarbinBank