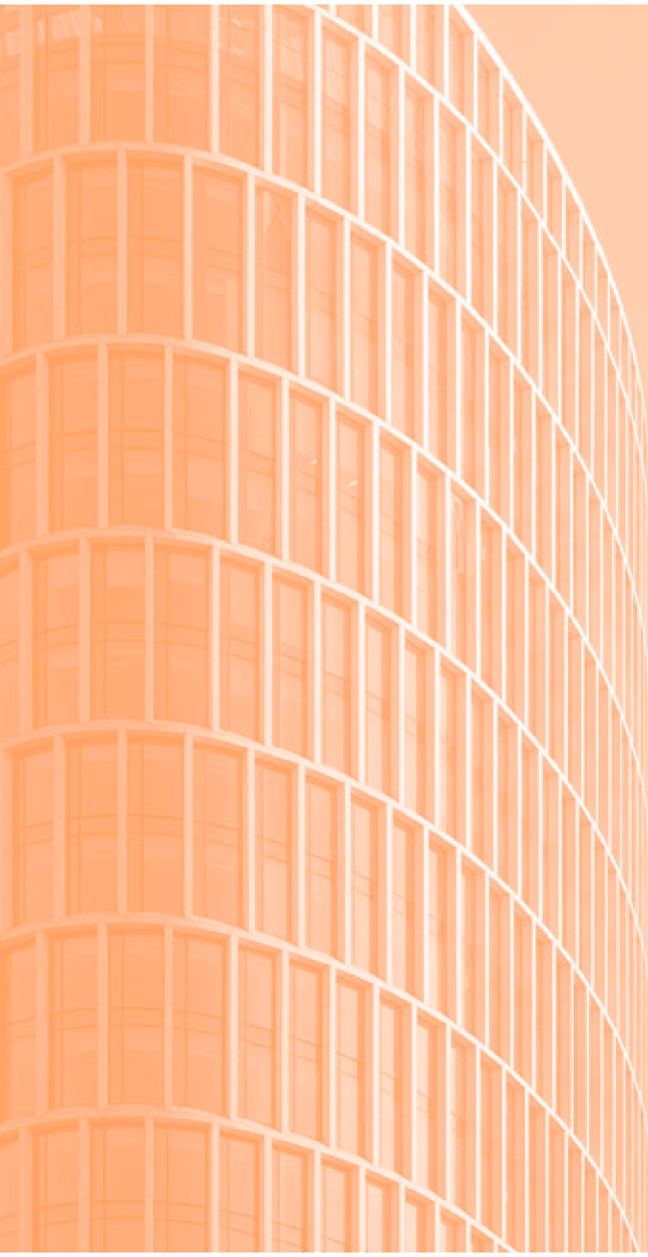
HARBIN BANK CO., LTD.

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

2017 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 with a par value of RMB1.00 per share that are proposed to be issued pursuant to the A Share Offering by the Bank, which will be applied for listing on the Shanghai Stock Exchange and subscribed 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 will be applied for listing on the Shanghai Stock Exchange
"Reporting Period" or "Year"	the year ended 31 December 2017
"Company"	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" or "Bank"	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 on the Hong Kong Stock Exchange and subscribed and traded in HKD
"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"	the Hong Kong Special Administrative Region of the PRC
"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
"PRC"	the People's Republic of China, for the purpose of the report, excluding Hong Kong, the Macau Special Administrative Region and Taiwan

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

Company Secretary:

SUN Feixia

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

Contact Address:

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Website for Publishing this Report:

www.hrbb.com.cn
www.hkexnews.hk

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 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, the first consumer finance company in Heilongjiang Province, respectively. As at 31 December 2017, the Group had 363 business outlets with branches and sub-branches across seven administrative regions in China.

As at 31 December 2017, the Bank had total assets of RMB564.2552 billion, total loans and advances to customers of RMB237.3978 billion and total customer deposits of RMB378.2584 billion.

In 2017, the Bank was ranked 195th in "Brand Finance Banking 500 for the Year 2017" published by Brand Finance (a famous UK-based branded business valuation consulting firm), 1,130th in the "World's 2000 Largest Public Companies 2017" published by Forbes of the US, 217th in "The Banker Top 1,000 World Banks 2017" in terms of total tier 1 capital and 35th among the Chinese-funded Banks in 2017 published by the Banker of United Kingdom, 417th in the "Top 500 Chinese Companies for 2017" published by the FORTUNE China and 23rd among the 25 commercial banks on the list. The Bank was awarded "2017 The China Country Awards: Best Regional Cash Management Bank in China" from The ASIAN BANKER, and won the "2017 Best City Commercial Bank" award under the "Stars of China Awards" from GLOBAL FINANCE, a US-based magazine, for four consecutive years, and also won the "Best Bank for Asian Syndicated Lending" for the first time.

Company Profile

Major Awards for 2017

List of Major Awards for 2017

No.	Name of Award	Awarding Party	Time of Award
1	"Bond Institution of Good Progress Award" of Outstanding members of China's Bond Market in 2016 (2016年中國債券市場優秀成員之"債券業務進步獎")	China Central Depository & Clearing Co., Ltd.	January 2017
2	Outstanding Award (突出貢獻獎)	Clearing Center For City Commercial Banks	January 2017
3	China Banking Wealth Management Grade Work Outstanding City Commercial Bank (2016) (全國銀行業理財等級工作優秀城商行(2016年度))	China Banking Wealth Management Registration & Depository Center	February 2017
4	Active Dealer in Interbank RMB Market in 2016 (2016年度銀行間本幣市場活躍交易商)	National Interbank Funding Center	March 2017
5	Harbin Marathon Gala: The Most Influential Award under the 3rd session of Golden Chestnut Award of China Financial Marketing (哈馬嘉年華：第三屆中國金融品牌"金栗子獎"極具影響力獎)	www.cebnet.com.cn	March 2017
6	2017 Regional Commercial Bank Best Mobile Banking Innovation Award (2017年區域性商業銀行最佳手機銀行業務創新獎)	China Financial Certification Authority (CFCA)	March 2017
7	2016 MasterCard Best Commercial Bank Partner Award (2016萬事達卡最佳合作商業銀行獎)	Mastercard Incorporated	April 2017
8	Syndicated Loans to Russia: Top Ten Innovative Financial Products Awards (Corporate Business) under 2017 China Financial Innovation Award (俄易融：2017中國金融創新獎之十佳金融產品創新獎（對公業務))	Chinese Banker	June 2017
9	Medical Loan Tong: Top Ten Innovative Financial Products Awards (Retail Business) under 2017 China Financial Innovation Award (醫貸通：2017中國金融創新獎之十佳金融產品創新獎（零售業務))	Chinese Banker	June 2017

Company Profile

No.	Name of Award	Awarding Party	Time of Award
10	Harvest E-loan: Top Ten Internet Finance Innovation Awards under 2017 China Financial Innovation Award (豐收e貸：2017中國金融創新獎之十佳互聯網金融創新獎)	Chinese Banker	June 2017
11	2017 The China Country Awards: Best Regional Cash Management Bank in China (2017中國獎項計劃：中國最佳區域現金管理銀行)	THE ASIAN BANKER	August 2017
12	2017 Pioneer List of Small and Medium Banks: Inclusive Finance (2017年中小銀行先鋒榜：普惠金融榜)	National Business Daily	September 2017
13	2017 Stars of China: Best City Commercial Bank (2017中國之星：最佳城市商業銀行)	GLOBAL FINANCE	November 2017
14	2017 Stars of China: Best Bank for Asian Syndicated Lending (2017中國之星：最佳亞洲銀團貸款銀行)	GLOBAL FINANCE	November 2017
15	2017 Small and Micro Financial Service Banks with Excellent Competitiveness (2017卓越競爭力小微金融服務銀行)	China Business Journal, Chinese Academy of Social Sciences and CIIC Consulting	November 2017
16	8th Golden Tripod Awards: Excellent Transaction Bank for the Year (第八屆金鼎獎：年度卓越交易銀行)	National Business Daily	December 2017
17	2017 Gold Medal Award of Chinese Financial Institutions • Golden Dragon Awards: Top Ten City Commercial Banks for the Year (2017中國金融機構金牌榜•金龍獎：年度十佳城市商業銀行)	Financial News	December 2017

Company Profile

Major Subsidiaries

The details of major subsidiaries of the Company as at 31 December 2017 are as follows:

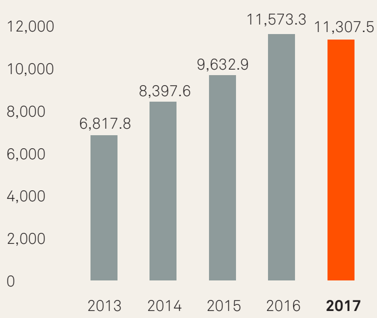
Company Name	Place of incorporation/ registration and operations place in the PRC	Nominal value of issued share/ paid-up capital RMB million	Percentage of ownership/ voting rights directly owned by the Company (%)	Amount invested by the Company RMB million
Bayan Rongxing Village and Township Bank Co., Ltd.	Bayan, Heilongjiang	50	100.00	53.4
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	220	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

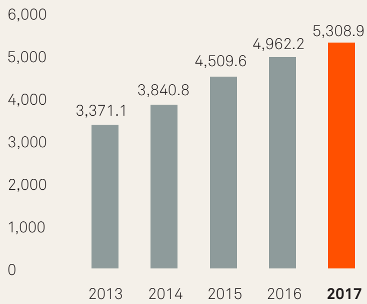
Company Name	Place of incorporation/ registration and operations place in the PRC	Nominal value of issued share/ paid-up capital RMB million	Percentage of ownership/ voting rights directly owned by the Company (%)	Amount invested by the Company RMB million
Zhuzhou Rongxing Village and Township Bank Co., 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
Harbin Bank Consumer Finance Co., Ltd.	Harbin, Heilongjiang	500	59.00	295
Ning'an Rongxing Village and Township Bank Co., Ltd.	Ning'an, Heilongjiang	30	100.00	30
Huanan Rongxing Village and Township Bank Co., Ltd.	Huanan, Heilongjiang	30	100.00	30
Nehe Rongxing Village and Township Bank Co., Ltd.	Nehe, Heilongjiang	50	80.00	40
Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd.	Pingliang, Gansu	50	90.00	45
Tianshui Maiji Rongxing Village and Township Bank Co., Ltd.	Tianshui, Gansu	50	98.00	49
Zhongjiang Rongxing Village and Township Bank Co., Ltd.	Deyang, Sichuan	50	70.00	35
Langzhong Rongxing Village and Township Bank Co., Ltd.	Langzhong, Sichuan	50	90.00	45
Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd.	Chengdu, Sichuan	100	70.00	70

Summary of Accounting Data and Financial Indicators

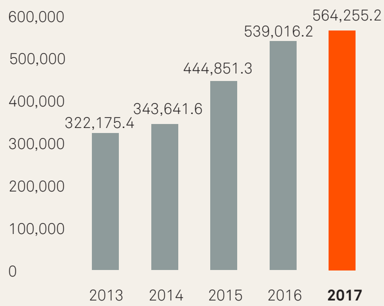
Net interest income
millions of RMB



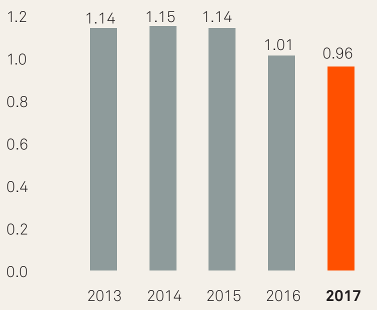
Net profit
millions of RMB



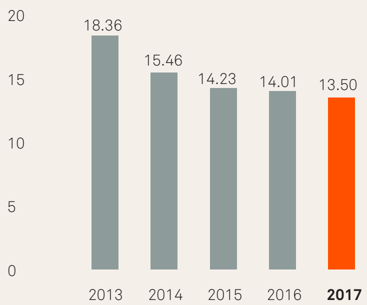
Total assets
millions of RMB



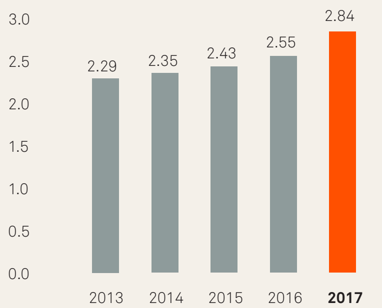
Return on average total assets
%



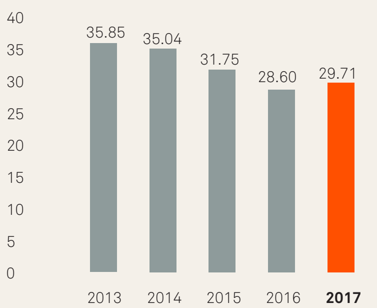
Return on average equity
%



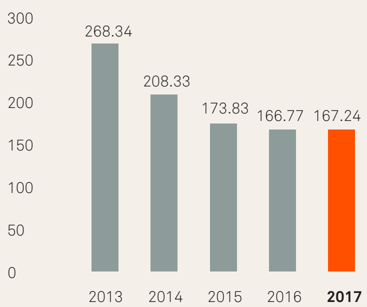
Impairment losses on loans
%



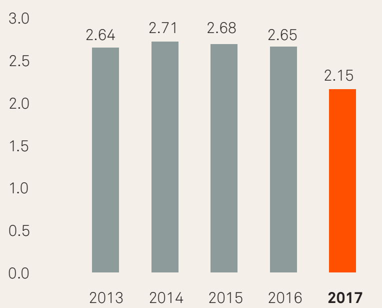
Cost-to-income ratio
%



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					
	2017	2016	2017 vs. 2016	2015	2014	2013
				(In RMB million, except percentages)		
Results of operations			**Rate of change**			
Net interest income	**11,307.5**	11,573.3	-2.30%	9,632.9	8,397.6	6,817.8
Net fee and commission income	**2,444.6**	2,393.4	2.14%	1,959.4	1,600.3	1,247.1
Operating income	**14,133.6**	14,172.0	-0.27%	11,945.4	10,252.8	8,543.9
Operating expenses	**(4,343.5)**	(4,522.2)	-3.95%	(4,736.9)	(4,433.3)	(3,591.0)
Impairment losses	**(2,662.1)**	(3,294.8)	-19.20%	(1,338.5)	(709.2)	(506.1)
Profit before tax	**7,128.0**	6,445.6	10.59%	5,919.0	5,127.5	4,450.0
Net profit	**5,308.9**	4,962.2	6.99%	4,509.6	3,840.8	3,371.1
Net profit attributable to shareholders of the Bank	**5,249.1**	4,876.6	7.64%	4,457.6	3,806.6	3,350.3
For each share (RMB)			**Rate of change**			
Net assets per share attributable to shareholders of the Bank	**3.75**	3.32	12.95%	3.01	2.69	2.39
Earnings per share	**0.48**	0.44	9.09%	0.41	0.37	0.41
Profitability indicators			**Change**			
Return on average total assets[1]	**0.96%**	1.01%	Decreased by 0.05 percentage point	1.14%	1.15%	1.14%
Return on average equity[2]	**13.50%**	14.01%	Decreased by 0.51 percentage point	14.23%	15.46%	18.36%
Net interest spread[3]	**1.95%**	2.47%	Decreased by 0.52 percentage point	2.47%	2.49%	2.56%
Net interest margin[4]	**2.15%**	2.65%	Decreased by 0.50 percentage point	2.68%	2.71%	2.64%
Net fee and commission income to operating income ratio	**17.30%**	16.89%	Increased by 0.41 percentage point	16.40%	15.61%	14.60%
Cost-to-income ratio[5]	**29.71%**	28.60%	Increased by 1.11 percentage points	31.75%	35.04%	35.85%

Summary of Accounting Data and Financial Indicators

	For the year ended 31 December					
	2017	2016	2017 vs. 2016	2015	2014	2013
			(In RMB million, except percentages)			
Capital adequacy indicators[6]			**Change**			
Capital adequacy ratio pursuant to the new Measures						
Core tier 1 capital adequacy ratio	**9.72%**	9.34%	Increased by 0.38 percentage point	11.14%	13.94%	10.68%
Tier 1 capital adequacy ratio	**9.74%**	9.35%	Increased by 0.39 percentage point	11.14%	13.94%	10.68%
Capital adequacy ratio	**12.25%**	11.97%	Increased by 0.28 percentage point	11.64%	14.64%	11.95%
Capital adequacy ratio calculated pursuant to the old Measures						
Core capital adequacy ratio	**–**	–	–	–	–	11.67%
Capital adequacy ratio	**–**	–	–	–	–	12.55%
Total equity to total assets	**7.52%**	6.93%	Increased by 0.59 percentage point	7.61%	8.78%	6.19%
Assets quality indicators			**Change**			
NPL ratio[7]	**1.70%**	1.53%	Increased by 0.17 percentage point	1.40%	1.13%	0.85%
Impairment coverage ratio[8]	**167.24%**	166.77%	Increased by 0.47 percentage point	173.83%	208.33%	268.34%
Impairment losses on loans[9]	**2.84%**	2.55%	Increased by 0.29 percentage point	2.43%	2.35%	2.29%

Summary of Accounting Data and Financial Indicators

	For the year ended 31 December					
	2017	2016	2017 vs. 2016	2015	2014	2013
			(In RMB million, except percentages)			
Other indicators			**Change**			
Loan-deposit ratio	**62.76%**	58.76%	Increased by 4.00 percentage points	48.46%	53.01%	47.25%
Scale indicators			**Rate of change**			
Total assets	**564,255.2**	539,016.2	4.68%	444,851.3	343,641.6	322,175.4
Of which: total loans and advances to customers	**237,397.8**	201,627.9	17.74%	148,674.8	123,930.3	105,941.3
Total liabilities	**521,846.2**	501,681.2	4.02%	411,003.3	313,479.0	302,248.2
Of which: due to customers	**378,258.4**	343,151.0	10.23%	306,817.7	233,793.8	224,229.6
Share capital	**10,995.6**	10,995.6	–	10,995.6	10,995.6	8,246.9
Equity attributable to shareholders of the Bank	**41,260.5**	36,507.8	13.02%	33,099.6	29,530.3	19,727.5
Non-controlling interests	**1,148.4**	827.2	38.83%	748.4	632.3	199.7
Total equity	**42,409.0**	37,335.0	13.59%	33,848.0	30,162.6	19,927.2

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 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 2014, and the old Measures have ceased to be adopted by the Bank for such calculation since 2015.

(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 2017, the global economy entered was on a recovery track. The economy of the developed economies picked up. Liquidity further tightened across the world. Cross-border capital flowed back to the developed economies. With "Grey rhino" risk lurking in the backdrop. The downward trend of the domestic economy demonstrated a turnaround. The economy grew steadily and was better than expected. The economic structure was further optimised with improved exports and faster growth in manufacturing industries, emerging industries and consumer services. As regulation on our industry now inclined towards the new normal of "strong regulation" and "strict regulation", new regulatory requirements were introduced successively to strictly regulate the order in the financial market and to further optimise industry development. Facing the changes in external environment and challenges from multiple adverse factors, the Board, under the great support of our shareholders, initiated measures to prevent various risks in response to market competition, and maintained steady progress in development and to provide strong support for serving the real economy as well as quality and efficient financial services for customers.

Chairman's Statement

During the year, the Bank had achieved steady progress in operating results. As at the end of 2017, the total assets of the Bank amounted to RMB564.3 billion, representing an increase of 4.7% from the beginning of the year. Net profit amounted to RMB5.3 billion, representing an increase of 7% from last year. The asset and liability business of the Bank sustained sound development as a whole with its structure, further optimised with precision in loans granting and robust growth in deposits. Net income from intermediary business amounted to RMB2.445 billion, representing a year-on-year increase of RMB51 million and accounting for 17.3% of the total income. Financial indicators, including ROA, ROE, cost-to-income ratio, profit per capita, etc., recorded satisfactory results. The subsidiaries maintained stable growth. The system of village and township banks was further expanded. Eight village and township banks were newly launched. The total assets of the 32 village and township banks reached RMB27.012 billion, as at the end of 2017, representing an increase of RMB2.578 billion from the beginning of the year. Net profit amounted to RMB310 million. HB Leasing had its business moved back to the registration place and had recorded stable growth in total assets amounting to RMB18.191 billion and a net profit of RMB115 million. HBCF commenced operation and completed the construction of its core senior management team to consolidate its management foundation.

During the year, the Bank refined further of operation and management. Centring on the work theme of "Year of Collaborative Development", the Bank further strengthened the horizontal and vertical collaboration inside the Group as well as the collaboration between business expansion and risk management by making active efforts to enhance its collaborative development capabilities. Putting a great emphasis on balance sheet remodelling, the Bank enhanced the assets and liability management and asset transfer working mechanism, strengthened the pricing management on its asset and liability business, and further optimised the Bank's asset and liability structure, while improving the return on assets and effective control its cost of liabilities. The Bank also focused on the establishment of the regular management mechanism for asset transfer and made innovations in asset transfer models.

During the year, for its products and services, the Bank emphasised focus of centring on customers, traditional business and making innovations on products and services. The Bank facilitated the research and development on products through collaboration across different departments and segments by making use of the product innovation laboratory platform. The efficiency of innovative products became more and more prominent, showing increases in both volume and profit contribution. E-commerce cross-border connection, industry investment fund, escrow and other business provided strong support for the income from intermediary business. Unique services such as White-collar Loans (白領貸) and Rainbow Loans (彩虹貸) had gained fame in the region and a huge number of potential customers. In addition, the Company obtained the qualification for payment-versus-payment of RMB against Ruble and membership of the treasury underwriting group, thereby enhancing its capability in providing comprehensive financial services.

Chairman's Statement

During the year, the Bank provided strong support for the local economic development. Adhering to the national policy of "the Belt and Road initiative" and Heilongjiang's strategy on comprehensive cooperation with Russia, the Bank refined its capability in providing comprehensive financial services to Russia. As the influence of Sino-Russia Financial Council further expanded, the RMB10,000 million cross-border syndicated loan facility had seen its first withdrawal, and the Bank engaged in international syndicated loan business for the first time during the year, as well as investing in its first panda bonds and completed the first transfer of rouble in cash into China by air transport without passage at border crossings. The Bank fully backed the construction of Harbin New Area by entering into a comprehensive strategic cooperation agreement with the new area and formulating a financial comprehensive service plan. The Bank supported the development of green industries and issued the first green financial bonds of RMB5 billion in Northeastern Region. The Bank was also deeply engaged in the reform of mixed-ownership of state-owned enterprises in local regions.

During the year, the Company successfully completed its organisational structure optimisation. In order to implement national policies and regulatory requirements and conform to the changes in the external economic and financial environment in a timely and effective manner, the Company, after conducting a comprehensive evaluation on the original organisational structure, timely initiated and completed optimisation on the organisational structure at the headquarters and carried out a comprehensive consolidation of the resources of its business segments. Upon such optimisation, the core roles of the Bank's microcredit strategy, advantageous businesses including small and micro enterprises, "Agriculture, Rural Areas and Farmers" and consumer finance, the features of financial services for Russia and the construction of research and development capability for information technology had become more prominent, laying a solid foundation for the implementation of the Bank's strategic development plan for the new five years and the fulfilment of the actual needs for the current operation and development.

2017 was an epoch-making year for Harbin Bank. This year was the 20th anniversary of the Company. After 20 years of rapid development, Harbin Bank is now a medium-sized bank with assets of more than RMB500 billion, and also a banking financial institution with the largest asset size, the strongest profitability and greatest tax contribution in its locality. We are fully aware that such results were hard-won and cannot be achieved without the great support from shareholders, customers, regulatory authorities and the public. With great power comes great responsibility. In 2018, centring on the work theme of "Governance Enhancement", and adhering to the general principle of making stable progress, the Bank will make progress in a stable manner, return to its origin original business, enhance its governance, implement strict control over risk exposures, focus on the development of the Group and to accelerate transformation to uplift the Group's operating results as a whole so as to create greater value for the shareholders and provide better financial services for financial consumers while performing its social responsibilities and contributing to the society.

Guo Zhiwen
Chairman

President's Statement

Lv Tianjun
Vice President (performing the duties of the President)

2017 marked an extraordinary year for the Bank in its process of reform and development. With stricter regulation, a slowdown in money supply growth and greater financial risks, the traditional business model and inertial thinking of the banking industry over the years faced unprecedented challenges. Nevertheless, the Bank strived for its strategic focus, and overcame various adverse factors with its profound accumulation and gradual delivery. Abiding by the principle of making stable progress, the Bank introduced innovative working ideas and deepened business transformation. The Bank also adjusted its asset and liability structure, expanded its scope of business, strengthened risk prevention and control, and further worked on cost reduction and efficiency enhancement. Maintaining stability and progress with good momentum for growth, the Bank had delivered excellent results for its 20th anniversary.

President's Statement

In 2017, with full effort into maintaining quality and efficiency, the Bank's major operating indicators achieved steady improvement with solid business growth. As of 31 December 2017, the Group's total assets were RMB564.3 billion, representing an increase of RMB25.2 billion or 4.7% from the end of last year; total loans were RMB237.4 billion, representing an increase of RMB35.8 billion or 17.7% from the end of the last year; total customer deposit amounted to RMB378,300 million, representing an increase of RMB35.1 billion or 10.2% as compared to the end of last year. The quality of assets remained modest and the overall risk was under control. NPL ratio was 1.70%; reserve ratio was 167.24%. Operation efficiency has been improving. In 2017, the Bank realised a net profit of RMB5,310 million, representing an increase of RMB350 million or 7% year on year.

In 2017, the Bank highlighted the role of its featured theme and established the preliminary structure for collaboration, enabling internal collaboration to become a long-term mechanism. Focusing on the theme of collaborative development, the Bank put more effort into the collaboration between the different departments of or subsidiaries among the Group itself, between the headquarters and its branches and explored the Group's management model and business cooperation mechanism to complete the construction of a series of line collaboration mechanisms. Collaborative projects had facilitated cross-selling. Excellent results were seen in the ten major projects on collaborative development and cross-selling projects achieved. A batch of collaboration models for the headquarters, branches and departments was preliminarily realised. Sino-Russia Financial Council welcomed 6 new members, and the RMB10,000 million cross-border syndicated loan achieved its first withdrawal. The Bank also took part in the Silk Road Business and International Financial Alliance (絲路產業與金融國際聯盟) promoted by the National Development and Reform Commission (NDRC) and became a standing council member. The Bank also entered into strategic cooperation with industry leaders enterprises such as Huawei and Zhongke Construction. The technology sub-branch in Songbei New District, Harbin officially commenced operation. Cooperation between the Bank, the government and enterprises constantly achieved new results.

In 2017, the Bank accelerated transformation and adjustment and further optimised business development with swift business mapping. The Bank consolidated resources in the credit market, capital market, bond market, equity market and other markets. Merger and acquisition funds, merger and acquisition loans, corporate ABS and other business achieved successful implementation. The Bank enhanced its transformation of retail business, accelerated the upgrade of wealth management system, promoted specialised SBU management, maintained a regular retail asset transfer mechanism and its results took a great leap forward. Business structure of the Bank was further optimised, and the increment of quality customers was 3.7 times the amount of the corresponding period. Innovation and breakthroughs were achieved in the banking business. The Company obtained the qualification for payment-versus-payment of RMB against Ruble and membership of of the treasury underwriting group from China Foreign Exchange Trade System and issued the first green financial bonds in Northeastern Region as well as the Bank's first circulating product at the Banking Credit Assets Registration and Circulation Center. The Bank promoted multiple new types of investment businesses such as the panda bonds, merger and reorganization, directional add-issuance of listed companies and industry funds.

President's Statement

In 2017, the Bank strengthened its risk control and prevention. The Bank also implemented rectification on internal control on an unprecedented scale. According to the regulatory requirements of the in all aspects special rectification of the "Three, Three, Four and Ten (三三四十)" malpractices, the Bank focused on the internal control compliance inspection and established a comprehensive closed-circuit management system covering prevention, control, inspection and rectification, which was highly recognised by the regulatory authorities. The risk management system was further improved. Fruitful results were realised through the implementation of the New Basel Capital Accord in the full business life cycle. The Bank promoted the application of the risk valuation tool for internal collateral, which further reflected its core value. The Bank also began to establish a group risk management and control mechanism and conduct liquidity risk pressure test so as to ensure the general stability of the Group's liquidity. Credit management was strengthened. Leveraging the credit policy, the Bank established an automatic management and control regime for the credit system to achieve whole-process supervision and management before, during and after granting loans. The Bank introduced vertical inspection and approval for non-retail business to ensure efficient approval and consistency in policy execution. The Bank put further efforts into management and control on NPLs. In addition, the Bank continued to place stringent control on asset quality and implemented supervision and instruction mechanism in a regular manner. It also made use of its asset quality management and control leading groups at the headquarters and its branches as well as its debt settlement and collection centres in branches to strengthen and maintain timely control on the settlement and collection of NPLs so as to restrain the generation of NPLs and maintain the stability of asset quality in general.

In 2017, the Bank pushed forward its infrastructure construction and achieved significant results in its key projects. Technology management was enhanced. The Bank introduced two criteria, namely the maturity of software capability and the maturity of operation and maintenance services capacity, to enhance management of research and development as well as operation and maintenance. The Bank constructed a management platform for technology projects to regulate the management of projects process. The Bank rationalised the data management measures and drew up a plan on data management and gradually enhance data quality. Technology projects were phased in, on a steady pace. The Bank promoted the establishment of the new core system with full effort and the system entered into the testing phase for user acceptance. The Bank also promoted the construction of the disaster recovery system for three centres in two areas on schedule. Breakthroughs were achieved in respect of operation and management. The Bank brought forth new ideas in the account classification management for personal banking and achieved "customer-oriented" account classification management. The Bank completed the first cross-border transfer of Ruble in cash into China by air transport among city commercial banks, achieving a breakthrough in facilitating Ruble cash circulation. The Bank further promoted centralised operation. The Bank completed the centralised operation projects for the year and provided various centralised operation services for the village and township banks according to the operation and management concept of the Group. Organisation and human resources management were enhanced. The Bank further optimised its organisational structure by amending various performance appraisal management systems as well as enhancing the selection and appointment procedures of management members and promotion of titles and salary grades.

President's Statement

In 2017, the Bank promoted brand development and improved its position in the industry. In respect of promotion activities for its 20th anniversary, the Bank initiated featured coverage relating to its 20th anniversary on mainstream media such as the Financial News, the China Youth Daily, provincial and municipal newspapers and TV stations and NetEase, and the Bank's newspapers and publications. It also organised celebration and recognition activities with a theme of "Striver's Footsteps" which showcased achievements of the innovation and development of the Bank in the past 20 years and recognised the prominent contribution made for local development. A brand image of "Harbin Bank's Charity" was established. Through a series of activities with great social influence such as publishing the 2016 Corporate Social Responsibility Report, organising the Russian Fine Oil Painting Exhibition, sponsoring the "2017 Harbin International Marathon" and promoting the "Happy Community" project of United Charity Foundation, the Bank actively performed its corporate social responsibilities. Brand influence was enhanced. On the list of the "Brand Financial Banking 500 for the Year 2017", the Bank became the fastest-growing bank in terms of brand value in the world with its 199% growth rate. The Bank was ranked 1,130th in the 2017 the "World's 2000 Largest Public Companies" published by Forbes of the US, and once again entered the list of the "Top 500 Chinese Companies for 2017" published by FORTUNE China.

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, on behalf of our management, I extend my most sincere gratitude to all of them who have been following and supporting the Bank's development.

The strong pass of the enemy is like a wall of iron, yet with firm strides, we are conquering its summit (雄關漫道真如鐵，而今邁步從頭越). In 2018, with 20 years of consolidation amidst trials and hardships, we will cross the threshold into a new era of Harbin Bank. 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 engage in reform and innovation will maintain leading position, and those who are passionate will get victory. Focusing on "governance enhancement", we will stick to our strategic positioning and return to focus on the original business by pushing forward governance innovation, releasing development momentum, adjusting the asset-liability structure, improving value contribution, setting up the baseline concept and strengthening risk prevention and control, aiming to enter into a new era of microcredit of Harbin Bank with our utmost enthusiasm.

Lv Tianjun
Vice President (performing the duties of the President)

Report of the Board of Directors

I. Past Economy and Environment and Operation Overview

(I) Past Economy and Environment

In 2017, the world economy embraced gradual improvement. Expectations the on global economic growth and its growth rate were on an upward tread with robust growth momentum in developed economies and revived growth in emerging markets and developing economies. At the same time, risks and threats lingered and impacted more and more on the global economy. The global economic structure continued to undergo changes and adjustments. Sustaining steady and favourable momentum, China economy performed better than expected with strong presence of vitality, impetus and potential, and the stability, harmony and sustainability improved significantly with a steady and healthy development. In 2017, the gross domestic product (GDP) amounted to RMB82,712.2 billion, representing a year-on-year increase of 6.9%, while the consumer price index (CPI) rose by 1.6% year on year. As at the end of December 2017, the balance of M2 amounted to RMB167.68 trillion, representing a year-on-year increase of 8.2%; the balance of M1 amounted to RMB54.38 trillion, representing an increase of 11.8%, and the balance of M0 amounted to RMB7.06 trillion, representing an increase of 3.4%. As at the end of December 2017, the balance of RMB loans amounted to RMB120.13 trillion, and the balance of RMB deposits amounted to RMB164.10 trillion. New RMB loans made during the year amounted to RMB13.53 trillion, representing a year-on-year increase of RMB0.8782 trillion; and new RMB deposits amounted to RMB13.51 trillion, representing a year-on-year decrease of RMB1.36 trillion. Increment of social financing scale for the year was RMB19.44 trillion.

In 2017, despite downward pressure on economy, Heilongjiang Province was expanding with an optimised structure. By virtue of the impetus for organic growth, significant results were achieved in fostering new momentum and new development areas. Through deepening the reforms, the market economy awareness was enhanced significantly with increasing marketization. By expanding the scope of opening up, the all-rounded Sino-Russia cooperation achieved breakthroughs. Important progress was also achieved in respect of infrastructure construction, construction of ecological civilisation, government construction, livelihood enhancement and optimisation of development environment. In 2017, the regional GDP of Heilongjiang Province exceeded RMB1.6 trillion, representing growth of 6.4% from last year. Investment in fixed assets, total retail sales of consumer goods and disposable income per capita of urban and rural residents increased by 6.2%, 8.3%, 7.1% and 7.8% respectively. Despite severe challenges where traditional industries experienced negative development, Heilongjiang Province strived to overcome difficulties and maintained steady and favourable economic growth.

Report of the Board of Directors

(II) Operation Overview

In 2017, the domestic economy maintained stable growth with promising prospects. The supply-side structural reform continued to advance. However, facing stricter regulatory policies and market conditions as well as the extremely difficult transformation tasks for the banking industry, the Company vigorously implemented the operation transformation driven by the theme of "Year of Collaborative Development" under the proper leadership of the Board and supervision of the Board of Supervisors. The Bank also further deepened the reform and adjustment on its organisational structure and its operating model, and commenced effectively the tasks of structural adjustment, income growth, cost control and minimising doubtful accounts. As a result, the Bank achieved stable operation growth, effective risk control, and rapid facilitation of transformation, thus making a historical breakthrough.

Steady business scale development

As at 31 December 2017, the Group had total assets of RMB564,255.2 million, representing an increase of RMB25,239.0 million or 4.7% from the end of last year. The Group's total loans and advances to customers amounted to RMB237,397.8 million, representing an increase of RMB35,769.9 million or 17.7% from the end of last year. The Bank's deposits from customers amounted to RMB378,258.4 million, representing an increase of RMB35,107.4 million or 10.2% from the end of last year.

Stable profitability

In 2017, the Group recorded a net profit of RMB5,308.9 million, representing a year-on-year increase of RMB346.7 million or 7.0%. The Bank recorded net profit attributable to shareholders of the Bank that amounted to RMB5,249.1 million, representing a year-on-year increase of RMB372.5 million or 7.6%. The average rate of return on total assets was 0.96%, representing a decrease as compared with 1.01% in 2016. The rate of return on average equity was 13.50%, representing a decrease as compared with 14.01% for 2016.

Slight increase in NPLs

As at 31 December 2017, the Group had NPLs balance of RMB4,037.0 million, representing an increase of RMB955.0 million from the end of last year. NPL ratio, impairment losses on loans ratio and provision coverage ratio amounted to 1.70%, 2.84% and 167.24%, which increased by 0.17 percentage point, 0.29 percentage point and 0.47 percentage point from the end of last year, respectively.

Report of the Board of Directors

Stable development of subsidiaries

In 2017, HB Leasing, HBCF and 32 village and township banks controlled by the Company kept on stable and healthy development momentum. As at 31 December 2017, HB Leasing had total assets of RMB18,191 million, representing an increase of 5.7% from the end of last year, and realised a net profit of RMB115 million for the year. The controlling village and township banks of the Company recorded total net profit at RMB310 million for the year.

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 of Key Issues

1. *Net interest margin*

In 2017, net interest spread of the Bank was 1.95%, which decreased by 0.52 percentage point as compared to last year, and net interest margin was 2.15%, which decreased by 0.50 percentage point as compared to last year, mainly for: (1) the decrease in book net interest income due to the separation of price and tax of the value-added tax; (2) the decrease in return on loans due to factors such as economic slowdown and declining asset quality; (3) the increases in the average cost ratios of customer deposits, due to banks and debt securities newly issued as a result of the increased market interest rate; and (4) initiative to improve the safety level of liquidity and prevent liquidity risk. Against the backdrop of the stable and neutral monetary policy of the Central Bank and the overall tight liquidity in the market in 2017, the Bank had been improving the level of liquidity reserve through active liability from the beginning of the year and mitigated the mismatch of maturity. The percentage of the average balance due to banks and debt securities issued with relatively higher average cost ratio to the average balance of the total interest-bearing loans increased from 27.5% in 2016 to 32.8% in 2017. The cost for interest payment for liquidity increased. Looking forward into 2018, 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, improvement of pricing mechanisms and customer-oriented differentiated pricing in order to maintain its comparatively stable return on assets. In addition, it will be active in coping with challenges posed by such liberalisation 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.

Report of the Board of Directors

2. *Quality of key assets*

As at 31 December 2017, the NPL ratio of the Bank amounted to 1.70%, representing an increase of 0.17 percentage point from the end of last year, with the ratio of loans of special mention and the impairment losses on loans amounted to 2.85% and 2.84%, with a hike of 0.24 percentage point and 0.29 percentage point as compared to the end of last year. The increase in NPL ratio and the ratio of loans of special mention of the Bank was attributed 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 low-tides 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 Bank during the Reporting Period primarily concentrated in the wholesale and services industry and the manufacturing industry, which amounted to RMB926.9 million and RMB472.3 million with NPL ratio of 2.75% and 4.07%, respectively. The Bank actively restructured the industry portfolio of its loans by intensifying its efforts in supporting less cycle-sensitive livelihood, 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. At the same time, the Bank had 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 optimised the loan resources allocation in different regions. The Bank strengthened its management of industry quota and products 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 and launched regional collection institutions and strengthened appraisal on regional loan quality 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 capital management planning 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 Bank, prioritised microcredit in allocating its capital based on its strategic goals and developmental stage for constructing microcredit bank. On the other hand, it placed its capital in areas with lower capital occupancy and higher benefits in accordance with the Administrative Measures for Capital of Commercial Banks (Provisional). During the Reporting Period, the Bank met the transitional minimum capital requirement, reserve capital requirement and countercyclical capital buffer of the CBRC.

As at 31 December 2017, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.72%, 9.74% and 12.25%, which increased by 0.38 percentage point, 0.39 percentage point and 0.28 percentage point, respectively, as compared to the end of last year. The increases in core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were mainly due to the sluggish growth in risk-weighted assets and the growth in net profit realised. As at the end of the Reporting Period, the Bank's risk weighted assets amounted to RMB427,058.3 million, representing a milder increase of RMB32,443.4 million or 8.2% as compared to the end of last year, mainly attributable to the PBoC's MPA assessment requirement, under which the Bank enhanced capital control to ensure that the pace of business growth and the level of capital reserve is adapted to the ability of risk control. Looking forward into 2018, the Bank will continue to strengthen its capital management by: (1) staying on the track of its strategy of differentiated competition and development with unique characteristics 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 optimise 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 2017, total debt instruments classified as receivables amounted to RMB145,366.6 million, which increased by 0.8% compared with that of last 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 that emphasised quality more than formality and according to 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 2017, balance of provision on debt instruments classified as receivables and the coverage ratio of the Bank amounted to RMB2,315.1 million and 1.59 %, which increased by RMB477.0 million and 0.32 percentage point from the end of last year respectively.

Report of the Board of Directors

5. *Impact of MPA system*

From 2016 on, the Central Bank has been moving from applying a mechanism of dynamic adjustment of differentiated reserve and consensus loan management to a Macro Prudential Assessment (MPA) system towards commercial bank. The most significant change of the MPA system is the change of emphasis on credit management from a micro angle to a macro angle and from time-point management to daily management, which also strengthens the capital requirement. MPA system has a huge impact on the asset allocation, capital and development model of banking institutions. Accordingly, the banking institutions have been facing great pressure on transformation and adjustment in respect of development philosophy, business model, asset-liability management, risk management and other aspects. The impacts on banks are mainly reflected in the following aspects: firstly, asset allocation has been greatly restrained; secondly, capital has become the core macro prudential constraint on banks. Business with high capital consumption will face greater pressure. The scarcity of capital will become more prominent, posing a challenge to the financing ability of banks. The implementation of the MPA system is a challenge and also an opportunity to the banking industry, which will propel the banking industry to accelerate transformation and place more emphasis on rational asset allocation subject to capital constraints to achieve steady development.

Upon the implementation of the MPA system, the Bank has focused on the development of business with low capital consumption such as microcredit, and pushed forward asset securitisation and the circulation progress of various assets and optimised the asset structure with a positive attitude. It also timely supplemented the tier-2 capital bonds of RMB8,000 million to maintain relatively stable operation with a high capital adequacy ratio.

6. *Changes in wealth management business related policies*

In 2017, the CBRC issued a series of notices and guiding opinions including the Notice on Measures Addressing Violations of Laws, Regulations and Internal Compliance Policies in the Banking Industry (《關於開展銀行業"違法、違規、違章"行為專項治理工作的通知》) (Yin Jian Ban Fa [2017] No. 45), the Notice on Regulating the Acts of "Regulatory Arbitrage, Idle Arbitrage and Affiliate Arbitrage" in the Banking Industry (《關於開展銀行業"監管套利、空轉套利、關聯套利"專項治理工作的通知》) (Yin Jian Ban Fa [2017] No. 46), the Notice on Regulating the Acts of 'Inappropriate Innovation, Inappropriate Transaction, Inappropriate Incentive and Inappropriate Fee' in the Banking Industry (《關於開展銀行業"不當創新、不當交易、不當激勵、不當收費"專項治理工作的通知》) (Yin Jian Ban Fa [2017] No. 53) and the Guiding Opinions on Risk Prevention and Control in the Banking Industry (《關於銀行業風險防控工作的指導意見》) (Yin Jian Fa [2017] No. 6) one after another, pursuant to which the regulation on wealth management business was strengthened to push wealth management business back to the origin of the asset management business. The Bank was committed to looking into the impact of the new regulations on the wealth management business and made sure that the wealth management business was in compliance with the regulatory requirements when conducting new business.

II. Analysis of income statement

	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change
			(In RMB million, except percentages)	
Interest income	**26,801.7**	22,602.7	4,199.0	18.6%
Interest expense	**(15,494.2)**	(11,029.4)	(4,464.8)	40.5%
Net interest income	**11,307.5**	11,573.3	(265.8)	-2.3%
Fee and commission income	**2,611.9**	2,571.6	40.3	1.6%
Fee and commission expense	**(167.3)**	(178.2)	10.9	-6.1%
Net fee and commission income	**2,444.6**	2,393.4	51.2	2.1%
Net trading gain/(loss)	**147.7**	(74.4)	222.1	-298.5%
Net gain on financial investments	**237.9**	13.1	224.8	1716.0%
Other operating income/(loss), net	**(4.1)**	266.6	(270.7)	-101.5%
Operating income	**14,133.6**	14,172.0	(38.4)	-0.3%
Operating expenses	**(4,343.5)**	(4,522.2)	178.7	-4.0%
Impairment losses:				
Loans and advances to customers	**(2,078.2)**	(1,857.2)	(221.0)	11.9%
Others	**(583.9)**	(1,437.6)	853.7	-59.4%
Operating profit	**7,128.0**	6,355.0	773.0	12.2%
Share of profits of an associate	**–**	90.6	(90.6)	-100.0%
Profit before tax	**7,128.0**	6,445.6	682.4	10.6%
Income tax expense	**(1,819.1)**	(1,483.4)	(335.7)	22.6%
Net profit	**5,308.9**	4,962.2	346.7	7.0%

In 2017, the Bank recorded profit before tax of RMB7,128.0 million and net profit of RMB5,308.9 million, representing a year-on-year increase of 10.6% and 7.0%, respectively.

Report of the Board of Directors

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

In 2017, the Bank recorded a net interest income of RMB11,307.5 million, representing a year-on-year decrease of RMB265.8 million or 2.3%. 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					
	2017			2016		
	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	**222,743.4**	**13,440.9**	**6.03%**	182,750.1	11,780.8	6.45%
Investments in debt securities[1]	**200,739.1**	**10,649.2**	**5.31%**	151,689.0	7,981.6	5.26%
Cash and balances with the Central Bank	**52,181.4**	**765.5**	**1.47%**	42,553.2	624.9	1.47%
Due from banks and other financial institutions[2]	**33,964.0**	**1,148.7**	**3.38%**	44,130.3	1,372.5	3.11%
Long-term receivables	**16,226.8**	**797.4**	**4.91%**	15,676.6	842.9	5.38%
Total interest-earning assets	**525,854.7**	**26,801.7**	**5.10%**	436,799.2	22,602.7	5.17%

Report of the Board of Directors

	For the year ended 31 December					
	2017			2016		
	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	**329,772.1**	**8,565.3**	**2.60%**	295,638.5	7,296.9	2.47%
Due to banks(3)	**83,605.8**	**3,535.1**	**4.23%**	80,250.2	2,567.3	3.20%
Debt securities issued	**77,966.2**	**3,376.6**	**4.33%**	31,881.3	1,149.0	3.60%
Due to the Central Bank	**654.2**	**17.2**	**2.63%**	637.3	16.2	2.55%
Total interest-bearing liabilities	**491,998.3**	**15,494.2**	**3.15%**	408,407.3	11,029.4	2.70%
Net interest income		**11,307.5**			11,573.3	
Net interest spread(4)			**1.95%**			2.47%
Net interest margin(5)			**2.15%**			2.65%

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.

Report of the Board of Directors

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		
	2017 vs. 2016		
	Increase/(decrease) due to		Net increase/
	Volume[1]	Interest rate[2]	(decrease)[3]
			(In RMB million)
Interest-earning assets			
Loans and advances to customers	2,582.9	(922.8)	1,660.1
Investments in debt securities	2,578.6	89.0	2,667.6
Cash and balances with the Central Bank	141.9	(1.3)	140.6
Due from banks and other financial institutions	(316.2)	92.4	(223.8)
Long-term receivables	29.8	(75.3)	(45.5)
Change in interest income	5,017.0	(818.0)	4,199.0
Interest-bearing liabilities			
Due to customers	845.8	422.6	1,268.4
Due to banks	107.8	860.0	967.8
Debt securities issued	1,658.4	569.2	2,227.6
Due to the Central Bank	0.4	0.6	1.0
Change in interest expense	2,612.4	1,852.4	4,464.8

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.

(II) Interest Income

In 2017, the Bank's interest income increased by RMB4,199.0 million or 18.6% to RMB26,801.7 million year on year. The increase in interest was mainly attributable to the Bank's average balance of interest-earning assets increased by 20.4% from RMB436,799.2 million for the last year to RMB525,854.7 million for 2017 due to the increases in the Bank's loans and advances to customers, investments in debt securities, deposit with the Central Bank and long-term receivables being partially offset by the average yield ratio of the interest-earning assets decreased from 5.17% for the last year to 5.10% for 2017. The decrease in the average yield ratio of the interest-earning assets was primarily the result of a decline in the yield ratio of loans to customers and long-term receivables for 2017.

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

In 2017, interest income from loans and advances to customers increased by RMB1,660.1 million or 14.1% to RMB13,440.9 million year on year, primarily as a result of a 21.9% increase in the average balance of loans and advances to customers being partially offset by a decrease of 0.42 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 supporting the real economy, while the decrease of 0.42 percentage point in the average yield ratio of loans and advances to customers was primarily due to the price-tax separation, the slowdown in economic growth and the deteriorated asset quality.

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					
	2017			2016		
	Average balance	**Interest income**	**Average yield ratio**	Average balance	Interest income	Average yield ratio
				(In RMB million, except percentages)		
Corporate loans	**104,863.1**	**6,126.7**	**5.84%**	96,493.6	5,849.7	6.06%
Personal loans	**117,172.1**	**7,286.5**	**6.22%**	82,972.5	5,790.6	6.98%
Discounted bills	**708.2**	**27.7**	**3.92%**	3,284.0	140.5	4.28%
Total loans and advances to customers	**222,743.4**	**13,440.9**	**6.03%**	182,750.1	11,780.8	6.45%

Report of the Board of Directors

2. *Interest Income from Investments in Debt Securities*

In 2017, Bank's interest income from investments in debt securities increased by RMB2,667.6 million or 33.4% to RMB10,649.2 million year on year. The average yield ratio of the Bank's investment in debt securities slightly increase compared with the same period last year. The increase in interest income was mainly because of a 32.3% increase in the average balance 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.

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

In 2017, interest income from cash and balances with the Central Bank increased by RMB140.6 million or 22.5% to RMB765.5 million year on year, primarily attributable to the increase in deposit leading to a 22.6% growth for the average balance of deposit in the Central Bank.

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

In 2017, interest income from amounts due from banks and other financial institutions decreased by RMB223.8 million or 16.3% to RMB1,148.7 million year on year, primarily attributable to an decrease in the average yield ratio of the asset of 23.0% being partially offset by an increase of 0.27 percentage point in the average yield ratio of the relevant assets. Such decrease was primarily attributable to the Bank's structural adjustment. Against the backdrop of price hike in market capital, resources are allocated to assets with high yields more favourably, whereas the increase in the average yield ratio was attributable to the price hike of market capital.

5. *Interest Income from long-term receivables*

In 2017, interest income from long-term receivables decreased by RMB45.5 million to RMB797.4 million year on year, primarily attributable to the the increasing competition in the finance lease industry.

(III) Interest Expense

In 2017, the Bank's interest expense increased by RMB4,464.8 million or 40.5% to RMB15,494.2 million year on year. The increase in interest expense was primarily attributable to the increase in average cost ratio of the interest-bearing liabilities from 2.70% for 2016 to 3.15% for 2017 and the increase of 20.5% in average balance of the interest-bearing liabilities from RMB408,407.3 million to RMB491,998.3 million. The growth in the average cost of interest-bearing liabilities was mainly attributable to the increase in average cost ratio in customer deposit, interest expense on due to banks, debt securities issued and due to the Central Bank.

1. *Interest Expense on Due to Customers*

In 2017, the Bank's interest expense on due to customers increased by RMB1,268.4 million or 17.4% to RMB8,565.3 million year on year, primarily attributable to an increase in the average cost ratio of the Bank's due to customers from 2.47% for 2016 to 2.60% for 2017 arising from the onset of interest rate liberalisation, increased market competition and significant growth of customers deposit with an increase of RMB34,133.6 million in the average balance from RMB295,638.5 million for 2016 to RMB329,772.1 million for 2017.

	For the year ended 31 December					
	2017			2016		
	Average balance	Interest expense	Average cost ratio	Average balance	Interest expense	Average cost ratio
				(In RMB million, except percentages)		
Corporate deposits						
Demand	**88,185.4**	**606.0**	**0.69%**	79,428.6	616.4	0.78%
Time	**130,420.8**	**5,295.1**	**4.06%**	122,250.9	4,721.7	3.86%
Subtotal	**218,606.2**	**5,901.1**	**2.70%**	201,679.5	5,338.1	2.65%
Personal deposits						
Demand	**34,227.2**	**121.4**	**0.35%**	33,715.8	119.9	0.36%
Time	**76,938.7**	**2,542.8**	**3.30%**	60,243.2	1,838.9	3.05%
Subtotal	**111,165.9**	**2,664.2**	**2.40%**	93,959.0	1,958.8	2.08%
Total deposits from customers	**329,772.1**	**8,565.3**	**2.60%**	295,638.5	7,296.9	2.47%

Report of the Board of Directors

2. Interest Expense on Due to Banks

In 2017, the Bank's interest expense on due to banks increased by RMB967.8 million or 37.7% to RMB3,535.1 million year on year, primarily attributable to an increase in the average cost ratio of the underlying liabilities from 3.20% for 2016 to 4.23% for 2017 and a 4.2% increase in the average balance of underlying liabilities from RMB80,250.2 million for 2016 to RMB83,605.8 million for 2017. The increase in the average balance of the underlying liabilities was mainly due to the Bank's active structural adjustment for increasing liquidity reserves and expanding sources of fund in pursuit of better resources allocation.

3. Interest Expense on Debt Securities Issued

In 2017, the Bank's interest expense on debt securities issued amounted to RMB3,376.6 million, and increased by RMB2,227.6 million or 193.9% as compared to last year, mainly attributable to the Bank's newly issued green financial bonds and the increase of the average balance of the interbank negotiable certificates of deposit.

(IV) Net Interest Spread and Net Interest Margin

In 2017, the Bank's net interest spread decreased from 2.47% for 2016 to 1.95% for 2017. The Bank's net interest margin decreased from 2.65% for 2016 to 2.15% for 2017, mainly attributable to the price-tax separation, 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 2017, the Bank's net fee and commission income increased by RMB51.2 million or 2.1% to RMB2,444.6 million year on year, primarily attributable to an increase in the Bank's bank card fees and other settlement fees as a result of the development of the related businesses.

	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change
		(In RMB million, except percentages)		
Fee and commission income	**2,611.9**	2,571.6	40.3	1.6%
Advisory and consultancy fee	**935.3**	1,100.8	(165.5)	-15.0%
Settlement fee	**112.9**	166.0	(53.1)	-32.0%
Agency and custodian fee	**1,085.5**	1,103.1	(17.6)	-1.6%
Of which: non-principal protected wealth management agency fee	**685.2**	544.2	141.0	25.9%
Bank card fees	**398.9**	132.8	266.1	200.4%
Others	**79.3**	68.9	10.4	15.1%
Fee and commission expense	**(167.3)**	(178.2)	10.9	-6.1%
Net fee and commission income	**2,444.6**	2,393.4	51.2	2.1%

Report of the Board of Directors

In 2017, the Bank's advisory and consultancy fee income reached RMB935.3 million, which decreased by RMB165.5 million or 15.0% year on year.

In 2017, the Bank's settlement fee income was RMB112.9 million, which decreased by RMB53.1 million or 32.0% year on year, mainly as a result of the development of the Bank's settlement business and the adjustment of the corresponding policy of fee.

In 2017, the Bank realised RMB1,085.5 million from agency and custodian fee, with a decrease of RMB17.6 million or 1.6% as compared to last year, mainly as a result of the development of the Bank's agency and custodian business.

In 2017, the Bank realised RMB398.9 million from bank card fees, with an increase of RMB266.1 million or 200.4% year on year, mainly as a result of the increase in number of customers and business activities thanks to the Bank's great effort in expanding the card related intermediary business.

In 2017, the Bank earned RMB79.3 million from other charges and commission, with an increase of RMB10.4 million or 15.1% as compared to last year.

2. *Net trading income or loss*

In 2017, the Bank's net trading income increased by RMB222.1 million or 298.5% to RMB147.7 million year on year, mainly attributable to the increase in interest income and change in the fair value of the financial assets held for trading.

3. *Net gains on financial investments*

In 2017, the Bank's net gains increased by RMB224.8 million or 1,716.0% to RMB237.9 million year on year, mainly attributable to the gain on disposal of long-term equity investments.

4. *Other operating income or loss, net*

In 2017, the Bank's other operating loss decreased by RMB270.7 million or 101.5% to RMB4.1 million year on year, mainly due to the loss from foreign exchange for the year.

Report of the Board of Directors

(VI) Operating Expenses

In 2017, the Bank's operating expenses decreased by RMB178.7 million or 4.0% to RMB4,343.5 million year on year.

	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change
			(In RMB million, except percentages)	
Staff costs	**2,118.9**	2,014.5	104.4	5.2%
Tax and surcharges	**144.7**	468.4	(323.7)	-69.1%
Depreciation and amortisation	**543.9**	528.7	15.2	2.9%
Others	**1,536.0**	1,510.6	25.4	1.7%
Total operating expenses	**4,343.5**	4,522.2	(178.7)	-4.0%

Staff costs are the largest component of the Bank's operating expenses, representing 48.8% and 44.5% of the Bank's total operating expenses for 2017 and 2016, respectively.

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

	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change
			(In RMB million, except percentages)	
Staff costs				
Salaries, bonuses and allowances	**1,643.3**	1,592.5	50.8	3.2%
Social insurance	**220.2**	198.5	21.7	10.9%
Housing fund	**95.7**	84.8	10.9	12.9%
Staff benefits	**129.8**	112.2	17.6	15.7%
Labor Union expenditure and education costs	**19.7**	20.1	(0.4)	-2.0%
Early retirement benefits	**10.2**	6.4	3.8	59.4%
Total	**2,118.9**	2,014.5	104.4	5.2%

In 2017, the staff costs of the Bank increased by RMB104.4 million or 5.2% year on year to RMB2,118.9 million, 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 2017, the Bank had to pay tax and surcharges of RMB144.7 million, with a decrease of RMB323.7 million or 69.1% 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 2017, depreciation and amortisation of the Bank increased by RMB15.2 million or 2.9% year on year to RMB543.9 million, primarily as a result of an increase in the capital cost related to the information technology and the operating offices of the Bank.

In 2017, the Bank's other operating expenses increased by RMB25.4 million or 1.7% year on year to RMB1,536.0 million.

(VII) Impairment Losses

In 2017, the Bank's impairment losses decreased by RMB632.7 million or 19.2% to RMB2,662.1 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			
	2017	2016	Change in amount	Rate of change
			(In RMB million, except percentages)	
Loans and advances to customers	**2,078.2**	1,857.2	221.0	11.9%
Others assets	**583.9**	1,437.6	(853.7)	-59.4%
Total impairment losses on assets	**2,662.1**	3,294.8	(632.7)	-19.2%

(VIII) Income Tax Expenses

In 2017, the Bank's income tax increased by RMB335.7 million or 22.6% to RMB1,819.1 million year on year.

	For the year ended 31 December			
	2017	2016	Change in amount	Rate of change
			(In RMB million, except percentages)	
Current income tax expenses	**2,256.4**	2,155.5	100.9	4.7%
Deferred income tax expenses	**(437.3)**	(672.1)	234.8	-34.9%
Effective income tax expenses	**1,819.1**	1,483.4	335.7	22.6%

Report of the Board of Directors

III. Analysis of key items of financial position

(I) Assets

As at 31 December 2017, the Bank's total assets increased by RMB25,239.0 million or 4.7% to RMB564,255.2 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.

	As at 31 December			
	2017		2016	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Loans and advances to customers, gross	**237,397.8**	**42.1%**	201,627.9	37.4%
Allowance for impairment losses on loans and advances to customers	**(6,751.3)**	**-1.2%**	(5,139.7)	-0.9%
Loans and advances to customers, net	**230,646.5**	**40.9%**	196,488.2	36.5%
Investment in securities and other financial assets, net	**204,493.9**	**36.2%**	192,157.4	35.6%
Cash and balances with the Central Bank	**69,533.2**	**12.3%**	67,010.3	12.4%
Due from banks and other financial institutions	**20,626.1**	**3.7%**	34,000.1	6.3%
Reverse repurchase agreements	**4,775.7**	**0.8%**	14,538.6	2.7%
Other assets	**34,179.8**	**6.1%**	34,821.6	6.5%
Total assets	**564,255.2**	**100.0%**	539,016.2	100.0%

Report of the Board of Directors

1. *Loans and advances to customers*

As at 31 December 2017, the Bank's total loans and advances to customers increased by RMB35,769.9 million to RMB237,397.8 million, representing an increase of 17.7% 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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Corporate loans	**118,477.6**	**49.9%**	95,024.7	47.1%
Personal loans	**118,375.8**	**49.9%**	105,793.3	52.5%
Discounted bills	**544.4**	**0.2%**	809.9	0.4%
Total loans and advances to customers	**237,397.8**	**100.0%**	201,627.9	100.0%

(1) *Corporate loans*

As at 31 December 2017, the Bank's corporate loans increased by RMB23,452.9 million to RMB118,477.6 million, representing an increase of 24.7% 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 the real economy development and promoting the development of SMEs.

Report of the Board of Directors

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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Loans to Small Enterprises [(1)]	**73,049.8**	**61.7%**	61,907.2	65.1%
Other corporate loans excluding loans to Small Enterprises	**45,427.8**	**38.3%**	33,117.5	34.9%
Total corporate loans	**118,477.6**	**100.0%**	95,024.7	100.0%

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 2017, the Bank's loans to small enterprises increased by RMB11,142.6 million to RMB73,049.8 million, representing an increase of 18.0% 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 2017 and 31 December 2016, the Bank's loans to small enterprises accounted for 61.7% and 65.1%, of the Bank's total corporate loans respectively.

(2) Personal loans

As at 31 December 2017, the Bank's personal loans increased by RMB12,582.5 million to RMB118,375.8 million, representing an increase of 11.9% as compared to the end of last year. This increase was mainly attributable to the Bank's continued development of personal loans in 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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Loans to Small Enterprise Owners	**32,841.5**	**27.8%**	26,768.0	25.3%
Personal consumption loans	**75,431.9**	**63.7%**	69,405.1	65.6%
Loans to farmers	**10,102.4**	**8.5%**	9,620.2	9.1%
Total personal loans	**118,375.8**	**100.0%**	105,793.3	100.0%

As at 31 December 2017, loans to small enterprise owners, personal consumption loans and loans to farmers increased as compared to the end of last year, representing an increase of 22.7%, 8.7% and 5.0% respectively.

Report of the Board of Directors

2. *Investment securities and other financial assets*

As at 31 December 2017, the Bank's investment securities and other financial assets increased by RMB12,813.5 million to RMB206,809.0 million, representing an increase of 6.6% as compared to the end of last year. The increase in such assets for 2017 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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Debt instruments classified as receivables	**145,366.6**	**70.3%**	144,193.0	74.3%
Held-to-maturity investments	**27,279.5**	**13.2%**	30,501.0	15.7%
Available-for-sale financial assets	**29,622.8**	**14.3%**	17,597.3	9.1%
Financial assets held for trading	**4,540.1**	**2.2%**	1,704.2	0.9%
Total investment securities and other financial assets	**206,809.0**	**100.0%**	193,995.5	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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Debt investments:				
Bond investments	**60,836.0**	**29.4%**	49,474.6	25.5%
Debt instruments issued by financial institutions (1)	**145,948.4**	**70.6%**	144,496.3	74.5%
Subtotal	**206,784.4**	**100.0%**	193,970.9	100.0%
Equity investment	**24.6**	**0.0%**	24.6	0.0%
Total investment securities and other financial assets	**206,809.0**	**100.0%**	193,995.5	100.0%

Note:

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

As at 31 December 2017, the Bank's investment in debt instruments issued by financial institutions increased by RMB1,452.1 million to RMB145,948.4 million, representing an increase of 1.0% as compared to the end of last year. As a percentage of total investment securities and other financial assets, such investments decreased from 74.5% as at 31 December 2016 to 70.6% as at 31 December 2017.

	As at 31 December			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Government bonds	**14,270.5**	**23.4%**	8,075.1	16.3%
Bonds issued by financial institutions	**13,364.9**	**22.0%**	4,657.6	9.4%
Corporate bonds	**7,729.0**	**12.7%**	3,597.9	7.3%
Bonds issued by policy banks	**25,471.6**	**41.9%**	33,144.0	67.0%
Total bond investments	**60,836.0**	**100.0%**	49,474.6	100.0%

Report of the Board of Directors

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 2017, the Bank's cash and balances with the Central Bank increased by RMB2,522.9 million to RMB69,533.2 million, representing an increase of 3.8% as compared to the end of last year.

As at 31 December 2017, the Bank's due from banks and other financial institutions decreased by RMB13,374.0 million to RMB20,626.1 million, representing a decrease of 39.3% 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 2017, the Bank's financial assets held under reverse repurchase agreements decreased by RMB9,762.9 million to RMB4,775.7 million, representing a decrease of 67.2% 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 2017, the Bank's total liabilities increased by RMB20,165.0 million to RMB521,846.2 million, representing an increase of 4.0% as compared to the end of last year.

	As at 31 December			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Due to customers	**378,258.4**	**72.4%**	343,151.0	68.4%
Due to banks[1]	**36,420.2**	**7.0%**	92,895.8	18.5%
Repurchase agreements	**4,590.0**	**0.9%**	13,694.1	2.7%
Debt securities issued	**91,334.0**	**17.5%**	41,883.4	8.4%
Due to the Central Bank	**521.1**	**0.1%**	507.0	0.1%
Other liabilities[2]	**10,722.5**	**2.1%**	9,549.9	1.9%
Total liabilities	**521,846.2**	**100.0%**	501,681.2	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 2017, the Bank's due to customers increased by RMB35,107.4 million to RMB378,258.4 million, representing an increase of 10.2% 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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Corporate deposits				
Demand deposits	**110,714.3**	**29.3%**	105,653.9	30.8%
Time deposits	**138,792.6**	**36.7%**	130,044.2	37.9%
Subtotal	**249,506.9**	**66.0%**	235,698.1	68.7%
Personal deposits				
Demand deposits	**42,580.8**	**11.2%**	40,145.4	11.7%
Time deposits	**86,170.7**	**22.8%**	67,307.5	19.6%
Subtotal	**128,751.5**	**34.0%**	107,452.9	31.3%
Total due to customers	**378,258.4**	**100.0%**	343,151.0	100.0%

2. *Due to banks*

As at 31 December 2017, the amount due to banks decreased by RMB56,475.6 million to RMB36,420.2 million, representing a decrease of 60.8% 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.

Report of the Board of Directors

3. *Repurchase agreement amounts*

As at 31 December 2017, the Bank's repurchase agreement amounts were RMB4,590.0 million, representing a decrease of RMB9,104.1 million or 66.5% as compared to the end of last year. The changes in the Bank's repurchase agreement amounts reflected decrease 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 2017, the Bank's debt securities issued were RMB91,334.0 million, representing an increase of RMB49,450.6 million or 118.1% as compared to the end of last year, mainly due to the Bank's newly issued green financial bonds and the increase of the balance of the interbank negotiable certificates of deposit.

(III) Shareholders' Equity

As at 31 December 2017, the Bank's total shareholders' equity increased by RMB5,073.9 million to RMB42,408.9 million, representing an increase of 13.6% as compared to the end of last year. As at 31 December 2017, total equity attributable to shareholders of the parent company increased by RMB4,752.7 million to RMB41,260.5 million, representing an increase of 13.0% 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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Share capital	**10,995.6**	**25.9%**	10,995.6	29.5%
Reserves	**16,812.9**	**39.7%**	15,498.1	41.5%
Retained profit	**13,452.0**	**31.7%**	10,014.1	26.8%
Equity attributable to equity holders of the Bank	**41,260.5**	**97.3%**	36,507.8	97.8%
Non-controlling interests	**1,148.4**	**2.7%**	827.2	2.2%
Total equity	**42,408.9**	**100.0%**	37,335.0	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	
	2017	2016
		(In RMB million)
Credit commitments:		
Bank bills acceptance	**58,339.3**	54,883.0
Issued letters of guarantee	**8,778.8**	8,504.7
Issued letters of credit	**6,722.1**	5,460.1
Credit limit of credit card	**9,266.8**	4,152.5
Subtotal	**83,107.0**	73,000.3
Capital expenditure commitments	**771.2**	894.2
Operating lease commitments	**1,128.9**	1,053.3
Treasury bond redemption commitments	**2,740.0**	2,986.0
Relief obligation under risk cooperative fund	**180.0**	180.0
Total	**87,927.1**	78,113.8

In addition, as at 31 December 2017, the amount involved in the significant legal proceedings outstanding with each disputed transaction exceeding RMB10 million against the Group (for itself or as the third party) amounted to RMB69 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.

Report of the Board of Directors

V. Analysis of 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 persistently promoted the in-depth application of internal assessment system in terms of customer rating, access, pricing, quota and post-loan management. The Bank optimised the loan quality management and control mechanism on the principle that the front, middle and back office as well as the headquarters and branches should perform their respective duties and coordinate with each other. The incentive and restriction mechanism was improved. The Bank executed 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 2017, the balance of NPLs was RMB4,037.0 million. The NPL ratio amounted to 1.70%, which increased by 0.17 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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Pass	**226,597.8**	**95.5%**	193,292.7	95.9%
Special mention	**6,763.0**	**2.8%**	5,253.2	2.6%
Substandard	**832.8**	**0.3%**	1,174.2	0.6%
Doubtful	**2,037.1**	**0.9%**	1,398.5	0.7%
Loss	**1,167.1**	**0.5%**	509.3	0.2%
Total loans to customers	**237,397.8**	**100.0%**	201,627.9	100.0%
NPLs and NPL ratio(1)	**4,037.0**	**1.70%**	3,082.0	1.53%

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					
	2017			2016		
	Loan amount	**NPL amount**	**NPL ratio**	Loan amount	NPL amount	NPL ratio
				(In RMB million, except percentages)		
Corporate loans						
Loans to small enterprises	**73,049.8**	**1,392.5**	**1.91%**	61,907.2	1,227.4	1.98%
Other corporate loans excluding loans to small enterprises	**45,427.8**	**323.5**	**0.71%**	33,117.5	288.1	0.87%
Subtotal	**118,477.6**	**1,716.0**	**1.45%**	95,024.7	1,515.5	1.59%
Personal loans						
Loans to small enterprise owners	**32,841.5**	**1,015.2**	**3.09%**	26,768.0	682.5	2.55%
Personal consumption loans	**75,431.9**	**955.1**	**1.27%**	69,405.1	524.7	0.76%
Loans to farmers	**10,102.4**	**350.7**	**3.47%**	9,620.2	359.3	3.73%
Subtotal	**118,375.8**	**2,321.0**	**1.96%**	105,793.3	1,566.5	1.48%
Discounted bills	**544.4**	**–**	**–**	809.9	–	–
Total	**237,397.8**	**4,037.0**	**1.70%**	201,627.9	3,082.0	1.53%

Report of the Board of Directors

In 2017, 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). As at the end of the Reporting Period, the NPL ratio of corporate loans had fallen by 0.14 percentage point to 1.45%, mainly attributable to the Bank's continuous improvement and further implementation of internal assessment system, continuous improvement of internal assessment model in response to the downward trend of economic cycle, the application of third-party data to prevent fraud, the enhancement of system building, regular tracking and monitoring and the application of internal assessment results. The Bank also applied rigorous loan granting thresholds and limit to new customers, enhanced the rigid system control, identified quality customers and tightly controlled the source of risk from the preference of loan granting. Meanwhile, a list of customers categorised by the level of risk was formulated through investigation into each account and monitoring each transaction so as to identify the potential risk of the existing customers. On the basis of different levels of risk, the Bank further adopted differentiated policies and standards on the existing customers, and adjusted the credit structure. The NPL ratio of personal loans increased by 0.48 percentage point to 1.96%. The solvency of some borrowers 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 norm. Default of loans was caused by the weak risk resistance capacity of the small enterprises and individually-owned business in particular. With the Bank's great effort in small loan development, the NPL ratio of the small loan increased due to the downward trend of macroeconomics. Under the accelerating increase in the scale of retail loan business, the Bank adhered to the principle of high pricing for high risk, especially the agricultural loan with higher risk. The NPL ratio was lowered efficiently with 0.26 percentage point dropped for the loans to farmers through specific measures including the change in ways of risk mitigation, customer structure adjustment and in-depth application of targeting internal assessment techniques.

In 2017, the Bank enhanced its sub-divided risk management, adhered to the principle of moderate and prudent risk preference, and adopted customised risk control strategies for the new and existing customers in support of the sustainable development, while establishing additional NPL collection institutions, enhanced cooperation with external institutions and redoubled collection and disposal of overdue loans, thus ensured that loan quality is relatively stable.

The Bank actively responded to the NPL issues of the loans to small enterprise owners and personal consumption loans. Taking into account the features of retail credit business risks, the Bank continuously improved the internal assessment mechanism, further implemented the internal assessment, applied the customer identification techniques in internal assessment, enhanced the rigid control on system, strictly controlled the asset quality threshold for loan to new customers, 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 realise the unification of risk preference and the immediate transmission of policies, continuously enhanced collaborative risk control, carried out big data analysis to monitor risk, imported credit profile, regulatory data and third-party data etc, enriched the alert system with better alert rules and systematic functions to carry out diversified risk analysis, and, at the same time, speeded up the establishment of collateral risk valuation system to carry out pledge risk valuation continuously in conjunction with the Bank's pledge risk categorising system, optimising the guarantee structure and concerning the source of guarantee. The Bank ensured a stable level of asset quality through collaborative, sub-divided and systematic risk control.

Report of the Board of Directors

(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							
	2017				2016			
	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	**3,438.9**	**1.3%**	**105.2**	**3.06%**	2,847.5	1.4%	85.6	3.01%
Mining	**324.9**	**0.1%**	**3.0**	**0.92%**	305.6	0.2%	3.0	0.98%
Manufacturing	**11,612.5**	**4.9%**	**472.3**	**4.07%**	11,604.4	5.8%	337.5	2.91%
Production and supply of electricity, gas and water	**3,588.7**	**1.5%**	**61.0**	**1.70%**	3,892.3	1.9%	–	–
Construction	**6,088.7**	**2.6%**	**80.1**	**1.32%**	4,228.5	2.1%	12.0	0.28%
Transportation, storage and postal services	**3,712.9**	**1.6%**	**20.0**	**0.54%**	1,840.5	0.9%	8.0	0.43%
Information transmission computer services and software	**1,093.0**	**0.5%**	**0.7**	**0.06%**	1,101.5	0.5%	8.9	0.81%
Wholesale and services	**33,717.2**	**14.2%**	**926.9**	**2.75%**	30,356.6	15.0%	962.0	3.17%
Accommodations and catering	**3,375.7**	**1.4%**	**13.9**	**0.41%**	2,511.5	1.2%	61.7	2.46%
Finance	**5.0**	**0.0%**	**–**	**–**	51.3	0.0%	–	–
Real estate	**13,726.7**	**5.8%**	**6.0**	**0.04%**	14,062.8	7.0%	6.0	0.04%
Rental and commercial services	**23,418.9**	**9.9%**	**18.8**	**0.08%**	15,659.5	7.8%	22.4	0.14%
Scientific research, technical services and geological prospecting	**329.9**	**0.1%**	**2.9**	**0.88%**	425.1	0.2%	2.9	0.68%
Water conservation, environment, public utility management and investment	**10,477.6**	**4.4%**	**5.2**	**0.05%**	3,044.8	1.5%	5.5	0.18%
Residential and other services	**490.5**	**0.2%**	**–**	**–**	508.5	0.3%	–	–
Education	**391.7**	**0.2%**	**–**	**–**	384.9	0.2%	–	–
Health, social security and social welfare	**1,143.4**	**0.5%**	**–**	**–**	1,382.3	0.7%	–	–
Culture, sports and entertainment	**1,118.0**	**0.5%**	**–**	**–**	392.1	0.2%	–	–
Public management and social organisation	**423.4**	**0.2%**	**–**	**–**	425.0	0.2%	–	–
Total corporate loans	**118,477.6**	**49.9%**	**1,716.0**	**1.45%**	95,024.7	47.1%	1,515.5	1.59%
Total personal loans	**118,375.8**	**49.9%**	**2,321.0**	**1.96%**	105,793.3	52.5%	1,566.5	1.48%
Discounted bills	**544.4**	**0.2%**	**–**	**–**	809.9	0.4%	–	–
Total	**237,397.8**	**100.0%**	**4,037.0**	**1.70%**	201,627.9	100.0%	3,082.0	1.53%

Report of the Board of Directors

In 2017, the Bank adhered to the microcredit development strategy and intensified its efforts in supporting the 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 2017, the non-performing corporate loans of the Bank concentrated in the wholesale and service industry and the manufacturing industry, with NPL ratio of 2.75% and 4.07%, 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 were 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							
	2017				2016			
	Loan amount	**% of total**	**NPL amount**	**NPL ratio**	Loan amount	% of total	NPL amount	NPL ratio
					(In RMB million, except percentages)			
Heilongjiang region	**94,177.2**	**39.7%**	**2,660.7**	**2.83%**	78,739.3	39.0%	2,098.3	2.66%
Other Northeast region	**44,382.0**	**18.7%**	**323.9**	**0.73%**	30,448.0	15.1%	264.0	0.87%
Southwest region	**48,349.3**	**20.4%**	**584.1**	**1.21%**	41,869.7	20.8%	382.4	0.91%
Northern China	**30,702.7**	**12.9%**	**206.1**	**0.67%**	24,334.0	12.1%	84.8	0.35%
Other regions	**19,786.6**	**8.3%**	**262.2**	**1.33%**	26,236.9	13.0%	252.5	0.96%
Total	**237,397.8**	**100.0%**	**4,037.0**	**1.70%**	201,627.9	100.0%	3,082.0	1.53%

In 2017, the Bank further optimised 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 overdue loans, 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 2017, the majority of the Bank's NPLs 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 a higher default rate.

(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							
	2017				2016			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
	(In RMB million, except percentages)							
Unsecured loans	**35,684.0**	**15.1%**	**739.1**	**2.07%**	39,507.5	19.6%	574.3	1.45%
Guaranteed loans	**64,445.8**	**27.1%**	**1,294.0**	**2.01%**	50,186.4	24.9%	975.5	1.94%
Collateralised loans	**107,534.8**	**45.3%**	**1,928.7**	**1.79%**	95,661.8	47.4%	1,457.6	1.52%
Pledged loans	**29,733.2**	**12.5%**	**75.2**	**0.25%**	16,272.2	8.1%	74.6	0.46%
Total	**237,397.8**	**100.0%**	**4,037.0**	**1.70%**	201,627.9	100.0%	3,082.0	1.53%

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 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 collateralised 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. 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. During the Reporting Period, the NPL ratio of pledged loans decreased to 0.25%. Although the NPL ratio of unsecured loans increased by 0.62 percentage point to 2.07%, the total loan ratio decreased thanks to the rigorous loan granting thresholds for unsecured loans, ensuring the overall asset quality.

Report of the Board of Directors

(VI) Concentration of Borrowers

As of 31 December 2017, 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 2017, 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 2017		
	Industry	Loan balance	% of Total loans	% of Net capital
		(In RMB million, except percentages)		
Borrower A	L- Leasing and business services	1,600.0	0.67%	3.06%
Borrower B	K- Real estate	1,505.9	0.63%	2.88%
Borrower C	K- Real estate	1,086.0	0.46%	2.08%
Borrower D	H- Wholesale and services	1,000.0	0.42%	1.91%
Borrower E	F- Transportation, storage and postal services	999.5	0.42%	1.91%
Borrower F	K- Real estate	990.0	0.42%	1.89%
Borrower G	H- Wholesale and services	958.0	0.40%	1.83%
Borrower H	N-Water conservation, environment and public utility management	890.0	0.37%	1.70%
Borrower I	H- Wholesale and services	850.0	0.36%	1.62%
Borrower J	K- Real estate	800.0	0.34%	1.53%
Total		10,679.4	4.49%	20.41%

(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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Current loans	**228,069.2**	**96.1%**	194,341.1	96.4%
Loans past due:[1]				
For 1 to 90 days	**4,684.4**	**2.0%**	4,074.5	2.0%
For 91 days to 1 year	**2,001.9**	**0.8%**	1,549.0	0.8%
For 1 year and above	**2,642.3**	**1.1%**	1,663.3	0.8%
Subtotal	**9,328.6**	**3.9%**	7,286.8	3.6%
Total loans to customers	**237,397.8**	**100.0%**	201,627.9	100.0%

Note:

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

As at 31 December 2017, the amount of overdue loans totaled RMB9,328.6 million, which increased by RMB2,041.8 million as compared to the end of last year; the overdue loans accounted for 3.9% of the total loans, which increased by 0.3 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 50.2%. 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 had 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 1.15.

Report of the Board of Directors

(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 2017, impairment losses on loans amounted to RMB6,751.3 million, which increased by RMB1,611.6 million as compared to the end of last year. The impairment losses on loans ratio was 2.84%, which increased by 0.29 percentage point as compared to the end of last year.

Movements of allowance for impairment losses are as follows:

	As at 31 December	
Items	**2017**	2016
		(In RMB million)
Balance at the beginning of the period	**5,139.7**	3,613.3
Exchange difference	**(4.0)**	5.0
Impairment loss:	**2,078.2**	1,857.2
Impairment allowances charged	**2,194.8**	1,912.3
Reversal of impairment allowances	**(116.6)**	(55.1)
Accreted interest on impaired loans	**(79.2)**	(97.8)
Write-off	**(424.4)**	(341.4)
Recoveries of loans and advances previously written off	**41.0**	103.4
Balance at the end of the period	**6,751.3**	5,139.7

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, HBCF 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.

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 2017						
Operating income	9,600.4	1,247.1	1,955.6	908.3	422.2	14,133.6
Operating expenses	(2,972.5)	(374.2)	(573.5)	(244.4)	(178.9)	(4,343.5)
Impairment losses	(1,880.6)	(181.9)	(353.9)	(188.5)	(57.2)	(2,662.1)
Operating profit	4,747.3	691.0	1,028.2	475.4	186.1	7,128.0
As of 31 December 2017						
Segment assets	420,583.7	46,161.3	53,916.0	30,842.5	12,751.7	564,255.2
Segment liabilities	335,427.8	55,803.1	64,660.0	54,487.1	11,468.2	521,846.2

	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 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

Report of the Board of Directors

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			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Heilongjiang region	**9,600.4**	**67.9%**	9,595.8	67.7%
Other regions in Northeast China	**1,247.1**	**8.8%**	1,181.7	8.3%
Southwest region	**1,955.6**	**13.9%**	2,180.7	15.4%
Northern China	**908.3**	**6.4%**	825.3	5.8%
Other regions	**422.2**	**3.0%**	388.5	2.8%
Total operating income	**14,133.6**	**100.0%**	14,172.0	100.0%

(II) Business Segment Report

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

	For the year ended 31 December			
	2017		2016	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Corporate finance business	**4,050.7**	**28.7%**	4,838.0	34.1%
Retail finance business	**4,540.3**	**32.1%**	4,189.3	29.6%
Financial institutions business	**5,068.4**	**35.8%**	5,048.3	35.6%
Other businesses(1)	**474.2**	**3.4%**	96.4	0.7%
Total operating income	**14,133.6**	**100.0%**	14,172.0	100.0%

Note:

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

Report of the Board of Directors

VII. Analysis of Capital Adequacy Ratio

The Group continued to optimise its business structure and strengthen capital management, and as at 31 December 2017, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.72%, 9.74% and 12.25%, which increased by 0.38 percentage point, 0.39 percentage point and 0.28 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 increase in capital adequacy ratio were mainly due to the increase in net profit realised partially offset by the increase in risk-weighted assets.

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	
	2017	2016
	(In RMB million, except percentages)	
Core capital	**41,694.4**	36,999.9
Core Tier 1 Capital deductible items:		
Full deductible items	**(166.7)**	(158.8)
Net core tier 1 capital	**41,527.7**	36,841.1
Net other tier 1 capital	**57.9**	43.3
Net tier 1 capital	**41,585.6**	36,884.4
Net tier 2 capital	**10,735.9**	10,343.0
Net capital	**52,321.5**	47,227.4
Credit risk-weighted assets	**395,691.1**	367,765.6
Market risk-weighted assets	**6,263.9**	4,189.9
Operational risk-weighted assets	**25,103.3**	22,659.5
Total risk-weighted assets	**427,058.3**	394,614.9
Core tier 1 capital adequacy ratio	**9.72%**	9.34%
Tier 1 capital adequacy ratio	**9.74%**	9.35%
Capital adequacy ratio	**12.25%**	11.97%

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) 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. The Bank is 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 2017, the Bank 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 Bank recorded a profit before tax of RMB2,362.4 million (accounting for 33.1% of profit before tax of the Bank) and operating income of RMB4,540.3 million, representing a year-on-year increase of 8.4% and accounting for 32.1% of the operating income of the Bank.

Retail customers

Facing new trends in economy, the Bank has always been paying attention to the improvement of customer service, customer need on a diversified finance and the establishment of online to offline channels through the Internet in order to comprehensively enhance retail customers' experience and establish a comprehensive new retail finance service system. As of 31 December 2017, the Bank has 10,765,700 retail deposit customers, representing an increase of 2,442,500 or 29.4% year on year. The number of customers with personal financial assets (in RMB and other currencies) over RMB50,000 amounted to 520,200, representing an increase of 16.7% as compared to last year.

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 2017, the total retail deposits of the Company amounted to RMB128,751.5 million, representing an increase of RMB21,298.6 million or 19.8% from the end of last year. The average balance of retail deposits amounted to RMB111,165.9 million, representing an increase of RMB17,206.9 million or 18.3% as compared with last year. Demand deposits accounted for 33.1% 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 14.0% during the Reporting Period.

Report of the Board of Directors

Retail loans

During the Reporting Period, upholding its special development concept of "microcredit", retail loan business focused its efforts into three markets, namely occupying the consumer finance market, consolidating the small and micro enterprise market and expanding the rural finance market, and leveraged its advantages in the comprehensive contribution of retail loans to contribute for the Bank's brand and value. By applying the concept of big data and mobile internet, and exploring the existing customers and by connection with third-party platforms, it achieved the operation model of "touch the net" and conducted precision marketing to secure a huge number of customers. The Bank formulated a "full life cycle" product upgrading management mechanism and put more effort into the upgrading of "White-collar Loans (白領貸)", "Harvest E-Loan (豐收e貸)", "Medical Loan Tong (醫貸通)" and other retail products. It also had a trial on the mobile credit model and created the new experience of "Internet +". The Bank optimised the independent approval mechanism and deepened the application of retail internal assessment results in the whole process. It also established a dynamic optimisation and adjustment mechanism of credit scoring and decision making engine. The mechanism introduced third-party data to strengthen the ability of anti-fraud and risk prevention and control, identification, early warning, which in turn further improved the risk management and control capabilities of the retail loan business of the Bank. As at 31 December 2017, the balance of the Bank's personal loans reached RMB118,375.8 million, accounting for 49.9% 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 RMB32,841.5 million, RMB75,431.9 million and RMB10,102.4 million, respectively, and accounted for 27.8%, 63.7% and 8.5%, respectively, of the Bank's total personal loans. During the Reporting Period, featured retail products, Harvest E-Loan and Medical Loan Tong, received the "Top Ten Internet Finance Innovation Awards (十佳互聯網金融創新獎)" and the "Top Ten Innovative Financial Products Awards (十佳金融產品創新獎)", respectively, in the award ceremony of the "2017 China Financial Innovation Award" organised by the Chinese Banker. Thanks to its outstanding performance in rural finance reform development, transformation and innovation, the Company also received the "2016 Top Ten Innovative Institutions for Rural Financial Brand of China (2016全國農村金融十佳品牌創新機構)" in the "Seventh Value Ranking of Rural Financial Brands in China" award ceremony jointly organised by the China Co-operation Times Agency, the China Finance, Financial Brand Institute of Central University of Finance and Economics, China Association of Microfinance and Rural Commercial Bank Development Alliance.

Bank cards

During the Reporting Period, the Bank basically completed the construction of the credit card business system and management structure with rapid business development. As at 31 December 2017, the total number of issued credit cards reached 502,400, representing an increase of 77.1% as compared to last year, of which 218,700 were newly issued during the Reporting Period, representing an increase of 104.7% as compared to the same period of last year. The credit card asset balance amounted to RMB7,535 million, representing an increase of 190.12% as compared to the end of last year. Such increase was mainly because the Bank consistently emphasised on the innovation and optimisation of credit card products and developed specific products and services with respect to customers' needs, preference and interests with a customer-oriented attitude. At the same time, the Company conducted various marketing campaigns on its credit cards and went further on the collaborative marketing with its branches by focusing on the "Year of Collaborative Development" activities. All these acts achieved remarkable results in the market. As at 31 December 2017, the number of debit cards issued by the Bank recorded a steady increase. The total number of issued debit cards reached 13.4277 million, of which 3.2253 million were newly issued during the Reporting Period, representing an increase of 31.61% as compared to last year.

Report of the Board of Directors

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 2017, the Bank recorded total sales of personal wealth management products of RMB205,413 million, representing an increase of 21% as compared with last year, sales of funds of RMB12,344 million, representing an increase of 2,246.77% as compared with last year and retail management fee and commission of RMB129.2 million, representing an increase of 62.98% as compared with last year.

(II) Corporate Finance Business

In 2017, centring on the work theme of "Year of Collaborative Development" and a development philosophy of transforming corporate finance business into an investment banking, the Bank accelerated transformation and adjustment and further optimised business development with quick planning on business layout. By further improving its financial product structure and enhancing the comprehensive contribution and professionalism of its financial business, the Bank facilitated the balanced development among assets, liabilities and intermediary services and strived to establish a business development layout focusing on "small assets, low cost, good liquidity, high yield".

During the Reporting Period, the corporate finance business of the Bank recorded profit before tax of RMB1,792.1 million (accounting for 25.1% of profit before tax of the Bank) and operating income of RMB4,050.7 million (representing a decrease of 16.3% as compared to last year and accounting for 28.7% of operating income of the Bank).

Corporate customers

By leveraging the Bank's strengths in 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 2017, the Bank had 102,100 corporate customers.

In developing customers' base, the Bank strived to achieve through focused development, resources consolidation and opening up internal barriers, and realised customers' comprehensive values and further developed the quality customers in quality industries to lay a foundation for its development. Focusing on customers, the Bank kept on enhancing its five major professional capabilities of "stratified customer management, customised comprehensive services, innovative product system, precision marketing and unified risk management" to further optimise and upgrade its key products and enhance its services, so as to drive the continuous expansion of core customer base. In addition, according to the key areas and key industry layout and taking the supply chain as the core, the Bank expanded into a core customer base with high profitability, achieving the precision marketing and full-cycle financial services management to core customers.

Report of the Board of Directors

Corporate deposits

During the Reporting Period, the Bank further strengthened the cooperation between banks and government authorities and made active responses to the settlement requirements for government funds. The Bank successfully introduced the bank settlement application for housing fund of the Ministry of Housing and Urban-Rural Development, the non-tax electronic system and treasury centralised payment system. It also became qualified for national, provincial and municipal treasury cash management, non-tax income collection and payment, the membership of an underwriting group of government bond, and a regulatory role of the funds for presale of commodity housing. At the same time, the Bank also organised a variety of marketing activities for deposits. The effect was remarkable. As at 31 December 2017, the total corporate deposits of the Bank amounted to RMB249,506.9 million, representing an increase of RMB13,808.8 million or 5.9% from the end of last year. The average balance of corporate deposits of the Company amounted to RMB218,606.2 million, representing a year-on-year increase of 8.4%. Demand deposits accounted for 44.4% 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 17.5% of corporate deposits in the local market, ranking the first in the local market.

Corporate loans

During the Reporting Period, as per the principle of "focusing on the principal business and being back to the original business", the Bank put more effort into supporting the real economy while giving specific support to livelihood projects, infrastructure construction and green industry projects. The Bank actively participated in the areas supported by national policies such as mixed ownership reform of state-owned enterprises, optimised the allocation of credit resources, improved the efficiency of granting loans and steadily increased the amount of loans granted to enterprises, so the basic asset management was significantly improved. As at 31 December 2017, the corporate loans of the Bank amounted to RMB118,477.6 million, representing an increase of 24.7% from the end of last year and accounting for 49.9% of total loans of the Bank. Meanwhile, the quality of corporate loan assets was under control in general with the balance of NPLs at RMB1,716.0 million and NPL ratio of 1.45%.

Intermediary services

During the Reporting Period, the Bank continued to strengthen its management of the intermediary services and enhance and upgrade its intermediary services products, and was committed to fully enhance customer experience by means of scenario-based services. By pushing forward cash management, agent collection and payment, bills pool business and the construction of the relevant ancillary systems, the Bank provided various value-added services to customers, established a diversified business development layout and fully enhanced its market competitiveness and profitability.

During the Reporting Period, the corporate finance business of the Bank recorded non-interest income of RMB554.5 million, representing a year-on-year decrease of 13.7%.

Report of the Board of Directors

(III) Financial Market Business

During the Reporting Period, the Company adhered to the principles of "back to the original business structure optimisation, strengthened management and market orientation" and conduct business in compliance with new trends in regulations. It focused on the financial market, asset turnover and asset management. The Bank's interbank finance business launched standardised products again and made great efforts to serve the real economy, thus increasing the value contribution of the interbank business. The successful issuance of the green finance bonds amounted to RMB5 billion in 2017 brought the Company a long-term stable low-cost source of capital.

During the Reporting Period, the interbank finance business of the Bank recorded operating income of RMB5,068.4 million, representing a year-on-year increase of 0.4% and accounting for 35.8% of operating income of the Bank.

Currency market transactions

During the Reporting Period, the domestic macroeconomic environment continued to face greater downward pressure. Affected by the change in the monetary policy stance of the PBOC and stricter regulatory policies, the capital market was in a tight balance for a long time. With an overall higher cost of capital and the higher pressure on capital adequacy of financial institutions, the Bank sought to smoothen capital maturity, and proactively participated in the open market operations of the PBOC, while strictly fulfilling all the obligations as the primary dealer in the open market business of the PBOC, and proactively provided capital support and financial services to small and medium financial institutions in response to the execution of regulatory monetary policies and liquidity allocation. In addition, the Bank continuously expanded its financing channels in the currency market in order to minimise its cost of capital to the most extent while ensuring safe liquidity, realising stable growth in income and higher profitability.

As at 31 December 2017, 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 RMB25,401.8 million, representing a decrease of RMB23,136.9 million or 47.7% from the end of last year. As of the same date, the balance of our due to and placement from banks and balance of financial assets sold under repurchase agreements was RMB41,010.2 million, representing a decrease of RMB65,579.7 million or 61.5% 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 scale of its bond investments in a flexible manner, properly arranged the timing for making investment, and effectively optimised its investment portfolio, aiming to achieve stable operation and timely investment. Meanwhile, in strict and timely compliance with the regulatory policies, the Bank stayed cautious in risk control and the commencement of businesses in securities and other financial assets.

As at 31 December 2017, the Bank's balances of securities investments and other financial assets amounted to RMB206,809.0 million, representing an increase of RMB12,813.5 million or 6.6% as compared to the end of last year. As at 31 December 2017, the total amount of the Bank's bond investments was RMB60,836.0 million, representing an increase of RMB11,361.4 million or 23.0% from the end of last year. As of the same date, the total amount of the Bank's debt instruments issued by financial institutions amounted to RMB145,948.4 million, representing a year-on-year increase of RMB1,452.1 million or 1.0%. According to China Central Depository & Clearing Co., Ltd., the bonds traded by the Bank in 2017 amount to RMB5,826.1956 billion, representing 1.4 times the volume for the same period of last year.

Investment banking business

According to its transformation development strategy and annual innovation planning, the Bank conducted research and development on the products in key areas and business innovation projects. It conducted research and development on a number of key products that "have customers, transactions, profits and influence" and put them into operation, among them, new financing products such as direct financing tools for wealth management and debt financing plan of Beijing Financial Assets Exchange provided direct financing tools for customers, which satisfied the different financing needs of customers and enriched the Bank's comprehensive services and product system to the medium and large customer groups.

The Bank completed 12 industry funds projects with an aggregate size of RMB9,600 million. During the year, the industry funds had an additional subscription of RMB3,520 million with zero NPL. With respect to cross-border cooperation, the Bank entered into cooperation with Vnesheconom Bank and Sberbank of the Russian Federation for 4 funds denominated in US dollars with an aggregate size of US$1,000 million, and entered into relevant contracts as witnessed by the Minister of Economic Development of the Russian Federation and the key provincial and municipal leaders during the 4th China-Russia Expo. The Bank had 28 enterprises for collaboration business of investment and lending with zero NPL. The investee companies sustained good development. Two of them had commenced listing consultation, and 12 of them completed listing on the National Equities Exchange and Quotations. Series of products such as "Investment-linked Loans (投聯貸)" were launched to further consolidate the business. The Bank had henceforth formed the most comprehensive product system for collaboration of investment and lending in Northeastern China, which was highly received and praised by the provincial and municipal governments, the regulatory authorities and the public.

Report of the Board of Directors

The Company entered into a strategic cooperation with Zhongke Construction, a first grade enterprise of the state, to provide comprehensive financial services including corporate finance, settlement of transactions and personal finance for Chinese Academy of Sciences and the companies under Zhongke Construction. This was an important move and exemplar for the Company to secure high-quality customers with equity investment and serve strategic customers with comprehensive financing solutions for equity, bonds and loan integration. The Company also cooperated with the Silk Road Planning Research Center of the National Committee of the Chinese People's Political Consultative Conference and the International Cooperation Center of the National Development and Reform Commission, and participated in the promotion of the Silk Road Business and International Financial Alliance (絲路產業與金融國際聯盟) and became a standing council member.

In respect of interbank business, in strict compliance with the risk control standards and adhering to the investment strategies for steady growth and proactive adjustment, the Bank made use of financial tools to circulate assets through the Banking Credit Assets Registration and Circulation Center in compliance with law, and has listed assets of RMB12,700 million for circulation, which made contribution to adjusting credit volume, realising regulatory compliance and saving comprehensive cost.

Paying close attention to the changes in economic environment and market, the Bank played a role in the capital market as appropriate, made timely arrangements of investment and raised investment in securities and other financial assets to an appropriate extent so as to improve the efficiency of using funds for robust investment and making profit in a timely manner. At the same time, the Company strengthened the communication and exchange with the Sino-Russia Financial Council and invested RMB160 million into the panda bonds of United Company RUSAL. CICC was the lead underwriter of the panda bonds. This was the first panda bonds invested by the Company, thus further enriching the varieties of bond investment of the Company.

Wealth management business

The Bank proactively responded to the macro-policy direction of the state, and strictly complied with relevant rules of regulatory authorities. Taking satisfying customers' demand on wealth management and supporting the real economy development as the basic starting point, the Bank maintained robust development of the wealth management business. During the Reporting Period, the Bank issued 907 tranches of wealth management products to its customers, and raised total funds of RMB279,870 million, representing a year-on-year increase of 20.6%. As at the end of the Reporting Period, the balance of wealth management products was RMB164,548 million, representing an increase of 37.4% from the end of last year, of which non-principal protected wealth management products amounted to RMB67,308 million and principal protected wealth management products amounted to RMB97,240 million.

In 2017, the exceptional performance of the Bank's wealth management business was highly recognised by the market. The Company received awards in a number of awards selection, including the "2017 Most Trustworthy Wealth Management Bank (2017年最值得信任的財富管理銀行)" from the Investor Journal, the "2017 National Banking Industry Wealth Management Information Registration Outstanding Units (16 Companies)" from the China Banking Wealth Management Registration & Depository Center, the "2017 Ice City Trustworthy Wealth Management Bank (2017冰城大眾信得過理財銀行)" from the Modern Evening Times and the "Best Progress Award" of the Interbank RMB Market in 2017. It was also nominated for the "2017 Top 300 Dealers in the Interbank RMB Market".

Asset custody services

The asset custody services of the Company focused on the source of funds, accurately grasped the direction of the custody market and promoted the all-round rapid development of the asset management business. During the Reporting Period, the assets under custody of the Company amounted to RMB50,011 million, representing a growth of 184.6% from last year, in which the trust under custody grew by 176.4% to RMB42,418 million, and the private equity fund under custody grew by 106.5% to RMB4,587 million.

During the Reporting Period, the Company introduced Internet finance capital custody business to provide depository services for Internet finance platforms such as online lending platforms with potential for sustainable development, financial asset exchanges and consumer finance institutions, among which three of them entered into formal depository agreements and four of them entered into letters of intent with systems linked with the Bank. As at the end of the Reporting Period, the Internet finance capital under custody of the Company amounted to RMB3,006 million. Guided by the development trend of Internet finance and based on the regulatory policy framework, the Company actively expanded its Internet finance capital depository business by selecting high quality platforms as partners for cooperation to achieve mutual development and supporting regulation in order to safeguard a safe and sound Internet finance environment together. At the same time, the Company carried out intensive promotion on its trust custody business and private equity investment fund custody business and further improved its service quality and standard, continuously optimised functions of its system and enhanced business operation.

Report of the Board of Directors

(IV) Key Featured Businesses

1. *Microcredit business*

In 2017, the Bank continued to implement the development strategies for microcredit business. Centering on the work theme of "Year of Collaborative Development", specialised operating departments including the Retail Credit SBU, the Microfinance SBU, the Consumer Finance SBU and the Small Enterprise Finance SBU had 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 2017, the balance of the Bank's microcredit loans reached RMB191,425.6 million, representing an increase of 14.1% from the end of last year and accounting for 80.6% of the Bank's total loans to customers. The interest income from the Bank's microcredit business was RMB9,435.5 million for 2017, accounting for 70.2% 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 2017		As at 31 December 2016	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Corporate loans to small enterprises	**73,049.8**	**38.2%**	61,907.2	36.9%
Personal loans	**118,375.8**	**61.8%**	105,793.3	63.1%
Total balance of microcredit loans	**191,425.6**	**100.0%**	167,700.5	100.0%

Small and micro enterprise finance business

During the Reporting Period, the Bank proactively commenced product and service innovation for small and micro enterprise finance business. Centring on our customers, the Bank abided by the strategy of "moderate and prudent operation" with centering "enhancing the brand value". Seizing the opportunity of the 20th anniversary of Harbin Bank, the Bank comprehensively implemented internal and external collaborative development, promoted product innovation, enhanced our marketing guidance and strengthened risk management, and actively promoted healthy development of the small and micro enterprise finance business and the brand.

During the Reporting Period, the Bank promoted product innovation, optimisation and upgrade, actively carried out national policies and ceaselessly satisfied customers' demand. With a focus on national policies, the Bank, with increased efforts into collaboration and interaction between banking and taxation, creatively launched the "Easy Loans for Tax (稅信易貸)" business; focusing on customer's demand, the Bank optimised and upgraded "Liquidity Loan for Small Enterprises (小企業流動貸)" and "Housing Loan for Small Enterprises (小企業惠房貸)", actively innovated the risk management model for micro-loan products and formulated customised strategies aiming at target customers. In addition, the Bank continued to provide greater support for technology and cultural enterprises, and worked to promote collaborated projects for investment and lending, formulated innovative guarantee methods, strengthened collaboration between the headquarters and branches and launched the "Innovative Co-loan (科創跟貸)" model while actively exploring new business models for the collaboration between investment and lending.

During the Reporting Period, the Bank closely followed the economic trend and 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, strengthened the overdue loans risk monitoring and explored and analysed risks and customer features. It implemented multi-dimensional supervision system and leveraged internal systems to manage, discover and analyse off-site data, thus discovering risk alert in a timely manner and achieving dynamic risk alert management, maintaining the quality of small and micro enterprise business loans at an excellent level. Meanwhile, business operations engaging in technology and intelligence were actively augmented so as to effectively elevate the precision of internal management and business operation and to promote technical upgrades for small and micro credits.

During the Reporting Period, the Bank smoothly proceeded with the construction of a talent team for small and micro enterprise finance business, enhanced personnel training, optimised appraisal mechanism, improved the overall quality of our staff and established a professional and high-level small and micro-credit team.

As at 31 December 2017, the Bank's loans to small and enterprises increased by RMB73.0498 billion, representing an increase of 18.0% as compared to the end of last year. The balance of NPLs for the small and micro enterprise finance business was RMB1.3925 billion and the NPL ratio was 1.91%.

In 2017, due to the Bank's outstanding performance in small and micro 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) and Outstanding Service Agency Supporting the Development of China's SMEs (支持中國中小企業發展優秀服務機構獎) awarded by the Heilongjiang Association of SMEs (黑龍江省中小企業協會) and the Accreditation Committee of Innovation Achievements of Heilongjiang Enterprises (黑龍江企業創新成果審定委員會).

Report of the Board of Directors

Consumer finance business

During the Reporting Period, the Bank rigorously carried out the philosophy of "Inclusive Finance" by establishing an all-rounded comprehensive consumer finance service (product) system, and provided microcredit finance services for household consumption to middle-and low-income individuals or families. The Bank adhered to the principle of product innovative development and facilitated the incorporation of big data internet technology into its traditional financial services, to significantly boost the consumer finance business. By accumulating and exploring original data, internal and external cross-sale and interactive marketing were explored to expand the depth and width of inclusive financial services. The Bank managed to control 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 proactively responded to the national policies. By collaborating with the excellent Shenzhen Qianhai WeBank and launching personal microcredit and loan business, it actively explored online consumer financial services, and expedited the process of offline businesses going online, thus further characterising the financial scenario modelling, digitisation and information sharing.

As at 31 December 2017, the Bank had launched consumer finance business in several cities across China with the balance of personal consumption loans amounting to RMB75,431.9 million, representing an increase of 8.7% from the end of last year, of which the amount of personal housing was RMB19,078.0 million representing an increase of 35.9% as compared to the end of last year.

2. *Sino-Russia financial services*

During the Reporting Period, the Company continued to claim the Sino-Russia financial services as one of its bank-wide strategies by leveraging the advantages in financial resources of the Sino-Russia finance, and the Bank thus maintained its leading position in Sino-Russia financial services among its domestic peers. In 2017, the Bank's financial services to Russia generated operating income of RMB182.5 million; and operating profit of RMB137.5 million. The Bank's balance of on-balance sheet and off-balance sheet asset businesses to Russia was RMB11,490 million, representing an increase of RMB2,736 million or 31.25% from the same period last year. The Bank handled Rouble foreign exchange of RUB57,568 million and cross-border transactions in Rouble cash of RUB10 million.

In 2015, the Bank, as the Chinese promoter and the presiding company, 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, 6 Chinese or Russian institutions had become new members, and the number of members grew to 68 from the 35 founding members.

During the Reporting Period, the Bank organised or participated in 3 international commercial events. The first one was arranging 11 Chinese members in the council to participate in the 21st St. Petersburg International Economic Forum as representatives. In the forum, the council representatives participated in the general meeting of Putin, President of Russia, and leaders of various countries and established connection with financial institutions including Sberbank of Russia, Vnesheconom Bank and Russian Agricultural Bank as well as the government of St. Petersburg, which enhanced the international reputation and influence of the Company and the council. The second one was a successfully convening of the 3rd General Meeting of Sino-Russia Financial Council. The meeting was included in the important official agenda of the 4th China-Russia Expo. Over a hundred of council members and representatives of Chinese and Russian enterprises participated in the meeting. The meeting fully explored the potential of council cooperation in higher perspective, deeper level and broader scope to achieve complementation of advantages and laid a solid foundation for the future development of the council. The third one was participating in the 18th conference of the Sub-Committee for Financial Cooperation of the China-Russia Prime Ministers' Regular Meeting a (中俄總理定期會晤委員會金融合作分委會) as one of the city commercial bank representatives, serving as an important link to the Sino-Russia financial cooperative and innovative development.

Report of the Board of Directors

During the Reporting Period, the RMB10,000 million syndication interbank loan business led by the Bank (also as the correspondent bank) and co-launched with the Bank for Development and Foreign Economic Affairs in Russia achieved its first withdrawal of RMB50 million, marking the official implementation of the most influential cross-border interbank syndicated cooperation between Chinese and Russian financial institutions with the largest number of participants and the largest scale. It also participated in the US$500 million cross-border syndicated interbank loan business of Credit Bank of Moscow, the third largest private bank in Russia, which deepened the cooperation between the Bank and the banks in core regions in Russia with respect to asset business. The Bank successfully invested in the panda bond issued by a Russian company along the "Belt and Road"; and executed an All-round Strategic Cooperation Agreement with Harbin New Area, the only state-level new area with the theme of Sino-Russia cooperation. As at 31 December 2017, the total credit granted by the Bank to Russian banks amounted to approximately RMB10,174 million; and the number of overseas correspondent banks reached 496, including 140 correspondent banks in Russia. The Bank became one of the banks with the largest number of Sino-Russia correspondent banks in China, signifying an important role for the development of Chinese and Russian financial cooperation. The Bank actively cooperated and interacted with its correspondent banks in respect of international business, risk prevention measures involving anti-money laundering and anti-terrorism, as well as regional economic exchange.

During the Reporting Period, the product "Syndicated Loans to Russia (俄易融)" of the Bank was awarded the Top Ten Innovative Financial Products Awards under 2017 China Financial Innovation Award selected by the Chinese Banker; and the Bank was also selected as the "2017 Best Regional Cash Management Bank in China" by The ASIAN BANKER, demonstrating the leading position of the Bank in Sino-Russia financial services.

Cross-border E-commerce payment and settlement

The cross-border E-commerce payment and settlement of the Bank is proactively expanding its national market and en route to a healthy development, with stronger impact of its e-commerce brand and a greater market share in China's interbank market. As of 31 December 2017, the existing customers in the platform reached 1,660, representing an increase of 209% year on year; a total of 9.17 million transactions amounting to RMB4,000 million were processed for cross-border e-commerce payment and settlement platform, representing an increase of 19.4% year on year. The platform accounted for over 13% 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 from the intermediary business amounted to RMB42.07 million. Meanwhile, the cross-border E-commerce payment platform continued to be included under the management of the Major Construction Project Repository of the National Development and Reform Commission as a major construction project of "the Belt and Road Initiative", and was a Major Project for Heilongjiang Luhai Silk Road Economic Belt as selected by the Heilongjiang Provincial Government. By virtue of the outstanding performance and brand influence of the Company in cross-border e-commerce payment, the Bank received the 8th Golden Tripod Awards: Excellent Transaction Bank for the Year.

3. Modern agriculture finance business

During the Reporting Period, the Bank adhered to the direction of emphasis of the national strategy on developing inclusive finance, complied with the policy requirements of further reform agriculture supply, seized the strategic opportunity of all-round development of modernised agriculture, committed itself to the financial service philosophy of serving the "Agriculture, Rural Areas and Farmers" with integrity and sincerity and soundly advanced relevant businesses. The Bank aimed to establish a "new-type agricultural business entity" product system encompassing professional large-scale agriculture entities, family farms, farmers' professional cooperative and leading agriculture enterprises and continue to financially support further intensified operation of rural regions and agriculture modernisation in the land-reclaimable areas. It actively explored the online new-type agriculture loan business of "Internet+Agriculture, Rural Areas and Farmers" with products including "Harvest E-Loan" and Chu Bao Tong (畜保通), pioneering in the trial on collateral provision based on "Two Rights" or "livestock", effectively providing liquidity to the rural stock assets (Harvest E-Loan was awarded the 2017 Top Ten Internet Finance Innovation Awards in China by the Chinese Banker). The Bank had perfected financial poverty alleviation mechanism, innovated financial poverty alleviation model and explored new forms of assistance continuously so as to feasibly elevate the efficiency of targeted poverty alleviation; and devoted greater efforts into supporting and benefitting agriculture, boosting the primary, secondary and tertiary industries in rural regions and effectively providing multi-layered and full-coverage financial services to agriculture customers. Due to the outstanding performance and contribution of the Bank in the reform, development, transformation and innovation in agricultural finance, the Bank was awarded the "2016 Top Ten Innovative Institutions for Rural Financial Brand of China" under the "Agriculture Credit Cup – the Seventh Value Ranking of Rural Financial Brands in China" election in 2017.

As at 31 December 2017, the balance of the Bank's agricultural loan amounted to RMB45.9490 billion, representing an increase of 21.5% as compared to the end of last year, of which the balance of loan to farmers amounted to RMB10.1024 billion, representing an increase of 5.0% as compared to the end of last year, covering the majority of rural and reclaimable areas of 11 Heilongjiang cities including Harbin and Qiqihar. The Bank established a comprehensive and systematic agriculture-supporting credit service system that covered small-scale plantation farmers to large-scale family farms, and covered traditional agriculture to modern agriculture and from rural areas and reclaimable areas, which positively improved the rural financial environment and boosted the rapid development of Heilongjiang agriculture.

Report of the Board of Directors

(V) Information on Controlling Subsidiaries

1. *Village and township banks*

As at 31 December 2017, the Bank had a controlling interest in 32 village and township banks with 35 village and township sub-branches, which were mainly located in the eastern, central and western China. As at 31 December 2017, the total assets of the 32 village and township banks amounted to RMB27,012 million, of which the total amount of loans amounted to RMB13,211 million, representing a year-on-year increase of 9.13%. The balance of deposit amounted to RMB20,020 million, representing a year-on-year increase of 10.71%. In 2017, net profit amounted to RMB310 million, representing a year-on-year decrease of 12.18%.

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 and philosophy, and its own management model 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, and preliminarily maintained a leading position in the domestic leasing market to farmers. As at 31 December 2017, total assets of HB Leasing amounted to RMB18,191 million. During the year, the accumulated investments of the leasing business amounted to RMB5,176 million, with net profit of RMB115 million.

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.

3. HBCF

HBCF adheres to the business motto of "benefiting customers with trust" and the development principle of "consolidation, integrity, innovation, efficiency and professionalism", with the strategic goal of establishing a technology-and-intelligence-based consumption financial company with diversified businesses. Fully leveraging the experience in exploring small loan products, customers and technology as well as the resources advantage of its shareholders in big data, internet finance and diversified business occasions, it adheres to online-offline dual system and strives to build an integrated service platform for internet finance. Meanwhile, HBCF is dedicated to catering to the various needs of middle class, emerging white-collar and youth by cultivating occasions of consumption and evolving into a first-rate integrated consumer financial service provider in China characterised by its focus on efficiency and service, spirit of innovation, prominent core competitiveness, strong profitability and being driven by technology and intelligence.

In 2017, closely following the regulatory situation of the economic and financial industry, HBCF laid out practical working plans for development, strengthened its top-level design and cooperated with prominent and large-scale internet platforms in China subject to regulatory requirements. Meanwhile, HBCF continued to improve its risk and technology systems, consolidate its development foundation and elevate its management to ensuring a steady and healthy development for each business. As at the end of 2017, HBCF had total assets of RMB811 million, with granting of loans of RMB820 million and balance of loans of RMB408 million.

(VII) Distribution Channels

1. Physical Network

As at 31 December 2017, the Bank had a total of 363 branch outlets, including 17 branches, 277 sub-branches, 1 branch-level financial service centre for small enterprises, 1 headquarters business department and 32 controlling village and township banks and their 35 sub-branches.

Report of the Board of Directors

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. E-channels have become the main business channels of the Bank. As at 31 December 2017, the replacement rate of business transactions through the Bank's electronic banking reached 87%, and that of mobile banking reached 45%, representing the increase of 4 percentage points and 6 percentage points as compared to 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, passbook updating, bill payment, wealth management, QR code withdrawal, passcode changing and transfer services. While enriching the equipment functions, the Bank has proactively established management system with effective management functions and supervisory means, and 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 2017, the Bank had 858 self-service terminals, including 321 ATMs, 423 BCDMs, 102 multi-media inquiry machines and 12 card issuance machines.

(2) *Online banking*

The Bank continued to expand the functions of online banking. As at 31 December 2017, a total of 1,821,800 customers maintained their online banking accounts with the Bank, representing an increase of 25.56% as compared to the same period of last year, among which corporate online banking customers amounted to 82,000 (up by 17.22% from the same period of last year), while personal online banking customers amounted to 1,739,800 (up by 25.99% from the same period of last year).

(3) *Phone banking*

The Company 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 2017, the telephone banking customer service centre recorded a total of 3,155,300 business calls, representing an increase of 28.42% as compared to last year.

Meanwhile, the Bank provides services including credit card consultancy, complaint and advice, reporting for loss and instalment through the unified national customer service hotline 4006695537. In 2017, the credit card customer service centre recorded a total of 1,446,000 business calls.

(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, loans, fund purchases and social security cards. Moreover, the Bank also provided unique 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), Cloud Quick Pass (雲閃付) and individual monthly report. As of 31 December 2017, the Bank had 757,200 mobile banking users, representing an increase of 134.79% as compared to the end of last year.

(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, loan application, branch inquiry, client pass (貴客通), social security inquiry and supplementary payment and diverse value-added daily-life services such as charging and bill payment services. As at 31 December 2017, WeChat banking had over 1,609,500 followers. The number of customers of WeChat wealth management amounted to 128,000. The sales of wealth management products amounted to RMB63,527 million throughout the year and the highest sales of such products in a single week reached RMB1,292 million.

(6) Direct banking

The Bank has established an 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, exercises, customer information enquiry and maintenance, medical insurance enquiry, news feed and fingerprint log-in. Meanwhile, it supports the binding of debit card of other banks as well as cross-bank credit card payment. In respect of security, our direct banking supports security and risk control measures including face recognition, online identity inspection and SMS verification.

(VII) Information Technology

In 2017, the Bank continued its work on information technology establishment and achieved good results in the promotion of internal and external collaborative ensuring new core system construction, enhancement in infrastructure protection, strengthening of technology management, consolidation of the foundation for data management and optimisation of information security system thus providing more comprehensive and effective IT support for business development of the Bank.

1. *Stable operation of major systems and secure infrastructure*

During the Reporting Period, the major information systems of the Bank operated steadily without the occurrence of any material information security incident, among which 19 major systems including the core system, graphics front-end, online banking, core network and infrastructure had a stable operation rate of 99.98%, and the other major systems had a stable operation rate of 99.95%.

In order to further enhance the security of infrastructure, the Bank proceeded full ahead with the construction of three centres in two areas. Recently, the construction of the computer room (of the data centre in Jiangbei had been completed) and construction had commenced for the computer room of the Dalian Off-Site Recovery Centre. The centre will form a firm iron triangle with Dalian Off-Site Recovery Centre and Beijing Off-Site Recovery Centre to make sure the IT infrastructure being safe and sound.

2. *Devoted to advancing the implementation of new core projects*

The new generation of core system construction project is steadily advancing by following the seven steps of: differential analysis, functional specifications, customisation, integration testing, acceptance testing, production drill and release-to-production. The project is currently at the stage of acceptance testing.

The new generation core system will benefit the development of emerging businesses, including product innovation, centralised operation and mobile finance. Apart from supporting itself in the in-depth financial system reform and the progress of interest rate liberalisation, the Bank also established an expert team during the progress of the project.

3. Sound results in technology management, data management and information security

(1) Strengthening technology management

The Bank introduced two standards, namely the maturity of software capability and the maturity of operation and maintenance services capacity, through which a gap can be identified so as to enhance the level of research and development and operation management as well as the quality of service. Both projects has entered into the stage of actual implementation.

The Bank strengthened the management on the full life cycle of projects and promoted the smooth implementation of planned projects. During the year, all 20 technology planning projects were launched and put into practice, bringing the project launching rate of the year to 100%.

(2) Consolidating the foundation of data management

The Bank enhanced the data management organization, formulated plans and methods for data governance and management and consolidated the foundation for data governance from top to bottom of the Bank. Through various means, the Bank gradually improved the quality of basic data, relieving the stress of daily statistics of the headquarters and laid down the groundwork for the improvement of data governance.

(3) Optimisation of information security system

The Bank strengthened its information security technology, thereby preventing and controlling technology risk exposures effectively. Through application of technologies such as 4A, penetration test, security monitor, vulnerability scanning, terminal control, data desensitisation and data leak proofing, a deep defensive information security system was formed. The Bank continued to commence the mobile and online monitor alert project, thereby realising real-time security monitoring and alert for mobile and online application, ensuring the security of funds under mobile and online channels, and controlling the Bank's reputation risk effectively. The Bank had established a comprehensive monitoring system, continued with its monitoring focusing on key application and system and actively optimised system performance, thereby enhancing the system availability continuously.

IX. Risk Exposure and Management

In 2017, in view of the new trends of the financial market in China and the increasingly strict MPA control, the Bank, continuing to adhere to the core concepts of "create value from risk management" and "customer-oriented", implemented differentiated risk control strategies, stuck to the full-aperture, all-encompassing and unified risk control principal based on customer demands, adhered to the basics and attached greater importance to resolving risks through proactive defence, adjusted the risk management mechanism with pertinence and flexibility based on overall operation strategy of the Bank, fully applied the achievements made under the New Basel Capital Accord, further refined risk management standards of the Bank and enhanced the prevention and management of various risks with improved refinedness and precision.

(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, taking into account the internal and external economic situations and adhering to moderate and prudent risk preference, adjusted credit risk policies on such basis and implemented differentiated risk control strategies for new and existing customers to support the sustainable development of the businesses; The Bank applied rigorous loan granting threshold and limit to new customers, enhanced the rigid risk system control, identified quality customers and tightly controlled the source of risk from the preference of loan granting. Meanwhile, a list of customers categorised by the level of risks was formulated through investigation into each account and monitoring each transaction so as to identify the potential risk of the existing customers. On the basis of different levels of risk, the Bank further adopted differentiated policies and standards for the existing customers, . The Bank adjusted the credit structure, explored potential value of customers on the white list and enhanced the integrated financial service plans, thereby maximising profit under controllable risks.

The Bank continued to perfect its internal assessment system and continued to optimise the retail and non-retail assessment models in response to economic downturns. It enhanced system construction, conducted regular monitoring and analysis, deepened the application of internal assessment results and further enhanced the standard of refined credit risk management of the Bank. During the Reporting Period, in terms of retail, the Bank completed the optimisation works on application rating cards regarding micro credit cards, car loan cards, individual consumption, standard mortgage, as well as behaviour rating cards regarding individual operation, individual consumption and standard mortgage. In terms of non-retail, the Bank commenced the production of 5 types of corporate rating models, increased special case adjustments and level limits to risks and further raised the level of distinction between models, thereby laying the foundation for differentiated management for the existing customers of the Bank. By applying the big data way of thinking and improving the risk management tools, the Bank promoted automatic collection of risk data, optimised the rating process and increased effectiveness for risk management. With the RWA project advancing at a steady pace, the Bank continued to perfect each function of the system and with each step continued to push the works on data governance forward.

Report of the Board of Directors

During the Reporting Period, the Bank continued to strengthen the establishment of collateral risk valuation system and conduct such valuations. The Bank constantly improved its models and has completed the optimisation works for models of offices, commercial properties, lands and plants, achieved full automation on the valuation of residential properties, and completed the re-assessment of all residential property collaterals. On the basis of updating data on buildings and business districts by proactively collecting external data, the Bank, through on-site visits and researches at areas where commercial property collaterals were put in a centralised way, conducted on-site investigations and basic data collection for commercial indicators, thus forming a defined core commercial distribution map. The Bank achieved segmentation between commercial and residential properties and maintained a leading position among industry peers. During the Reporting Period, by reference to regulatory guidelines and taking into account the actual business situation of the Bank, the Bank further refined the risk mitigation management and pertinently managed the concentration of collaterals in high-risk and hard-to-realise areas after modifications to the management methods of credit risk mitigation.

During the Reporting Period, the Bank continued to monitor and control the risk factors and constantly strengthened the risk collaborative management. Through combined application of dynamic authorisation, trading suspension and resumption and compliance accountability, the Bank imposed control on its assets quality and implemented our risk policies. Through rigid controls on systems such as risk limit and loan-to-value ratio, the Bank effectively avoided business risks. It launched analysis of big data risk detection, introduced credit data, regulatory data and third party data, enriched risk alert signals, improved alert rules and system functions, conducted multi-dimension risk analysis, and adjusted the proportion, rules and strategies for rating of risk management. Therefore, the asset quality remained relatively stable.

(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 Bank attaches great importance to the management of liquidity risk. It strives to maintain a balance between safety and efficiency by adopting prudential, diversified and coordinated strategies. The Assets and Liabilities Management Committee of the Bank is responsible for formulating liquidity risk management policies and strategies, reviewing the major problems arising from liquidity management activities, and conducting comprehensive management on liquidity risk.

During the Reporting Period, in response to the changes in external market condition, the Bank adopted prudential, effective liquidity risk management measures, thus effectively identifying and accurately measuring liquidity risk with appropriate monitor and proper control. It formulated reasonable liquidity risk management quota, conducted monitoring over the indicators at fixed intervals and sent out risk alarms when necessary. The Bank continued its provision management, optimised its cash flow control and steadily increased its investment in high quality liquidity assets, while controlling the proportion of interbank lending in a reasonable manner, organising fund utilisation of the Group through internal fund transfer pricing and other means, and actively adjusting asset and liability structure. The Bank set up and perfected the press test schemes in a scientific and punctual manner, testing the cash flow gap and shortest period of survival under various stress conditions, thus ensuring the liquidity security in cases of emergencies.

Report of the Board of Directors

Analysis of the remaining maturity of the financial assets and financial liabilities of the Group is set out below:

	As at 31 December 2017								
	Overdue	Repayable on demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Indefinite	Total
									(In RMB million)
Total financial assets	11,677.5	26,630.1	40,586.9	29,921.1	134,771.4	158,976.3	102,547.9	47,862.8	552,974.0
Total financial liabilities	–	155,167.1	28,113.6	73,141.4	196,279.6	57,964.7	9,191.1	–	519,857.5
Net position	11,677.5	(128,537.0)	12,473.3	(43,220.3)	(61,508.2)	101,011.6	93,356.8	47,862.8	33,116.5

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

	31 December 2017	31 December 2016
	(In RMB million, except percentages)	
Qualified quality liquid assets	**70,502.1**	80,129.5
Net cash outflow in the following 30 days	**54,661.7**	33,464.4
Liquidity coverage ratio	**128.98%**	239.45%

As at 31 December 2017, our liquidity coverage ratio was 128.98%, 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 on the Bank's on- and off-balance sheet businesses as a result of adverse changes in market prices (interest rates, exchange rates, stock and commodity prices). The market risks currently faced by the Bank are interest rate risk and exchange rate risk. The Bank's objective of market risk management is to maximise risk-adjusted revenue while limiting the potential losses arising from market risk within a reasonably acceptable level based on the Bank-wide risk preference. The Bank actively and properly responded to the changes in market trends, continued to put greater efforts on market risk control, and strictly monitored the risk on credit defaults. It also gradually promoted the refined measurement on market risk, and continuously improved its market risk management level.

Interest rate risk refers to the risk of loss on the Bank's on-and-off balance sheet businesses as a result of adverse changes in interest rates. The Bank further defined the classification standards for trading accounts and bank accounts, thereby enhancing its control over trading accounts and bank accounts. During the Reporting Period, the Bank revaluated the market value of assets under the Bank's trading accounts on a daily basis, continually optimised the market risk quota system, regularly monitored each quota indicator, and conducted sensitivity analysis, gap analysis, duration analysis, PVBP analysis, historical VaR and stress VaR calculations to market risk and position with reference to actual situation. The Bank applied OPICS RISK system to re-examine and perfect, among others, models of established estimations and calculations, effectively keeping the market risks of the Bank and its overall interest rate level within the acceptable scopes.

The following table sets out the results of our gap analysis as of 31 December 2017, 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 2017					
	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	225,909.1	153,956.7	119,312.4	34,036.4	19,759.4	552,974.0
Total financial liabilities	253,247.0	193,184.0	55,465.6	9,122.2	8,838.7	519,857.5
Interest rate sensitivity gap	(27,337.9)	(39,227.3)	63,846.8	24,914.2	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 adopted the exchange rate of the open market for estimations. The Bank sets transaction caps, stop-loss limits and exposure limits to manage exchange rate risk arising from our foreign exchange business. The Bank closely monitors and timely assesses the impacts of the changes in foreign and domestic market environment on the exchange rate business of the Bank. It adopted foreign exchange gap analysis and VaR analysis, among others, for foreign currencies, set up thresholds accordingly and conducted daily monitoring, management and control. The Bank proactively responded to new trends in foreign exchange market in a market-oriented approach. The Bank also continues to optimise the structure of monetary assets, strengthens the establishment of investment transaction capabilities, enhances risk management means, maintains the risk-benefit balance of the overall foreign exchange assets, improves the effectiveness and pertinence of risk management and prevents and responds to exchange rate risk effectively. The Bank measures and controls the risk of foreign exchange comprehensively and regularly monitors each of the risk indicators and their maximum threshold. When an indicator exceeds the maximum threshold and the risk of foreign exchange is observed seemingly, the relevant business line will be informed in order to carry out a series of business operation to mitigate the risk of foreign exchange according to the risk level and business need. Meanwhile, the Bank continuously keeps abreast of the overall situation and ensures its overall safety of exchange rate risk.

Report of the Board of Directors

During the Reporting Period, the Bank introduced the market risk stress testing step by step, included the whole stress testing procedures and alternatives into the system to conduct stress testing for market risk quarterly, and set up scientific stress scenarios and stress communication models to particularly assess the risk exposure and risk tolerance capability of the Bank under accidental or extremely unfavourable circumstances, thus enabling the Bank to adopt practical and effective measures to mitigate risks in response to possible extreme market changes so as to secure treasury operations.

The following table sets out our financial assets and liabilities by currency as at 31 December 2017.

	As at 31 December 2017				
	RMB	**USD equivalent to RMB**	**RUB equivalent to RMB**	**Other Currencies equivalent to RMB**	**Total (RMB equivalent)**
					(In RMB million)
Total financial assets	548,420.6	4,265.5	159.4	128.5	552,974.0
Total financial liabilities	517,239.5	2,233.5	87.9	296.6	519,857.5
Net position of financial assets and liabilities	31,181.1	2,032.0	71.5	(168.1)	33,116.5
Credit commitments	83,166.0	121.0	–	–	83,287.0

(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, the Bank further promoted the substantive application of the three major management tools of operational risk. Through online intelligence system for internal control, the Bank selected and streamlined primary operational risk processes and conducted regular risk and control self-assessment (RCSA). For new products, new businesses and process for material changes, the Bank established the RCSA assessment mechanisms for new products and new businesses and constructed a triggering assessment mechanism for key risk exposures, serving as a precaution from flawed measures of internal control and ensuring that the operational risks are effectively mitigated. As for key risk indicators (KRI), the Bank re-assessed its KRIs during the Reporting Period, conducted regular monitoring at fixed intervals and actively made rectifications and subsequent follow-ups in cases where limits were exceeded. As for loss data collection (LDC), the Bank increased its efforts at data collection, further expanded the channels and range of LDC and conducted multi-dimensional investigations into loss events, analysing in depth the reason behind such losses and making timing rectifications to prevent such risk from recurring.

(V) Information Technology Risk

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

The Bank has included management of information technology risk into its general risk management system and formed reasonably mature management strategies for information technology risks. Subject to needs of the internal management, the Bank further subdivided the management process of information technology into eight primary processes, namely general-purpose computer control, development and change management, outsourcing management, information security management, information technology risk management, business continuity management, operation management and information technology planning and governance, so as to more comprehensively identify the corresponding points of risk and control. During the Reporting Period, the Bank conducted self-assessments regarding the management of business continuity while incorporating new products and new businesses in business continuity management scope and organised multiple cross-department business continuity drills to improve the emergency response ability for business stoppage. Meanwhile, the Bank set up an information technology outsource management team to further enhance the access and exit management of outsourcing contractors, perform follow-up monitoring of outsource service quality as well as service quality assessment so as to improve the Bank's outsource risk management ability.

Report of the Board of Directors

(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 realise 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; performed intensive inspections on compliance internal control in accordance with the requirements of the regulatory special rectification of the "Three, Three, Four and Ten (三三四十)" malpractices, 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 for the "risk-based" management concept, and aiming to explore and establish interactive prevention control system for online and offline businesses, the Bank constantly improved its anti-money laundering internal control system building, optimised its anti-money laundering business application system, perfected the suspicious transaction identification mechanism and enhanced analysis ability regarding suspicious transaction identification. By enhancing customer identification and collaborated customer risk rating management and establishing a new monitoring mechanism for terrorism-related list, the anti-money laundering monitoring of the Bank gradually displayed the trends of "accurate positioning, quick pinpointing and precise measuring". The Bank comprehensively improved the levels of its anti-money laundering and anti-terrorist financing management in effective fulfilment of its corporate social responsibilities. The Bank actively assisted in anti-money laundering investigations initiated by the regulatory authorities, organised theme trainings and promotion campaigns on anti-money laundering and set up good internal and external environments for anti-money laundering, thereby effectively enhancing the Banks' ability to perform its management duties regarding anti-money laundering and improved its level of work.

X. Key Relationships with Persons with Significant Impact

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 programmes 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 Bank, please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Organisations" – "Employees" in this annual report.

During the Reporting period, as usual, the Company paid high attention to the several kinds of interest of investors and strived to create practicable returns for our investors. The Company continued to enhance its communication with investors through the following means: (1) The analyst and investor conference and press conference in relation to 2016 annual results and 2017 interim results were held in Hong Kong during March and August 2017 respectively, with a total over 80 fund managers, analysts and reporters from China and overseas attended the meeting; (2) The management of the Bank conducted two overseas result roadshows in March and August 2017 respectively, and met over 40 overseas institutional investors; (3) In 2017, the Bank welcomed overseas institutional investors and investment banks in Hong Kong, the US and Japan etc. as well as analysts from investment banks and security firms, introducing to investors and analysts the Bank's strategic direction and positioning of becoming a "first class international microcredit bank, with a timely conclusion that related the concerns of investors to the Company's operation and management for better commencement of the Company's business and the enhancement of its operation and management; (4) In 2017, the Bank timely responded to the questions and recommendations provided by investors through various channels, including answering over 80 calls from investors, replying numerous e-mail enquiries from investors and analysts, and handling matters in relation to appointments of meetings with the Company for investors.

Report of the Board of Directors

The Company adheres to its customer-oriented approach and strictly implements the Measures for Administration of Consumers' Rights and Interests, as formulated by the Board, to establish an administration system for customers' rights and interest protection. The company emphasised communication with customers, and provide 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 3,150,000 transactions for the year. Better communication with customers provided a good customer base for the Bank.

XI. Corporate Social Responsibility

2017 highlighted the grand vision of "fighting for a harmonious society, establishing a new era of socialism with Chinese characteristics", the second year of the implementation of the "13th Five-year Plan", the second year since the State Council announced the development plan of Inclusive Finance, coincidently, the Company's 20th anniversary, and the second year of "2016-2020 Five-year Plan". Starting from a new milestone, the Bank adhered to our strategies and initial beliefs as well as the business philosophy of "Inclusive Finance, Harmonious Co-Enrichment". While striding ahead for our new strategic objective – becoming a "first class international microcredit bank providing excellent services with unique characteristics", the Bank took concrete actions to fulfil the corporate social responsibility, contributing to the society.

In 2017, the Bank, under the corporate responsibility framework of financial responsibility, environmental responsibility and social responsibility, gained profound understanding in the long-term and sustainable development relationship between itself and environment as well as society, and continued to expand its brand characterised by "trust, warmth, connection, promise" into different aspects of corporate social responsibility. In 2017, the Bank had made public welfare donations of RMB22,886,000.

In 2017, the Bank actively fulfilled the spirit of the 19th National Congress of the Communist Party of China and focused critical issues relating to the national economy and people's livelihood including targeted poverty alleviation, supporting "Agriculture, Farmer and Rural areas", elevating people's livelihood and financing needs of small and micro enterprises. With the financial strength accumulated over 20 years, the Company dedicated itself to resolving the contradiction between the unbalanced and inadequate development and the people's ever-growing needs for a better life. The Company sent and stationed a team in the Shuanglong Village, advancing the digital inclusive finance and boosted financial linkage and sharing of financial resources. As an important brand project of the Bank's corporate philanthropy, the "Harbin Bank 2017 Harbin International Marathon" was successfully held, which was joined by the "Happy Community (幸福社區)", a public welfare programme initiated by the Bank and promoted by Shenzhen United Charity Foundation, to contribute to the remodelling of urban new culture and building of community relations of the new age, demonstrating the Company's sense of commitment of the times in response to the requirements of the building of socialism with Chinese characteristics in the new era.

In 2017, the Bank upheld its microcredit strategy, while continuing to explore green financing and building a "green bank". The Bank strictly implemented the national financial policies regarding green credit and actively exploring credit business models for related areas such as green economy, circular economy and low-carbon economy and striving to develop green credit. During the Reporting Period, RMB5.0 billion green financial bonds were successfully issued, signifying an important step of the Bank's building of a green bank. As at the end of 2017, the green credit balance of the Bank was RMB2,266 million.

In the meantime, the Company adhered to energy-saving and emission reduction, low-carbon development, paperless office and collective printing, among other methods of reducing the usage of resources and energy, which served as a starting point of lowering operational costs, building a green, low-carbon and energy-saving office atmosphere and achieving the healthy, harmonious and sustainable development for our economy, environment and society.

XII. Dividend

(1) Dividend

As approved at the meeting of the Board held on 28 March 2018, it is proposed to distribute a final cash dividend for the year of 2017 of RMB0.05 (tax inclusive) per share to all shareholders, totalling approximately RMB550 million (tax inclusive). Such dividend distribution plan is subject to the approval of the 2017 general meeting. Detailed information in relation to the payment date of the 2017 final dividend and specific arrangements including the book closure period and record date in this regard, will be announced later by the Company.

The independent Directors of the Company have also expressed their independent views on the profit distribution plan.

(2) Dividend Tax

Withholding and Payment of Corporate Income Tax for Non-Resident Enterprise Shareholders

Pursuant to the applicable provisions and the implementing regulations of the Enterprise Income Tax of the PRC (中華人民共和國企業所得稅法), the Company shall withhold the enterprise income tax at the rate of 10% for non-resident enterprises holders of H Shares (including the H Shares registered in the name of HKSCC Nominees Limited) when distributing the final dividend.

Report of the Board of Directors

Withholding and Payment of Individual Income Tax for Non-Resident Individual Foreign Shareholders

Pursuant to the applicable provisions and the implementing regulations of the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and the requirement under the Notice of the State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (the "**Notice of Tax**"), the Company shall withhold and pay individual income tax on behalf of the shareholders of H Shares according to the following arrangements:

For an individual shareholder of H Shares who is a resident of Hong Kong or Macau or other country (region) that has signed a tax treaty with the PRC stipulating a rate of 10%, the Company shall withhold and pay individual income tax at the rate of 10% on behalf of such shareholders of H Shares when distributing the final dividend;

For an individual shareholder of H Shares who is a resident of a country/region which has signed a tax treaty with the PRC stipulating a rate of lower than 10%, the Company shall temporarily withhold and pay individual income tax at the rate of 10% while distributing the final dividend. In case the relevant individual shareholders of H Shares are to apply for refund of the tax over-withheld, the Company will follow the Notice of Tax to handle the application of the relevant tax benefits on their behalf. The qualifying shareholders are required to timely submit the written request for the Notice of Tax and all application materials to the H Share Registrar, Computershare Hong Kong Investor Services Limited; the Company will forward the received documents to the competent tax authorities for review, and if approved, the Company will assist in handling the refund of the over-withheld tax;

For an individual shareholder of H Shares who is a resident of a country (region) that has signed a tax treaty with the PRC stipulating a rate higher than 10% but lower than 20%, the Company shall withhold and pay the individual income tax at the applicable rate stipulated in the relevant tax treaty while distributing the final dividend for the individual shareholder of H Shares; and

For an individual shareholder of H Shares who is a resident of a country (region) which has signed a tax treaty with the PRC stipulating a rate of 20% or an individual shareholder of H Shares who is a resident of a country (region) which has no tax treaty with the PRC or otherwise, the Company shall withhold and pay the individual income tax at the rate of 20% while distributing the final dividend for the individual shareholder of H Shares.

XIII. 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 Company.

(II) Use of Proceeds

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

(III) Reserves

For the year ended 31 December 2017, 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 2017, the distributable reserve of the Company and its subsidiaries under the China Accounting Standards for Business Enterprises was RMB13,452 million. The distributable reserve of the Company was RMB12,295 million.

(V) Debentures

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

Green Financial Bonds

According to the resolutions of the 8th meeting of the Sixth session of the Board of the Company on 22 March 2016 and the 2015 general meeting of the Company on 19 May 2016, the Board and the general meeting of the Company approved the issuance of green financial bonds of no more than RMB5.0 billion.

According to the "Approval of Heilongjiang Bureau of the People's Bank of China for Issuance of Green Financial Bonds by Harbin Bank" (Hei Yin Jian Fu [2016] No. 211) issued by the Heilongjiang Bureau of the CBRC on 2 November 2016 and the "Administrative Approval Decision of the People's Bank of China" (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 RMB5.0 billion by the Company in the interbank market was approved. The Company obtained the consent and permission from the CBRC and the PBOC for the issuance of the "2017 First Tranche of Green Financial Bonds" issued on 6 April 2017 and the "2017 Second Tranche of Green Financial Bonds (Category I) and the "2017 Second Tranche of Green Financial Bonds (Category II) issued on 5 May 2017.

Report of the Board of Directors

The 2017 First Tranche of Green Financial Bonds of Harbin Bank Co., Ltd. had an issuance size of RMB2.0 billion with a term of three years. The coupon rate was 4.79% and the interest was calculated annually at a fixed rate. Their short name is "17 Harbin Bank Green Finance 01" (bond code: 1720015). The 2017 Second Tranche of Green Financial Bonds (Category I) of Harbin Bank Co., Ltd. had an issuance size of RMB2.0 billion with a term of three years. The coupon rate was 4.68% and the interest was calculated annually at a fixed rate. Their short name is "17 Harbin Bank Green Finance 02" (bond code: 1720021). The 2017 Second Tranche of Green Financial Bonds (Category II) of Harbin Bank Co., Ltd. had an issuance size of RMB1.0 billion with a term of five years. The coupon rate was 4.75% and the interest was calculated annually at a fixed rate. Their short name was "17 Harbin Bank Green Finance 03" (bond code: 1720022).

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

The Company or any of its subsidiaries did not purchase, sell or redeem any shares of the Company from 1 January 2017 to the date of this report.

(VII) Pre-emptive Rights

The Company does not have provisions in respect of pre-emptive rights in its Articles of Association of the Company 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 shares, representing 27.50% of the total issued share capital of the Company, 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 Company 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.

(X) Major Customers

As at 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 RMB22,886,000 for the year ended 31 December 2017.

(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 48 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 of the Company 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. Zhang Qiguang, the former executive Director of the Company, resigned from the position of executive Director due to personal health reasons on 27 October 2017. The relevant resolution was considered and approved at the 18th meeting of the Sixth Session of the Board of the Company on 27 October 2017.

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

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

(XV) Remuneration Policy

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

The details of the remuneration determination policy for the Directors and Supervisors of the Company are set out in "Directors, Supervisors, Senior Management, Employees and Organisations" – "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 Company did not sign any service contracts which were not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

Report of the Board of Directors

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

Save as disclosed below, as at 31 December 2017, the Directors, Supervisors and chief executive of the Company did not hold any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (as defined in Part XV of the SFO) which were required be registered in the register pursuant to section 352 of the SFO or to be disclosed to the Company and the Hong Kong Stock Exchange as provided by the Model Code.

Name	Position	Nature of Interest	Class of Shares	Number of Shares Held (shares)	Percentage of Total Number of Shares of the Company (%)
Chen Danyang	Non-Executive Director	Interest of controlled corporation [1]	Domestic Shares	522,447,109	4.72

Note:

1. Chen Danyang, the non-executive Director, held the interests in the relevant number of Domestic Shares through a series of controlled corporations. Please refer to Note 6 on Page 99 of this report for details of such interest.

During the Reporting Period, the Company did not grant any right to subscribe for shares or debentures of the Company 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 2017, the Bank did not have any permitted indemnity provisions once in effect or in effect for the benefit of Directors of the Company (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 2017, 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.

XIV. Prospects

2018 is the starting year for the 19th National Congress's development of a new era as well as the commencement of the Bank's future 20-year development plan. From a macroeconomic perspective, China's overall economic development last year was better than expected with GDP growth of 6.9%. The Chinese economy will benefit from the global economic recovery as well as the supply side reform, another round of opening up and the facilitation of major initiatives such as "the Belt and Road Initiative" of the PRC, and it is expected that the Chinese economy will thrive to maintain stability and progress with good momentum for growth under the new norm with estimated GDP growth approximately 6.5%. However, economic uncertainties remain due to the rise of international trade protectionism, the rigid constraints of state resources and conditions, the loss of demographic dividend and the difficulties in substituting new momentum for the old momentum eliminated by the "reducing production capacity, cleaning up inventory, deleveraging and lowering cost" measures. From a regulatory environment perspective, the state's deployment of "serving the real economy, controlling financial risk and deepening financial reform" as well as the new regulatory layout of the PBOC, the CSRC and the China Banking and Insurance Regulatory Commission （銀保監） brings a new era of strict regulation and accountability, procuring financial institutions to gear back to the original business, meaning a shift form simple expansion in scale to refined, professional development of a value type.

In the future, the Bank will thoroughly carry out the spirit of the 19th National Congress and the Central Economic and Financial Work Conferences of the Communist Party, adhere to the small loan strategy, the essential requirement of gearing back to the original business, further establish the business philosophy of quality and efficiency first, earnestly implement innovative reform of "governance enhancement", comprehensively enhance the execution of strategic planning, business transformation, risk control, operation management, boost the business management competitiveness of high quality and efficiency, and lay a strong foundation for the start of a new era.

By order of the Board
Guo Zhiwen
Chairman

Harbin, PRC
28 March 2018

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 Company increased to 10,995,599,553 shares. As of 31 December 2017, the Company has a registered capital of RMB10,995,599,553.

II. Statement of Changes in Shares

Unit: Shares

	1 January 2017		Increase/decrease during the Reporting Period (+/-)					**31 December 2017**	
	Number	Percentage	Private placement	New shares issued	Bonus issue	Others	Subtotal	**Number**	**Percentage**
Domestic Shares									
1. Non-listed shares held by corporations	7,908,539,178	71.92%						**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	5,713,749,378	51.96%						**5,713,749,378**	**51.96%**
2. Non-listed shares held by natural persons	63,490,375	0.58%						**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 Company 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 Company 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%	96,013,293	Non-overseas listed shares
5	Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	Private enterprise	572,253,048	5.20%	54,817,278	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%	298,844,518	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 Company of 10,995,599,553 shares as at 31 December 2017. 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 Company

As at 31 December 2017, 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 Company 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 Company	Percentage of total issued share capital of the Company
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 Harbin Shundaheng Investment Company Limited (哈爾濱順達恒投資有限公司), which is owned as to 46.4%, 33% and 20.6% by three natural persons, namely Li Xu (李旭), Li Caixian (李彩先) and Wang Chuntian (王春田), 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, namely 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, namely 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, namely 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, namely Chen Danyang (陳丹陽). 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 Company	Percentage of total issued share capital of the Company
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 Company 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 Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2017.

Changes in Share Capital and Information on Shareholders

IV. Substantial Shareholders of the Company 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 Company.

As at 31 December 2017, Harbin Economic Development, the single largest shareholder of the Company, held 19.65% of the total issued shares of the Company. 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 2017, 150,830,571 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 2017.

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

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

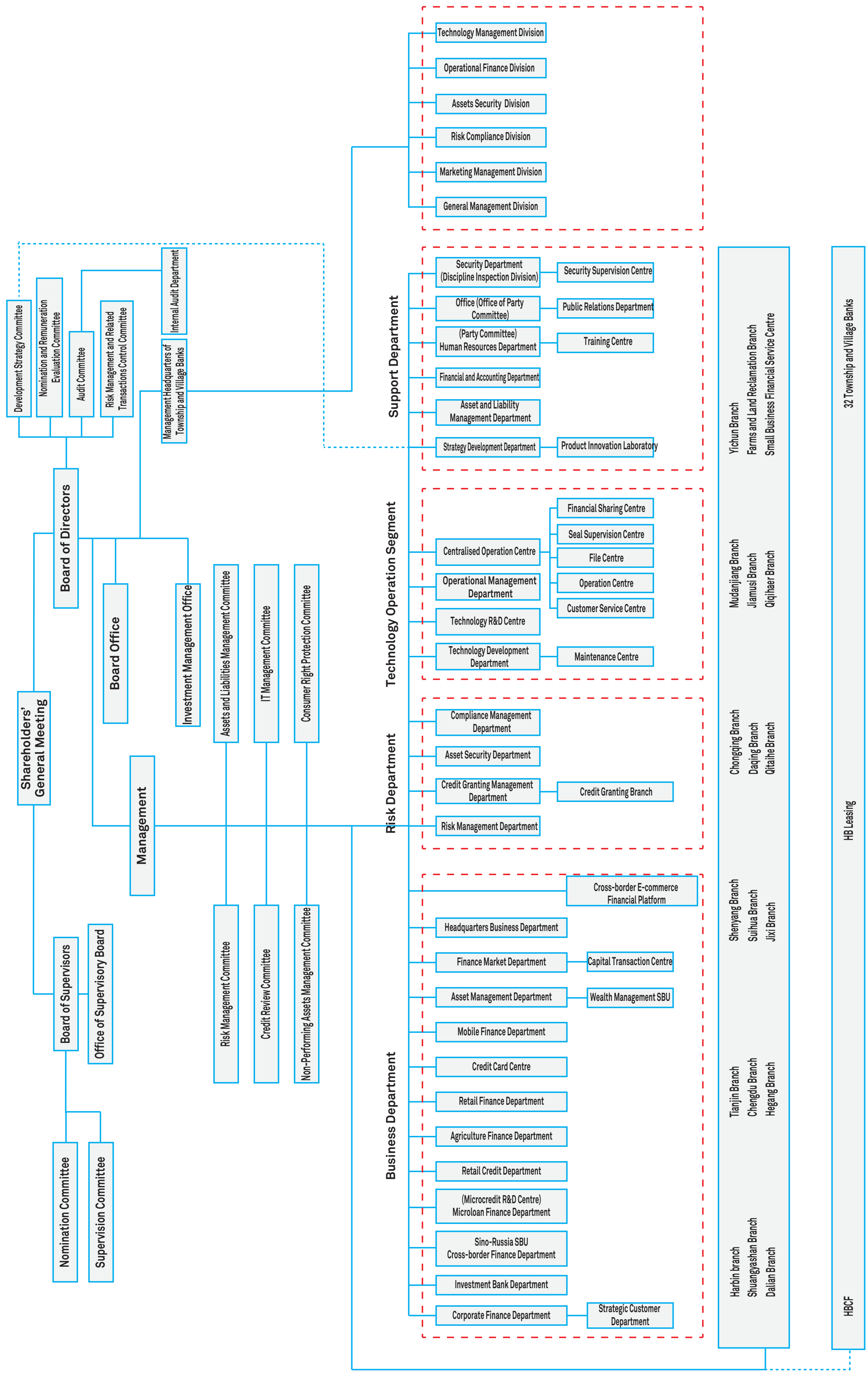
IX. Directors and Supervisors Nominated by the Shareholders of the Company

Name of Shareholders	Director nominated by the Shareholder	Supervisor nominated by the Shareholder
Harbin Economic Development and Investment Company	Zhang Taoxuan	
Fubon Life Insurance Company Limited	Ma Pao-Lin	
Heilongjiang Keruan Software Technology Company Limited		Lu Yujuan
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	Cui Luanyi	
Heilongjiang Tuokai Economic and Trading Company Limited	Chen Danyang	
Huaxia Life Insurance Co., Ltd.	Peng Xiaodong	

Corporate Governance Report

I. Organisation Chart of Corporate Governance

The Bank's Organisational Chart



II. Corporate Governance Overview

Sound corporate governance is the responsibility of the Board of the Company. In 2017, the Company strictly complied with relevant overseas listing regulatory requirements, and strived to improve the Bank's corporate governance mechanism, as well as enhancing and improving 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 primary 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 2017 up to 31 December 2017, save as disclosed below, the Company had complied with the requirements of the provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules.

Mr. Guo Zhiwen, the Chairman of the Company, was unable to attend and chair the 2016 annual general meeting of the Company held on 19 May 2017 due to business engagements, and Mr. Liu Zhuo, the Vice Chairman of the Company, was in the chair instead.

In 2017, the shareholders' general meetings of the Company passed the following resolutions relating to corporate governance of the Company:

At the 2017 first extraordinary general meeting of the Company on 10 February 2017, proposals namely the Proposed the Non-public Issuance of Offshore Preference Shares, the Proposal on the Authorisation to the Board and the Persons Authorised by the Board to Deal with All Matters Relating to the Issuance of Offshore Preference Shares, the Proposed Formulation of Draft Articles of Association for Offshore Preference Shares and Draft Rules of Procedure for Offshore Preference Shares, the Proposed Formulation of Draft Articles of Association for A Shares and Offshore Preference Shares and Draft Rules of Procedure for A Shares and Offshore Preference Shares, and the Proposed Change of Registered Address and Corresponding Amendments to the Articles of Association were considered and approved.

At the Company's first 2017 domestic shareholders' class meeting held on 10 February 2017, proposals including the Proposed the Non-public Issuance of Offshore Preference Shares, and the Proposal on the Authorisation to the Board and the Persons Authorised by the Board to Deal with All Matters Relating to the Issuance of Offshore Preference Shares were considered and approved.

At the Company's first 2017 H shareholders' class meeting held on 10 February 2017, proposals including the Proposed on the Non-public Issuance of Offshore Preference Shares, and the Proposal on the Authorisation to the Board and the Persons Authorised by the Board to Deal with All Matters Relating to the Issuance of Offshore Preference Shares were considered and approved.

At the Company's 2016 annual general meeting held on 19 May 2017, the following reports and regulatory documents on corporate governance were considered and approved: the Proposal on the 2016 Work Report of the Board of Directors, the Proposal on the 2016 Work Report of the Board of Supervisors, the Proposal on the 2016 Final Account Report, the Proposal on the 2017 Financial Expense Budgets, the Proposal on the 2016 Profit Distribution Plan, the Proposal on the 2016 Annual Report, the Proposal on the Appointment of Auditors for 2017, the Proposal on Granting a General Mandate to Issue H Shares to the Board of Directors, the Proposal on the Issuance of Non-capital 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 Extension of the Validity Period of the Authorisation to the Board to Handle the Bank Application for the A Share Offering and Related Matters, 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, and the Proposal on the Future Dividend Return Plan of Harbin Bank Co. Ltd (Draft).

At the Company's 2017 second domestic shareholders' class meeting held on 19 May 2017, 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 Extension of the Validity Period of the Authorisation to the Board to Handle the Bank 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 Company's 2017 second H shareholders' class meeting held on 19 May 2017, 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 Extension of the Validity Period of the Authorisation to the Board to Handle the Bank'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.

Corporate Governance Report

In 2017, the Company organised and held 50 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 6 general meetings and class meetings of shareholders, 7 meetings of the Board, 26 meetings of the special committees of the Board, 4 meetings of the Board of Supervisors and 7 meetings of the special committees of the Board of Supervisors. At the meetings, the Company considered and approved 186 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 Expense Budgets Report, the Financial Account Report, the Profit Distribution Plan, the performance evaluation index of senior management, the Comprehensive Operation Plan, the Report on the Implementation of Related 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 the listing of A Shares as well as the relevant requirements of the non-public issuance of offshore preference shares, the Company proposed the Articles of Association (Draft) and their annexes 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 the listing of A Shares.

During the Reporting Period, the Board of the Company 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 Company 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 of the Company shall hold at least 4 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 Company. The senior management provide sufficient information to the Board and its special committees in due course 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 Company. The President of the Company 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.

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 fulfil 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.

IV. Board Members

The Company understands and recognises the importance of diversification of members of the Board, of which the Company views as a vital aspect to safeguard the improvement of corporate governance and to achieve the sustainable development of the Company. Hence, the Company has adopted a policy named "Diversification Policy of Members of the Board of Directors of Harbin Bank Co., Ltd.", according to which, the Company shall set the composition of members of the Board considering gender, age, nationality, academic background, professional qualification, industry expertise, etc. During the process of 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 Company.

The Board of our Company consisted of 12 Directors, including 2 executive Directors: Mr. Guo Zhiwen, and Mr. Liu Zhuo, 5 non-executive Directors: Mr. Zhang Taoxuan, Mr. Ma Pao-Lin, Mr. Peng Xiaodong, Mr. Cui Luanyi and Mr. Chen Danyang, and 5 independent non-executive Directors: Mr. Zhang Shengping, Mr. He Ping, Mr. Du Qingchun, Mr. Wan Kam To and Mr. Kong Siu Chee. The 2 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, the 5 non-executive Directors are all from shareholders and have working experience in the fields of management, finance and accounting; the 5 independent non-executive Directors are experts in economic, financial, accounting and legal fields, 2 of whom are from Hong Kong, one with experience in auditing, finance, management consulting and the other with experience in corporate governance, 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 Organisations" in this annual report.

Corporate Governance Report

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

During the Reporting Period, Mr. Zhang Qiguang, a former executive director of the Company, resigned from the position of executive director due to personal health reason with effect from 27 October 2017.

VI. Chairman and President

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

Mr. Guo Zhiwen, as the chairman of the Board of the Company, 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 Company, signing important documents of the Board and other documents which shall be signed by the legal representative of the Company, encouraging different constructive opinions from Directors and facilitating effective contribution by non-executive Directors.

The former President of the Company, Mr. Zhang Qiguang, resigned from the position of President on 27 October 2017 due to personal health reason. According to the resolution of the Board on the same day, Mr. Lv Tianjun shall preform the duties of the President of the Company, mainly in charge of the management of daily operation and the implementation of relevant resolutions and operation plans of the Board, from the date of the aforesaid resolution of the Board and until the new President to be appointed by the Board takes office.

VII. Duties of Directors

During the Reporting Period, all Directors carefully, earnestly and diligently exercised the rights granted by the Company and regulatory authorities, and devoted enough time and energy to handle the matters of the Company. During the year, the Directors, namely Liu Zhuo, Zhang Qiguang (who resigned on 27 October 2017), Cui Luanyi and Kong Siu Chee were only absent from one on-site Board meeting, and the attendance of remaining Directors for on-site Board meetings was 100%.

The independent non-executive Directors of the Company gave their professional advice on the proposals considered by the Board, such as the profit distribution plan. In addition, the independent non-executive Directors of the Company 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 Company.

During the Reporting Period, the Board of Supervisors of the Company 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 2017, 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 159 of this report.

VIII. Board Meetings and the Directors' Attendance

During the Reporting Period, the Company held seven Board meetings considering and approving major proposals on development strategies, operation plans, financial policies, rule amendments and other matters, including 53 important proposals and reports such as the working report of the Board, the working report of the President, financial budgets, the financial account, the profit distribution plan, the performance evaluation index of senior management, the comprehensive operation plan, the management and implementation of related transactions.

Meeting	Meeting Date	Meeting Mode
The 13th meeting of the sixth session of the Board	16 January 2017	Telecommunication
The 14th meeting of the sixth session of the Board	10 February 2017	On-site
The 15th meeting of the sixth session of the Board	28 March 2017	On-site
The 16th meeting of the sixth session of the Board	19 May 2017	On-site
The 17th meeting of the sixth session of the Board	26 August 2017	On-site
The 18th meeting of the sixth session of the Board	27 October 2017	On-site
The 19th meeting of the sixth session of the Board	19 December 2017	On-site

Corporate Governance Report

The attendance of each Director in Board meetings and Shareholders' general meetings / class meetings in 2017 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/ class meetings Attended/ Requiring Attendance
Guo Zhiwen[2]	7	7	0	100%	0/6
Liu Zhuo	7	6	1	85.71%	6/6
Zhang Qiguang (resigned on 27 October 2017)	6	5	1	83.33%	3/6
Zhang Taoxuan	7	7	0	100%	0/6
Ma Pao-Lin	7	7	0	100%	6/6
Cui Luanyi	7	6	1	85.71%	6/6
Chen Danyang	7	7	0	100%	6/6
Peng Xiaodong	7	7	0	100%	6/6
Zhang Shengping	7	7	0	100%	6/6
He Ping	7	7	0	100%	6/6
Du Qingchun	7	7	0	100%	6/6
Wan Kam To	7	7	0	100%	6/6
Kong Siu Chee	7	6	1	85.71%	6/6

Note:
1. During the Reporting Period, attendance by proxy was not deemed as attendance.
2. Mr. Guo Zhiwen, the chairman of the Company, failed to attend the 2016 annual general meeting held on 19 May 2017 due to business engagement.

IX. Duty Performance of Independent Non-Executive Directors

The Board of the Company now has five independent non-executive Directors, the appointment of which is in full compliance with the requirements of the 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, training, department interviews and other approaches. Independent non-executive Directors actively voiced independent and professional opinions in the Board meetings and its special committees, attached importance to safeguarding minority shareholders' interests, and played a full role as independent non-executive directors.

The Company has received independence confirmation letters from all the independent non-executive Directors. In the opinion of the Company, all the independent non-executive Directors have been independent from 1 January 2017 to the date of the report.

X. Special Committees of the Board

The Board of the Company 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 Company by independent non-executive Directors.

In 2017, the special committees of the Board of the Company exercised their power in an independent, standard and effective manner in accordance with the laws. During the year, they held 26 meetings, at which 88 proposals and reports on regular reports, structural adjustment, rule amendments and other matters were studied and considered, which are critical to the sustainable development and corporate governance of the Bank. As a result, the professionalism of discussion procedure of the Board meetings and the work efficiency and decision-making capacity of the Board improved and the sustainable and healthy development of businesses of the Bank was boosted.

Members and terms of reference of the four special committees of the Company and their work in 2017 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.

Corporate Governance Report

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 2017, the Audit Committee held 5 meetings, at which 18 proposals and reports were considered and approved, including the Proposal on the 2016 Annual Results Announcement and Annual Report, Proposal on 2016 Profit Distribution Plan, Proposal on the 2017 Financial Expense Budget, Proposal on the Appointment of Auditors for 2017, Proposal on the 2016 Internal Control Evaluation Report of Harbin Bank Co., Ltd., Proposal on Approval of 2017 Unaudited Interim Financial Statements prepared according to the International Financial Reporting Standards, Proposal on Consideration and Approval of 2017 Interim Results Announcement and Interim Report. In 2017, the Audit Committee heard the work reports from the Internal Audit Department for multiple 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 2016 annual report and 2017 interim report according to the disclosure requirements on the annual financial report of regulatory authorities 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 meetings were held in the absence of executive Directors and the senior management. On 26 March 2018, the Audit Committee reviewed the audited consolidated financial statements for the year ended 31 December 2017 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 2017 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	5	0	100%
Kong Siu Chee	5	5	0	100%
Peng Xiaodong	5	5	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.

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.

Corporate Governance Report

In 2017, the Nomination and Remuneration Evaluation Committee held 5 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 the work arrangements of this year. Major works that were launched are as follows: conducting performance assessment of Directors and the senior management and determining the 2017 annual performance assessment index of the senior management. Meanwhile, 8 proposals and reports including the Proposal on 2016 Directors' Performance Report, the Proposal on 2016 Annual Performance Assessment Index for Senior Management, the Proposal on 2017 KPI for Senior Management, and Proposal on Adjustment to 2017 KPI for Senior Management were reviewed and approved. The attendance of each member in the meetings of the Nomination and Remuneration Evaluation Committee in 2017 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	5	5	0	100%
He Ping	5	5	0	100%
Wan Kam To	5	5	0	100%
Chen Danyang	5	5	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.

In 2017, the Risk Management and Related Transactions Control Committee held ten meetings, at which 41 proposals and reports were considered and approved, including Proposal on the Risk Management Policy of Harbin Bank in 2017, Proposal on Risk Appetite of Harbin Bank in 2017 and Proposal on the Management and Implementation of Related Transactions in 2016. The attendance of each member in the meetings of Risk Management and Related Transactions Control Committee in 2017 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	10	10	0	100%
He Ping	10	10	0	100%
Du Qingchun	10	10	0	100%
Liu Zhuo	10	10	0	100%
Cui Luanyi	10	9	1	90%

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), 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 programmes, 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 programmes and capital allocation programmes.

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 2017, the Development Strategy Committee held six meetings, at which 21 proposals and reports such as the Proposal on the Details of and Self-evaluation on Harbin Bank's 2016 Consumer Right Protection, the Proposal on 2017 Comprehensive Operation Plan, the Proposal on 2018 Outbound Investment Plan, the Proposal on 2018 Capital Injection, and the Proposal on Optimisation of the Organisational Structure of the Headquarters were considered and approved. The attendance of each member in the meetings of Development Strategy Committee in 2017 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	6	6	0	100%
Zhang Qiguang (resigned on 27 October 2017)	5	5	0	100%
Kong Siu Chee	6	6	0	100%
Zhang Taoxuan	6	6	0	100%
Ma Pao-Lin	6	6	0	100%

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

XI. Board of Supervisors

The Board of Supervisors of the Company 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 of the Company are in compliance with the provisions of laws and regulations. During the Reporting Period, the Board of Supervisors held four meetings, at which 8 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 2017 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	3	1	75%
Bai Fan	4	4	0	100%
Lu Yujuan	4	4	0	100%
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.

Corporate Governance Report

During the Reporting Period, the special committees of the Board of Supervisors of the Company exercised their authority and power in an independent, regular and effective manner in accordance with the law. Seven meetings were held throughout the year at which 9 proposals such as annual performance evaluation report, periodic reports and the profit distribution plan were studied and 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.

The 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.

During the Reporting Period, the Nomination Committee held three meetings, at which 4 proposals including the performance evaluation on the Board, the Supervisory Board and Supervisors, the senior management and members for the year 2016 as well as the Supervisors' self-evaluation and mutual evaluation for 2017 were considered and approved. The attendance of each Supervisor in the meetings of the Nomination Committee in 2017 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	3	3	0	100%
Bai Fan	3	3	0	100%
Wang Ying	3	3	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.

The 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 Supervision Committee held 4 meetings, at which 5 proposals and reports were considered and approved, such as the Proposal on 2016 Profit Distribution Plan and Proposal on the 2016 Annual Report, and Proposal on 2017 Interim Report. The attendance of each Supervisor in the meetings of the Supervision Committee in 2017 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	4	3	1	75%
Lu Yujuan	4	4	0	100%
Yang Dazhi	4	4	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 Company, including financial, business and family relationship or other material relationship.

XIV. Securities Transactions by Directors and Supervisors

The Company has adopted a code of conduct regarding securities transactions by Directors, Supervisors and relevant employees on terms no less exacting than the required standards as set out in the Model Code. Having made specific enquiries to the Directors and Supervisors, all Directors and Supervisors of the Company confirmed that they had complied with the aforesaid code during the Reporting Period.

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

During the Reporting Period, the Board of the Company organised surveys or investigations by independent Directors for two times, during which they went to Chengdu, Chongqing, Daqing and Qiqihar and other regions to conduct site visits on four branches and four village and township banks of which the Company holds majority interests by way of interviews. Through interviews and site visits, the independent Directors of the Company 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 skills, raised awareness of risks and improved risk management capability and gave independent, objective and professional opinions and recommendations on their operation and management.

Corporate Governance Report

During the Reporting Period, the Board of Supervisors of the Company organised the external Supervisors to conduct special investigations, including the study on the collectivised performance of the Board of Supervisors of Harbin Bank and the study on how to learn from the Company's experience in comprehensive risk management system as well as the study on sustainable development model of Harbin Bank subject to the regulatory trends. They conducted interviews with 15 branches, 8 sub-branches, Internal audit department and the four finance headquarters, the risk department, the technology operation segment and the support department, as well as the board of directors of the village and township banks and 12 village and township banks of the Company with a special focus on the implementation of strategies, comprehensive risk control, compliance management, internal management and financial management.

During the Reporting Period, two training sessions were organised for Directors and Supervisors by the Company, covering corporate governance and hot issues in the banking industry with the participation of relevant senior management personnel. Meanwhile, the Company 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 Company and relevant laws and regulations.

The attendance of each Director in training sessions on specific topics and site business visits in 2017 is as follows:

Name of Directors	Number of training sessions on specific topics	Number of site business visits
Guo Zhiwen	2	5
Liu Zhuo	1	2
Zhang Qiguang (resigned on 27 October 2017)	1	5
Zhang Shengping	1	4
He Ping	2	4
Du Qingchun	2	3
Wan Kam To	0	3
Kong Siu Chee	0	3
Zhang Taoxuan	0	0
Ma Pao-Lin	1	0
Cui Luanyi	1	0
Chen Danyang	1	0
Peng Xiaodong	2	0

Corporate Governance Report

The attendance of each Supervisor in training sessions on specific topics and site business visits in 2017 is as follows:

Name of Supervisors	Number of training sessions on specific topics	Number of site business visits
Gao Shuzhen	1	12
Wang Jiheng	1	10
Meng Rongfang	1	0
Bai Fan	1	1
Lu Yujuan	1	0
Wang Ying	2	1
Yang Dazhi	2	1

XVI. Amendments to Articles of Association

In order to meet the requirement of the non-public issuance of offshore preference shares, the Company had 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 on 10 February 2017 and approved by the regulatory authority and will become effective upon the completion of such issuance.

Pursuant to the principles and relevant requirements as set out in the official documents including the Guiding Opinions on Deepening the Reform of State-owned Enterprises (《關於深化國有企業改革的指導意見》), the Certain Opinions on Upholding the Party's Leadership and Strengthening the Party Construction in Deepening the Reform of State-owned Enterprises (《關於在深化國有企業改革中堅持黨的領導加強黨的建設的若干意見》) and the Notice regarding the Promotion of the Incorporation of Party Building Works into the Articles of Associations of State-owned Enterprises (《關於扎實推動國有企業黨建工作要求寫入公司章程的通知》), the Board has approved the relevant proposal at a meeting of the Board held on 27 October 2017 and proposed to make amendments to the Article of Association. The relevant proposal in relation to the amendments to the Articles of Association will be put forward at the general meeting of 2018 for shareholders' consideration and approval, and shall be subject to the approval by the relevant PRC government authorities before coming into effect.

XVII. Company Secretaries under the Hong Kong Listing Rules

Ms. Sun Feixia and Mr. Ngai Wai Fung acted as joint company secretaries of the Bank from January 2014 to May 2017. Ms. Sun Feixia has acted as the company secretary of the Bank since 19 May 2017 while Mr. Ngai Wai Fung ceased to act as a joint company secretary on the same day. Please refer to "Company Secretary" for the biographical details of Ms. Sun Feixia. Each Director may discuss with, seek advice and obtain data from the company secretary. Ms. Sun has confirmed her receipt of no less than 15 hours of relevant professional training.

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 by providing excellent services with unique characteristics", highlights the unique market position of microcredit, rural credit and Sino-Russia credit and gives emphasis to presenting 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 presents its comprehensive development plan in establishing village and township banks and subsidiaries such as HB Leasing and HBCF.

During the Reporting period, as usual, the Company paid high attention to the several kinds of interest of investors and strived to create practicable returns for our investors. The Company continued to enhance its communication with investors through the following means: (1) The analyst and investor conference and press conference in relation to 2016 annual results and 2017 interim results were held in Hong Kong during March and August 2017 respectively, with a total over 80 fund managers, analysts and reporters from China and overseas attended the meeting; (2) The management of the Bank conducted two overseas result roadshows in March and August 2017 respectively, and met over 40 overseas institutional investors; (3) In 2017, the Bank welcomed overseas institutional investors and investment banks in Hong Kong, the US and Japan etc. as well as analysts from investment banks and security firms, introducing to investors and analysts the Bank's strategic direction and positioning of becoming a "first class international microcredit bank, with a timely conclusion that related the concerns of investors to the Company's operation and management for better commencement of the Company's business and the enhancement of its operation and management; (4) In 2017, the Bank timely responded to the questions and recommendations provided by investors through various channels, including answering over 80 calls from investors, replying numerous e-mail enquiries from investors and analysts, and handling matters in relation to appointments of meetings with the Company for investors.

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

Address: No. 888 Shangjiang Street, Daoli District, Harbin, China
Post code: 150000
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 of the Company:

1. Shareholders individually or jointly holding 10% or more of shares of the Company 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 Company 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 Company 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.

XX. External Auditors and Auditors' Remuneration

The Bank engaged Ernst & Young Hua Ming LLP and Ernst & Young to respectively act as auditors for 2017 annual financial report of the Bank prepared in accordance with 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 2017, the Bank respectively paid RMB7.00 million and RMB0.28 million (preference shares related service fees) 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 2017 through its special committees. The Company 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 the 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 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 2017 review, which have been reported to the Audit Committee and the Board, reflect that the Group's risk management and internal control systems are effective and adequate.

(III) Procedures for Resolution of Material Internal Control Defects

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

- a rational organisational 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 Company'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 Company'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 organising 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 jointly issued by the five authorities as well as the Guidelines for Internal Control of Commercial Banks issued by the CBRC, the Bank 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 Bank, 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 Company improved its risk evaluation system. The Board, the senior management and responsible management personnel of the Company fully understood various risk exposures under the operating and management process, such as credit risk, market risk, liquidity risk, operation risk, legal risk and reputation risk, 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 budget 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 relavant departments in a timely manner once they discovered any threat or defect of internal control.

Fifthly, the Bank continued to organise various compliance training sessions and seminars so as to enhance the construction of compliance culture and improve the capacity of internal control performance. During the Reporting Period, the Board and the senior management highly focused on the works in respect of internal control studying and 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 and master the key points of internal control and take part actively 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 Company'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 external regulatory circumstances and the internal audit requirements of the Board and the Audit Committee, the Internal Audit Department of the Company adhered to a group-positioning and risk-oriented concept, thoroughly considered the most significant operational risk of the bank industry and the current operation and development status of the subsidiaries, and led the organization of internal control evaluation work within the consolidated scope. Through the comprehensive audit, special audit and office term audit and other audits, the Department conducted audit on subsidiaries and headquarters departments as well as the branches and sub-branches, revealing the systematic risk affecting the whole situation, and continuously upgraded the duty of integrated audit services. 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 achieved 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 2017, the Board of Supervisors of the Company held 4 meetings, at which 8 proposals were considered and approved, including the Proposal on 2016 Work Report of the Board of Supervisors of Harbin Bank Co., Ltd., the Proposal on the 2016 Profit Distribution Plan, the Proposal on the 2016 Annual Report, the Proposal on the Board of Supervisors' Evaluation Report on the 2016 Duty Performance of the Board of Directors and Directors, the Proposal on the 2016 Duty Performance of the Board of Supervisors and Supervisors, the Proposal on the Board of Supervisors' Evaluation Report on the 2016 Duty Performance of Senior Management and its Members, and the Proposal on 2017 Interim Report.

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 of the relevant laws and regulations and regulatory guidelines and policy updates in China, and organised the Supervisors to study in a timely manner. To further regulate and optimise corporate governance in compliance with the requirements set out in the Guidelines on Corporate Governance of Commercial Banks and enhance the scientific and reasonable approach of supervision of the Board of Supervisors to the remuneration system and policy of the Bank and the remuneration package of the senior management, the Remuneration Management and Supervision work Plan of the Board of Supervisors was formulated.

(II) Special Investigation

During the Reporting Period, the Board of Supervisors organised the external Supervisors to conduct special investigations, including the study on the collectivised performance of the Board of Supervisors of Harbin Bank and the study on how to learn from the parent bank's experience in comprehensive risk management system as well as the study on sustainable development model of Harbin Bank subject to the regulatory trends.

(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, etc., 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, the support department and some members of the senior management. The Board of Supervisors placed special emphasis on the supervision and understanding on the implementation work of the branch organisations and departments, the regulatory opinions and rationalising regulatory checks, full risk management and system set-up, annual risk policy and the implementation of credit policy, the implementation of risk check, the situation of liquidity risk management, the results of remuneration distribution and the effectiveness of policy implementation.

During the Reporting Period, the Board of Supervisors also conducted interviews with its investees of the Company, namely the board of directors of the village and township banks and some village and township banks of the Company 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 considering and approving resolutions, attending the meetings of the Board and the senior management conducting interviews and so on, 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 management, group development, strategic assessment implementation, risk management, internal control, data governance, remuneration management, operation system management, IT infrastructure 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 provided reminder to prevent the risks including operational risk, market risk, credit risk, reputation risk as well as information technology risk and strengthen the setting up of comprehensive risk control systems 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 conditions, regulatory requirements trend and the actual situation of the Company, the Board of Supervisors formulated the annual work plan which clarifies its job concept, priorities, measures and methods, laying a foundation for scientific and effective performance of duties of the Board of Supervisor. Secondly, by organising training on the Company's risk management policy and internal control system, the Supervisors understood the actual situation of the Company's risk control. Thirdly, the Board of Supervisors strengthened the requirements on the duty performance of the Supervisors. It strictly reviewed the attendance of meetings, special investigations and training of the Supervisors, which was regarded as an important basis for performance evaluation. Supervisors participated in the interviews and research in order to deeply understand the actual situation of the operation and management of the Company and make professional recommendations so as to ensure their duty performance. Fourthly, training on corporate governance and risk management under the Supervisors' group structure was enhanced so as to strengthen the governance system and the set-up of comprehensive risk system to the wholly-owned and controlling subsidiaries. Fifthly, the reporting system for risk management was further optimised. The parent bank and the wholly-owned and controlling subsidiaries of the parent shall submit a risk management report on a regular basis and from time to time to the Supervisory Committee in order to put more effort into off-site supervision and normalise the supervisory work.

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

Harbin, PRC
28 March 2017

Important Events

I. Establishment of Subsidiaries

(I) Establishment of HBCF

The Company applied to the CBRC for the establishment of HBCF as the major founder, with Harbin City, Heilongjiang as its place of registration and registered capital of RMB500 million. The Bank invested RMB295 million in HBCF, representing its 59% of equity interest. HBCF obtained the approval for preparation (Yin Jian Fu [2016] No. 356) from the CBRC on 10 November 2016, obtained the approval for commencement of operations (Hei Yin Jian Fu [2017] No. 22) from the Heilongjiang Bureau of the CBRC on 22 January 2017, obtained its business licence (uniform social credit code: 91230102MA1979M188) on 24 January 2017 with registered address at No.1536, A1-1-4, the Fourth Avenue of Qun Li, Daoli District, Harbin and Sun Jiawei as its legal representative, and officially commenced its operation on 11 April 2017. It is the 17th consumer financial company in China that has obtained the planning approval of the CBRC. Its business scope includes: "business approved by the China Banking Regulatory Commission in accordance with relevant laws, administrative measures and other rules, the business scope shall be subject to those set out in approval documents (business subject to approval by law shall be conducted upon approval by competent authorities)".

(II) Approval of the New Investment in and Establishment of Village and Township Banks

As of 31 December 2017, all eight village and township banks of the Company had obtained approvals for their commencement of their operations from banking regulatory authorities. The Company had 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 12 January 2017, Ning'an 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 Company, 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覆》) (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, it obtained its business license (uniform social credit code: 91231084MA1979WY18). Its registered address is No. 134 Tongjiang Road, Ningan Town, Ningan, Mudanjiang, Heilongjiang, and its legal representative is Feng Zhigang. It has a registered capital of RMB30 million, and is wholly-owned by the Company. Its scope of business includes: "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 regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)".

2. Nehe Rongxing Village and Township Bank Co., Ltd.

On 11 April 2017, Nehe Rongxing Village and Township Bank Co., Ltd. (訥河融興村鎮銀行有限責任公司), founded and established by the Company, received the Reply on Approving the Commencement of Operations of Nehe Rongxing Village and Township Bank Co., Ltd. (《關於同意訥河融興村鎮銀行有限責任公司開業的批覆》) (Qi Yin Jian Fu [2017] No. 10) issued by the Qiqihar Branch of the CBRC. On 18 April 2017, it obtained the financial permit (institution code: S0026H323020001) issued by the Qiqihar Branch of the CBRC. On 19 April 2017, it obtained its business license (uniform social credit code: 91230281MA19CA4D1Y). Its registered address is Nos. 01, 02, 01/F, Unit 00, 5 Jia Tai Ming Yuan, Xibei Street, Nehe City, Qiqihar City, Heilongjiang, and its legal representative is Liu Min. It has a registered capital of RMB50 million, and the Company holds 80% of its shares. Its scope of business includes: "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 regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)".

Important Events

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

On 20 April 2017, Huanan Rongxing Village and Township Bank Co., Ltd. (樺南融興村鎮銀行有限責任公司), founded and established by the Company, received the Reply on Approving the Commencement of Operations of Huanan Rongxing Village and Township Bank Co., Ltd. (《關於同意樺南融興村鎮銀行有限責任公司開業的批覆》) (Jia Yin Jian Fu [2017] No. 6) issued by the Jiamusi Branch of the CBRC. On 20 April 2017, it obtained the financial permit (institution code: S0027H323080001) issued by the Jiamusi Branch of the CBRC. On 21 April 2017, it obtained its business license (uniform social credit code: 91230822MA19CJEU99). Its registered address is Wenjiao Road Central, Huanan Town, Huanan County, Jiamusi City, Heilongjiang, and its legal representative is Mao Yongchun. It has a registered capital of RMB30 million, and is wholly-owned by the Company. Its scope of business includes: "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 regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)".

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

On 16 May 2017, Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd. (平涼崆峒融興村鎮銀行有限責任公司), founded and established by the Company, received the Reply on Approving the Commencement of Operations of Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd. (《關於同意平涼崆峒融興村鎮銀行有限責任公司開業的批覆》) (Ping Yin Jian Fu [2017] No. 13) issued by the Pingliang Branch of the CBRC. On 17 May 2017, it obtained the financial permit (institution code: S0021H362080001) issued by the Pingliang Branch of the CBRC. On 19 May 2017, it obtained its business license (uniform credit code: 91620800MA738NJJ5Q). Its registered address is 151 Kongtong West Road, Kongtong District, Pingliang City, Gansu, and its legal representative is An Ping. It has a registered capital of RMB50 million, and the Company holds 90% of its shares. Its scope of business includes: "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 banking business; engaging in issuance agency, payment agency and underwriting of government bonds; conducting payment collection and insurance agency services; and other business approved by banking regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)".

Important Events

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

On 17 May 2017, Tianshui Maiji Rongxing Village and Township Bank Co., Ltd. (天水麥積融興村鎮銀行有限責任公司), founded and established by the Company, received the Reply on Approving the Commencement of Operations of Tianshui Maiji Rongxing Village and Township Bank Co., Ltd. (《關於同意天水麥積融興村鎮銀行有限責任公司開業的批覆》) (Tian Yin Jian Fu [2017] No. 16) issued by the Tianshui Branch of the CBRC. On 18 May 2017, it obtained the financial permit (institution code: S0022H362050001) issued by the Tianshui Branch of the CBRC. On 2 June 2017, it obtained its business license (uniform social credit code: 91620500MA71WFMQ90). Its registered address is No. D5-1-101, Heng Shun Jiang Shan Yue, 6 Tianhe Road South, Maiji District, Tianshui City, Gansu, and its legal representative is An Ping. It has a registered capital of RMB50 million, and the Company holds 98% of its shares. Its scope of business includes: "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 regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)".

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

On 9 June 2017, Zhongjiang Rongxing Village and Township Bank Co., Ltd. (中江融興村鎮銀行有限責任公司), founded and established by the Company, received the Reply on Approving the Commencement of Operations of Zhongjiang Rongxing Village and Township Bank Co., Ltd. (《關於同意中江融興村鎮銀行有限責任公司開業的批覆》) (De Yin Jian Fu [2017] No. 12) issued by the Deyang Branch of the CBRC. On 9 June 2017, it obtained the financial permit (institution code: S0051H351060001) issued by the Deyang Branch of the CBRC. On 13 June 2017, it obtained its business license (uniform social credit code: 91510623MA65QT8E95). Its registered address is 20 Renmin East Road, Kaijiang Town, Zhongjiang County, Deyang City, Sichuan, and its legal representative is Gu Jiawei. It has a registered capital of RMB50 million, and the Company holds 70% of its shares. Its scope of business includes: "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; engaging in issuance agency, payment agency and underwriting of government bonds; conducting payment collection and insurance agency services; and other business approved by banking regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)".

Important Events

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

On 29 June 2017, Langzhong Rongxing Village and Township Bank Co., Ltd. (閬中融興村鎮銀行有限責任公司), founded and established by the Company, received the Reply on Approving the Commencement of Operations of Langzhong Rongxing Village and Township Bank Co., Ltd. (《關於同意閬中融興村鎮銀行有限責任公司開業的批覆》) (Nan Yin Jian Fu [2017] No. 29) issued by the Nanchong Branch of the CBRC. On 30 June 2017, it obtained the financial permit (institution code: S0052H351130001) issued by the Nanchong Branch of the CBRC. On 4 July 2017, it obtained its business license (uniform social credit code: 91511381MA63WUK55U). Its registered address is 26 Shangcheng Road, Bao Ning Town, Langzhong City, and its legal representative is Liang Hanchao. It has a registered capital of RMB50 million, and the Company holds 90% of its shares. Its scope of business includes: "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 regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)".

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

On 4 September 2017, Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd. (成都青白江融興村鎮銀行有限責任公司), founded and established by the Company, received the Reply on Approving the Commencement of Operations of Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd. (《關於同意成都青白江融興村鎮銀行有限責任公司開業的批覆》) (Chuan Yin Jian Fu [2017] No. 333) issued by the Sichuan Branch of the CBRC. On 4 September 2017, it obtained the financial permit (institution code: S0053H251010001) issued by the Sichuan Branch of the CBRC. On 5 September 2017, it obtained its business license (uniform social credit code: 91510113MA6DH49Q3Q). Its registered address is Nos. 729, 731, 733, 735, 737, Section 2, Fenghuang Dadao and Nos. 2, 4 Bianmin Lu, and its legal representative is Guowei. It has a registered capital of RMB100 million and the Company holds 70% of its shares. Its scope of business includes: "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 regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)".

II. Issuance of Debt Securities

(I) Bond Issuance during the Reporting Period

According to the resolutions of the 8th meeting of the sixth session of the Board of the Company on 22 March 2016 and the 2015 annual general meeting of the Company on 19 May 2016, the Board and the shareholders' general meeting of the Company approved the proposal on the issuance of green financial bonds of not more than RMB5.0 billion.

According to the "Approval for Harbin Bank to Issue Green Financial Bonds" issued by the Heilongjiang Bureau 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" (Yin Shi Chang Xu Zhun Yu Zi [2017] No. 5) dated 18 January 2017 issued by the PBOC, the issuance by the Company of green financial bonds of not more than RMB5.0 billion in the interbank bond market was approved. The Company obtained the consent and approval from the CBRC and the PBOC for the issuance of each of the 2017 First Tranche of Green Financial Bonds on 6 April 2017, the 2017 Second Tranche of Green Financial Bonds (Category I) on 5 May 2017 and the 2017 Second Tranche of Green Financial Bonds (Category II) on 5 May 2017.

The 2017 First Tranche of Green Financial Bonds of Harbin Bank Co., Ltd. have an issuance size of RMB2.0 billion with a term of three years. The coupon rate is 4.79% and the interest is calculated annually at a fixed rate. Their short name is "17 Harbin Bank Green Finance 01" (bond code: 1720015). The 2017 Second Tranche of Green Financial Bonds (Category I) of Harbin Bank Co., Ltd. have an issuance size of RMB2.0 billion with a term of three years. The coupon rate is 4.68% and the interest is calculated annually at a fixed rate. Their short name is "17 Harbin Bank Green Finance 02" (bond code: 1720021). The 2017 Second Tranche of Green Financial Bonds (Category II) of Harbin Bank Co., Ltd. have an issuance size of RMB1.0 billion with a term of five years. The coupon rate is 4.75% and the interest is calculated annually at a fixed rate. Their short name is "17 Harbin Bank Green Finance 03" (bond code: 1720022).

Important Events

(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 of the Company on 8 August 2011 and the Company's 2011 first extraordinary general meeting of shareholders on 25 August 2011, the Board and the shareholders' general meeting of the Company approved the Proposal of Harbin Bank to Issue Financial Bonds and agreed the public issuance by the Company of RMB2.5 billion of ordinary (non-subordinated) financial bonds in the interbank bond 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" (Yin Shi Chang Xu Zhun Yu Zi [2012] No. 19) on 21 March 2012 issued by the PBOC, the Company obtained the consent and approval on 15 May 2012 from the CBRC and the PBOC for the issuance of the 2012 financial bonds.

According to the "Prospectus for 2012 Financial Bonds Raising of Harbin Bank Co., Ltd." prepared in May 2012, the issuance size was not more than RMB2.5 billion with a term of 5 years and category of 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; its short name was "12 Harbin Bank Financial Bonds" (bond code: 1220008), and its principal and interests were due for payment by 16 May 2017.

2. Financial bonds in 2014

According to the resolutions of the 14th meeting of the fifth session of the Board of the Company on 10 September 2013 and the Company's 2013 second extraordinary general meeting of the Company on 26 September 2013, the Board and the shareholders' general meeting of the Company 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" (Yin Shi Chang Xu Zhun Yu Zi [2014] No. 241) dated 5 December 2014 issued by the PBOC, the issuance by the Company of financial bonds of not more than RMB6.0 billion in the interbank bond market was approved. The Company obtained the consent and approval from the CBRC and the PBOC for the issuance of the 2014 first tranche of the financial bonds on 15 December 2014.

The 2014 first tranche of financial bonds of Harbin Bank Co., Ltd amounted to RMB2.0 billion with a 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: 1420045). The principal of the Bond has been settled with interest on 17 December 2017.

3. Financial bonds in 2015

According to the resolutions of the 14th meeting of the fifth session of the Board of the Company on 10 September 2013 and the 2013 second extraordinary general meeting of the Company on 26 September 2013, the Board and the shareholders' general meeting of the Company 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" (Yin Shi Chang Xu Zhun Yu Zi [2014] No. 241) dated 5 December 2014 issued by the PBOC, the issuance by the Company of financial bonds of not more than RMB6.0 billion in the interbank bond market was approved. The Company obtained the consent and approval from the CBRC and the PBOC for the issuance of the 2015 first tranche of the financial bonds on 26 May 2015.

The 2015 first tranche of financial bonds of Harbin Bank Co., Ltd amounted to RMB4.0 billion with a 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).

4. 2016 credit loan asset-backed securities

According to the resolutions of the 15th meeting of the fifth session of the Board of the Company on 1 November 2013 and the 7th meeting of the sixth session of the Board of the Company on 22 January 2016, the Board of the Company 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, optimising 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" (Yin Shi Chang Xu Zhun Yu Zi [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 Company in the interbank bond market was approved. The Company obtained the consent and approval 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 into three categories, namely Priority A, Priority B asset-backed securities and subordinated asset-backed securities with the total issuance size of RMB2,257.3070 million, among which, 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%; 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.

Important Events

5. *2016 tier-2 capital bonds*

According to the resolutions of the 6th meeting of the sixth session of the Board of the Company on 7 December 2015 and the 2016 first extraordinary general meeting of the Company on 22 January 2016, the Board and the shareholders' general meeting of the Company 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 CBRC 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" (Yin Shi Chang Xu Zhun Yu Zi [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 Company in the interbank bond market was approved. The Company obtained the consent and approval 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 14 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 5th 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).

6. *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 of HB Leasing 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 bond market of China with a term of 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 CBRC 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" (Yin Shi Chang Xu Zhun Yu Zi [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 bond market was approved. HB Leasing obtained the consent and approval 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 on a fixed rate and a short name as "16 HB Leasing Bond 01" (bond code: 1622010).

(III) Proposed Issuance of Financial Bonds

1. According to the resolutions of the 15th meeting of the sixth session of the Board of the Company on 29 March 2017 and the 2016 annual general meeting of the Company on 19 May 2017, the Board and the general meeting of the Company 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 Company in the interbank bond 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 issuance size and before the proposed issuance, the specific proportion and size of various types of bonds would be finalised according to the Company's actual demand, market conditions or investors' level of subscription. Relevant matters in respect of the proposed issuance of non-capital financial bonds by the Company were disclosed in the circular dated 30 March 2017 and the announcement dated 19 May 2017 by the Company.

III. Proposed Non-Public Issuance of Offshore Preference Shares

According to the resolution of the 12th meeting of the Sixth Session of the Board of the Company passed on 15 December 2016, the Proposal on the Non-Public Issuance of Offshore Preference Shares was considered and approved; and the Plan for Non-Public Issuance of Offshore Preference Shares was also considered and approved at each of the 2017 First Extraordinary General Meeting, the 2017 First Domestic Shareholders' Class Meeting and the 2017 First H Shareholders' Class Meeting held on 10 February 2017, pursuant to which, the Company 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 of the Company dated 23 December 2016.

The Company received the "Approval Concerning the Issuance of Offshore Preference Shares and Amendments to the Articles of Association by Harbin Bank Co., Ltd." (Hei Yin Jian Fu [2017] No. 57) and the "Letter of Regulatory Opinion Relating to Harbin Bank" (Hei Yin Jian Han [2017] No. 13) from the Heilongjiang Bureau of the CBRC on 21 April 2017. On 21 April 2017, the Company issued the announcement on the Approval from Heilongjiang Bureau of the CBRC concerning the Issuance of Offshore Preference Shares and Amendments to the Articles of Association. On 25 April 2017, the Company applied for offshore non-public issuance of preference shares to the CSRC. The Company 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.

Important Events

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 Company's 2015 first extraordinary general meeting, the 2015 first domestic shareholders' class meeting and the 2015 first H shareholders' class meeting of the Company 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. 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 2016 annual general meeting, the 2017 second domestic shareholders' class meeting and the 2017 second H shareholders' class meeting of the Bank held on 19 May 2017. 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 Company on 14 May 2015, 1 April 2016 and 30 March 2017, respectively.

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 update on the proposed A share offering 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. On 29 March 2017, the Bank submitted the application materials including the Supplementary A Shares Prospectus setting out the financial data for the 12 months ended 31 December 2016 to the CSRC. On 9 September 2017, the Bank submitted the application materials, including the Supplementary A Shares Prospectus setting out the financial data for the six months ended 30 June 2017, to the CSRC. On 10 January 2018, the "Initial Public Offering of Shares Prospectus of Harbin Bank Co., Ltd. (application submission delivered on 21 December 2017)"was pre-disclosed on the website of the CSRC. In light of possible changes in the shareholding structure regarding the domestic shares of the Company, after careful studies with the sponsors and considered and approved by the Board, the Company decided to withdraw the application for the listing of the A shares. The Company published the Announcement on Withdrawal of A Share Listing Application on 16 March 2018, and will resume the application for the listing of the A Shares after the completion of changes in the shareholding structure regarding the domestic shares. The Bank will disclose further information and progress of the A Share Offering in due course.

V. Material Connected Transaction

During the Reporting Period, no material connected transactions under the Hong Kong Listing Rules were conducted by the Bank with its connected party(ies).

VI. Material Legal Proceedings and Arbitrations

As at the end of the Reporting Period, the value of the subject matters of the material pending legal proceedings in which the Bank was involved as a defendant or a third party amounted to RMB69 million. In the opinion of the Bank, such legal proceedings would not have any material impact on the Bank's operating activities. Save for the above, during the Reporting Period, there were no other material legal proceedings or arbitrations which had substantial impact on the operating activities of the Bank.

VII. Penalties Imposed on the Company and Directors, Supervisors and Senior Management of the Company

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

VIII. Material Contracts and Their Performance

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

IX. Audit Review

The Bank's consolidated financial statements for the year ended 31 December 2017 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 2017 had been reviewed by the Audit Committee of the Board and the Board of Directors.

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

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

XI. Profit Distribution during the Reporting Period

The 2016 profit distribution plan of the Company was considered and approved at the 2016 annual general meeting of the Company held on 19 May 2017. The Company did not distribute any final dividend for 2016 to all Shareholders. The Company did not distribute any interim dividend for the six months ended 30 June 2017.

XII. Appointment and Dismissal of Auditors

The re-appointment of Ernst & Young and Ernst & Young Hua Ming LLP as the respective overseas and domestic auditors of the Bank for the year 2017 was considered and approved at the 2016 annual general meeting of the Bank held on 19 May 2017.

XIII. Subsequent Material Events

The Bank has no subsequent material events from the end of the Reporting Period to the date of this Report.

Directors, Supervisors, Senior Management, Employees and Organizations

I. Incumbent Directors, Supervisors, Senior Management

Directors

Name	Gender	Age	Position	Term of Office
Guo Zhiwen	Male	50	Executive Director and Chairman of the Board	2015.6-2018.6
Liu Zhuo	Male	54	Executive Director and Vice Chairman of the Board	2015.6-2018.6
Zhang Taoxuan	Male	56	Non-Executive Director	2015.6-2018.6
Ma Pao-Lin	Male	55	Non-Executive Director	2015.8-2018.6
Peng Xiaodong	Male	47	Non-Executive Director	2016.12-2018.6
Cui Luanyi	Male	37	Non-Executive Director	2015.6-2018.6
Chen Danyang	Male	44	Non-Executive Director	2015.6-2018.6
Zhang Shengping	Male	52	Independent Non-Executive Director	2015.6-2018.6
He Ping	Male	52	Independent Non-Executive Director	2015.6-2018.6
Du Qingchun	Male	46	Independent Non-Executive Director	2015.6-2018.6
Wan Kam To	Male	65	Independent Non-Executive Director	2015.6-2018.6
Kong Siu Chee	Male	71	Independent Non-Executive Director	2015.6-2018.6

Supervisors

Name	Gender	Age	Position	Term of Office
Gao Shuzhen	Female	54	Chairman of the Board of Supervisors and Employee Representative Supervisor	2015.6-2018.6
Wang Ying	Female	46	Employee Representative Supervisor	2015.6-2018.6
Yang Dazhi	Male	40	Employee Representative Supervisor	2015.6-2018.6
Lu Yujuan	Female	33	Shareholder Representative Supervisor	2015.6-2018.6
Wang Jiheng	Male	53	External Supervisor	2015.6-2018.6
Bai Fan	Female	43	External Supervisor	2015.6-2018.6
Meng Rongfang	Female	52	External Supervisor	2015.6-2018.6

Directors, Supervisors, Senior Management, Employees and Organizations

Senior Management

Name	Gender	Age	Position	Term of Office
Lv Tianjun	Male	51	Vice President (performing the duties of the President) and Chief Risk Officer	2015.6-2018.6
Lu Weidong	Male	47	Vice President and Chief Information Officer	2015.6-2018.6
Xu Shaoguang	Male	57	Chief Credit Approval Officer	2015.6-2018.6
Wang Haibin	Male	48	Vice President	2015.8-2018.6
Sun Jiawei	Female	48	Vice President	2015.8-2018.6
Sun Feixia	Female	47	Secretary of the Board and Company Secretary	2015.6-2018.6
Liu Yang	Male	48	Assistant to the President	2015.9-2018.6

II. Information on Remuneration Paid to Directors, Supervisors and Senior Management for 2017

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

The remuneration of the members of the senior management by band for the year ended 31 December 2017 is set out below:

Remuneration band	Number of individuals
RMB1 million and below	0
RMB1 million to RMB2 million	1
RMB2 million to RMB3 million	4
RMB3 million and above	3

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 the Board and the legal representative of the Company since October 2008. Mr. Guo has been an executive Director of the Company since May 2004 and secretary of the Party Committee of the Company since December 2003. From July 1997 to October 2008, he worked as the president of the Longqing Sub-branch of the Company, assistant to the president, vice president and the president of the Company. Prior to joining the Company, 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 currently.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Liu Zhuo (劉卓), has been the vice chairman of the Company since April 2012, executive Director of the Company 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 Company, including Office general manager, deputy chairman of the Labour 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 of the Company from September 2008 to December 2014. Prior to joining the Company, 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.

Non-executive Directors

Mr. Zhang Taoxuan (張濤軒), has been a non-executive Director of the Company 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 centre 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.

Mr. Ma Pao-Lin (馬寶琳), has been a non-executive Director of the Company since August 2015. Mr. Ma has been a deputy general manager of Fubon Life Insurance Co., Ltd., a wholly-owned subsidiary of Fubon Financial Holding Co., Ltd. (listed on Taiwan Stock Exchange, 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 Company 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 and is an economist as accredited by the Personnel Department currently.

Mr. Cui Luanyi (崔鸞懿), has been a non-executive Director of the Company 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 Company 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 currently.

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 Company 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) Center 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 an independent non-executive director of Guangdong Golden Horse Tourism Group Stock Co., Ltd. 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 Company since October 2012. Mr. He has joined the School of Finance of Renmin University of China since 1991 for the teaching and research of currency finance theory and is currently the professor and doctoral tutor of the School. He was the deputy secretary and later the deputy dean of the School of Finance of Renmin University of China between January 2003 and July 2017. He studied in the liberal arts and sciences college of Harvard University as the post-doctoral researcher of the US deposit insurance regime between September 2008 and July 2009. Mr. He studied in the Institute for Advanced Studies on Asia of the University of Tokyo as the post-doctoral researcher of comparative studies on financial development between China and Japan between October 2000 and September 2002. 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 concentrated in economic history from Renmin University of China in July 1996. He has published a number of valuable academic papers on finance, co-authored the "Study on Roadmap to Internationalisation of RMB"(人民幣國際化道路研究)(China Science Publishing & Media, 2013) and translated four books of economics and finance including "When all Else Fails: Government as the Ultimate Risk Manager" (別無他法－作為終極風險管理者的政府).

Mr. Du Qingchun (杜慶春), has been an independent non-executive Director of the Company 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 Heilongjiang Administrative Cadre Institute of Politics and law from July 1992 to July 1995. Mr. Du received a Master's degree in Law from Peking University in July 1998.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Wan Kam To (尹錦滔), has been an independent non-executive director of the Company since October 2013. Mr. Wan has been an independent non-executive director of A-living Services Co., Ltd. (雅居樂雅生活服務有限公司) since August 2017. 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 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 KFM Kingdom Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 03816) since September 2012, 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 S. Culture International Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 01255) from May 2013 to July 2017, an 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) from June 2011 to June 2017. Mr. Wan has been an independent non-executive director of GreaterChina Professional Services Limited (stock code: 08193) 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.

Mr. Kong Siu Chee (江紹智), has been an independent non-executive director of the Company 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.

Directors, Supervisors, Senior Management, Employees and Organizations

(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 Company 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 chairman of the board of directors of HB Leasing, a subsidiary of the Bank, from June 2014 to November 2017. 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 Company 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. Prior to joining the Bank, Ms. Wang worked as a cashier and an accountant respectively of Harbin Urban Credit Union from August 1992 to July 1997. 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.

Mr. Yang Dazhi (楊大治), has been an employees' representative Supervisor of the Company 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.

Directors, Supervisors, Senior Management, Employees and Organizations

Ms. Lu Yujuan (盧育娟), has been the shareholders' representative Supervisor of the Company 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 general 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 Company 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 by Northeast Agricultural University. 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 Company 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.

Ms. Meng Rongfang (孟榮芳), has been an external Supervisor of the Company 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 chief senior accountant as accredited by Shanghai Human Resources and Social Security Bureau.

Directors, Supervisors, Senior Management, Employees and Organizations

(III) Information on Senior Management

Mr. Lv Tianjun (呂天君), has been performing the duties of the president of the Company since October 2017, and a vice president of the Company since April 2012 and Chief Risk Officer of the Company since May 2011. From June 2001 to April 2012, Mr. Lv held a number of positions in the Company, 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 Company. Prior to joining the Company, 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 general 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 as accredited by the PBOC.

Mr. Lu Weidong (盧衛東), has been a vice president and Chief Information Officer of the Company since August 2013. 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 Company since May 2011. From July 1997 to September 2012, Mr. Xu held a number of positions in the Company, 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 Company. Prior to that, from September 1996 to July 1997, Mr. Xu was a section chief of Zhongda Urban Credit Union. From May 1992 to September 1996, Mr. Xu was a section chief 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 Company since August 2015 and the president of the Company's Harbin Branch since February 2015. From July 1997 to August 2015, Mr. Wang held a number of positions in the Company, 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 Company, 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 as accredited by the PBOC.

Ms. Sun Jiawei (孫嘉巍), has been a vice president of the Company since August 2015, and the chairman of the board of directors of Harbin Bank Consumer Finance Co., Ltd, a subsidiary of the Company, since January 2017. From July 1997 to August 2015, Ms. Sun held various positions in the Company, 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, general manager of Rural Banking Department and assistant to the president of the Company. 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 of the Company since January 2015, the company secretary of the Company since May 2017, and the general manager of the Board Office of the Company since March 2008. From January 2013 to March 2017, she engaged in post-doctoral research with China's Industrial Security Research Centre of Beijing Jiaotong University and obtained a post-doctoral certificate. 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 of the Board Office, the deputy general manager of the Board Office, general manager of the Investment Management Office of the Board and joint company secretary of the Company from July 1997 to May 2017. From February 1997 to July 1997, Ms. Sun also helped with the preparation for the establishment of the Company as general officer at the Debt Clearance Office. From 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 Company since September 2015. Mr. Liu was the president of Chengdu Branch of the Company from January 2015 to January 2016. From September 2008 to January 2015, Mr. Liu was the president of Tianjin Branch of the Company. Mr. Liu joined the Company in February 1997. He held a number of positions in the Company, 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) of the Company 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 Company Secretary

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

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 Company 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.

The Company 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 Company 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 Company 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 Company's independent non-executive Directors neither have any business or financial interests in the Company and its subsidiaries nor hold any management position in the Bank. The current independent non-executive Directors of the Company are all elected for a term of three years. They may continue to serve for another 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 2017, the Company had 6,743 employees, among which 988 were headquarters staff, accounting for 14.65% of the total, and 2,338 were Harbin Branch staff, accounting for 34.67% of the total. Regarding the age composition, the average age of employees of the Company is 35.07. 2,305 are between 26 and 30 years old, accounting for 34.18% of the total. Regarding the educational background composition, there are 5,825 employees with a bachelor's degree or above in the Company, accounting for 86.39% of the total. Regarding the number of years of services, the Company had 1,526 employees with 10 years of banking experiences, accounting for 22.63% of the total. Staff turnover rate of the Company was 4.69%. Key talents' turnover rate of the Bank was 4.52%. Subsidiaries had 1,278 employees in total.

(II) Staff training Programmes

During the Reporting Period, centring on the work theme of "Year of Collaborative Development", the Bank established new training philosophy, implemented new training methods, optimised training resources and training programmes, and vigorously conducted all kinds of professional and regular trainings. The Bank promoted the implementation of high-end talent program through enriching channels. The Bank also improved its plans to enhance the effectiveness of the trainings for reserved talent team. The Bank optimised proposals to create the "most down-to-earth" welfare programmes, thus offering dynamic support and intelligence guarantee for the rapid development of the Company.

During the Reporting Period, the Bank formulated training programmes according to the 2017 Training Plan, which were implemented among different levels of employees. Both training completion rate and coverage rate were 100%. The training covered all employees across the Bank, and primarily focused on internet finance, big data, compliance management culture, orientation trainings for new staff, ability enhancement for branch presidents, product innovation and leadership trainings for senior management team. In 2017, departments at the headquarters of the Company implemented 720 trainings in total, including 650 internal trainings, and 70 external trainings for selected staff. The total attendance of the staff training sessions amounted to 16,200, and the total training hours amounted to 3,547.

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 plan for each staff by breaking down the bank's strategic objectives layer by layer, and carries out the mechanism of 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 development paths for staffs 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. In 2017, staff costs of the Bank were RMB2,118.9 million.

(V) Retirement and Benefits

The Bank pays various 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	138 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	6 sub-branches
13	Mudanjiang Branch	No. 137, Guanghua Street, Dong'an District, Mudanjiang	6 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	4 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 165 to 283, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 the 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 *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, 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, provide 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 2017, the aggregated gross balances of loans and advances to customers and debt instruments classified as receivables amounted to RMB382.76 billion, representing 68% of total assets, and the aggregated balances of impairment allowance for loans and advances to customers and debt instruments classified as receivables amounted to RMB9.07 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 50(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 the 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 31 December 2017, the balance of unconsolidated non-principal-guaranteed wealth management products managed by the Group was RMB67.31 billion, and the amount of investments in unconsolidated structured entities invested by the Group disclosed in the consolidated statement of financial position was RMB145.95 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 46 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 a 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 the fairness of transactions between the Group and the 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 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 Group 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
28 March 2018

Consolidated Statement of Profit or Loss

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

	Note	2017	2016
Interest income	5	**26,801,710**	22,602,732
Interest expense	5	**(15,494,221)**	(11,029,399)
NET INTEREST INCOME	5	**11,307,489**	11,573,333
Fee and commission income	6	**2,611,905**	2,571,566
Fee and commission expense	6	**(167,256)**	(178,203)
NET FEE AND COMMISSION INCOME	6	**2,444,649**	2,393,363
Net trading income/(loss)	7	**147,673**	(74,469)
Net gain on financial investments	8	**237,880**	13,129
Other operating income/(loss), net	9	**(4,113)**	266,613
OPERATING INCOME		**14,133,578**	14,171,969
Operating expenses	10	**(4,343,526)**	(4,522,203)
Impairment losses on:			
Loans and advances to customers	22	**(2,078,122)**	(1,857,200)
Others	13	**(583,917)**	(1,437,529)
OPERATING PROFIT		**7,128,013**	6,355,037
Share of profits of an associate		**–**	90,529
PROFIT BEFORE TAX		**7,128,013**	6,445,566
Income tax expense	14	**(1,819,128)**	(1,483,327)
PROFIT FOR THE YEAR		**5,308,885**	4,962,239
Attributable to:			
Owners of the parent	15	**5,249,106**	4,876,602
Non-controlling interests		**59,779**	85,637
		5,308,885	4,962,239
EARNINGS PER SHARE (RMB yuan)			
– basic and diluted	17	**0.48**	0.44

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 2017
(In RMB thousands, unless otherwise stated)

	Note	2017	2016
Profit for the year		**5,308,885**	4,962,239
Other comprehensive income, net of tax:			
Other comprehensive income attributable to owners of the parent	41	**(497,601)**	(291,866)
Other comprehensive income to be reclassified to profit or loss in subsequent years:			
Net loss on available-for-sale financial assets	41	**(432,741)**	(279,210)
Share of other comprehensive income of an associate	41	**(64,860)**	(12,656)
Other comprehensive income attributable to non-controlling interests		**–**	(119)
Subtotal of other comprehensive income for the year, net of tax		**(497,601)**	(291,985)
Total comprehensive income for the year		**4,811,284**	4,670,254
Total comprehensive income attributable to:			
Owners of the parent		**4,751,505**	4,584,736
Non-controlling interests		**59,779**	85,518
Total		**4,811,284**	4,670,254

Consolidated Statement of Financial Position

As at 31 December 2017
(In RMB thousands, unless otherwise stated)

	Note	As at 31 December 2017	2016
ASSETS			
Cash and balances with the central bank	18	**69,533,161**	67,010,336
Due from banks and other financial institutions	19	**20,626,087**	34,000,064
Financial assets held for trading	20	**4,540,089**	1,704,229
Reverse repurchase agreements	21	**4,775,700**	14,538,618
Loans and advances to customers	22	**230,646,535**	196,488,246
Derivative financial assets	23	**22,841**	70,775
Financial investments	24	**199,953,798**	190,453,189
Finance lease receivables	25	**15,759,176**	15,096,318
Property and equipment	26	**8,752,106**	8,717,934
Deferred income tax assets	27	**1,996,184**	1,414,660
Asset held for sale	28	**–**	1,234,169
Other assets	29	**7,649,474**	8,287,683
TOTAL ASSETS		**564,255,151**	539,016,221
LIABILITIES			
Due to the central bank		**521,110**	506,960
Borrowings from banks and other financial institutions	30	**12,798,091**	12,382,462
Due to banks	31	**23,622,063**	80,513,305
Derivative financial liabilities	23	**33,116**	90,392
Repurchase agreements	32	**4,590,000**	13,694,050
Due to customers	33	**378,258,398**	343,151,034
Income tax payable		**727,873**	825,756
Debt securities issued	34	**91,333,990**	41,883,393
Other liabilities	35	**9,961,592**	8,633,835
TOTAL LIABILITIES		**521,846,233**	501,681,187
EQUITY			
Equity attributable to owners of the parent			
Share capital	36	**10,995,600**	10,995,600
Capital reserve	37	**7,636,867**	7,635,709
Other comprehensive income	41	**(526,018)**	(28,417)
Surplus reserves	38	**2,896,183**	2,409,731
General and regulatory reserves	39	**6,805,820**	5,481,049
Undistributed profits	40	**13,452,019**	10,014,136
		41,260,471	36,507,808
Non-controlling interests		**1,148,447**	827,226
TOTAL EQUITY		**42,408,918**	37,335,034
TOTAL EQUITY AND LIABILITIES		**564,255,151**	539,016,221

Guo Zhiwen	**Lv Tianjun**	**Yang Dazhi**
Chairman	Vice President (performing the duties of the President)	General Manager of Finance and Accounting Department

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

	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
I. Balance as at 1 January 2017	10,995,600	7,635,709	(28,417)	2,409,731	5,481,049	10,014,136	827,226	37,335,034
II. Movements in this year	–	1,158	(497,601)	486,452	1,324,771	3,437,883	321,221	5,073,884
(I) Total comprehensive income	–	–	(497,601)	–	–	5,249,106	59,779	4,811,284
(II) Capital contributed by owners	–	–	–	–	–	–	262,600	262,600
(III) Profit distribution	–	–	–	486,452	1,324,771	(1,811,223)	–	–
1. Appropriation to surplus reserves	–	–	–	486,452	–	(486,452)	–	–
2. Appropriation to general and regulatory reserves (i)	–	–	–	–	1,324,771	(1,324,771)	–	–
(IV) Others	–	1,158	–	–	–	–	(1,158)	–
III. Balance as at 31 December 2017	10,995,600	7,636,867	(526,018)	2,896,183	6,805,820	13,452,019	1,148,447	42,408,918

(i) Includes the appropriation made by subsidiaries in the amount of RMB197,355 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
I. 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
II. Movements in this year	–	–	(291,866)	451,995	1,416,993	1,831,085	78,868	3,487,075
(I) Total comprehensive income	–	–	(291,866)	–	–	4,876,602	85,518	4,670,254
(II) 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)
III. 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.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**7,128,013**	6,445,566
Adjustments for:			
Share of profits of an associate		**–**	(90,529)
Depreciation and amortisation	10	**543,959**	528,654
Net trading (gain)/loss	7	**(147,673)**	74,469
Dividend income	8	**(1,158)**	(1,541)
Interest income on financial investments		**(10,649,240)**	(7,981,573)
Impairment loss on loans and advances to customers	22	**2,078,122**	1,857,200
Impairment loss on other assets	13	**583,917**	1,437,529
Unrealised foreign exchange loss/(gain)		**56,846**	(101,737)
Interest expense on issuance of bonds	5	**3,376,567**	1,149,016
Accreted interest on impaired loans	22	**(79,198)**	(97,813)
Net gain on disposal of financial investments	8	**(236,722)**	(11,588)
Net gain on disposal of property and equipment		**(52)**	(288)
		2,653,381	3,207,365
Net (increase)/decrease in operating assets:			
Due from the central bank		**(9,039,030)**	(4,004,846)
Due from banks and other financial institutions		**9,616,501**	5,338,294
Reverse repurchase agreements		**–**	14,748,872
Loans and advances to customers		**(38,765,015)**	(55,831,940)
Financial lease receivables		**(769,778)**	(4,725,518)
Other assets		**(746,387)**	(545,089)
		(39,703,709)	(45,020,227)
Net increase/(decrease) in operating liabilities:			
Due to the central bank		**14,150**	(257,293)
Borrowings from banks and other financial institutions		**415,629**	4,244,525
Due to banks		**(56,891,242)**	28,484,385
Repurchase agreements		**(9,104,050)**	1,549,050
Due to customers		**35,107,364**	36,333,365
Other liabilities		**1,249,874**	1,165,168
		(29,208,275)	71,519,200
Net cash flows from operating activities before tax		**(66,258,603)**	29,706,338
Income tax paid		**(2,354,288)**	(1,837,403)
Net cash flows from operating activities		**(68,612,891)**	27,868,935

Consolidated Statement of Cash Flows

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

	Note	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other long term assets		**(607,795)**	(551,511)
Proceeds from disposal of property and equipment		**2,113**	450
Cash paid for investments		**(191,267,052)**	(985,130,678)
Proceeds from sales and redemptions of investments		**183,348,549**	929,723,226
Return on investments		**10,781,498**	7,579,877
Net cash flows from investing activities		**2,257,313**	(48,378,636)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		**262,600**	–
Proceeds from issue of debt securities		**170,684,039**	68,085,823
Payment for redemption of debt securities		**(122,005,102)**	(49,510,567)
Interest and issue expenses paid on debt securities		**(2,519,192)**	(921,223)
Dividends paid on ordinary shares		**(7,832)**	(1,207,336)
Distribution of dividends to non-controlling shareholders		**–**	(4,724)
Net cash flows from financing activities		**46,414,513**	16,441,973
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(19,941,065)**	(4,067,728)
Cash and cash equivalents at beginning of the year		**59,678,068**	63,675,778
Effect of exchange rate changes on cash and cash equivalents		**(65,534)**	70,018
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	42	**39,671,469**	59,678,068
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**15,758,741**	14,421,837
Interest paid		**(10,713,893)**	(9,438,578)

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(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 ("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 2017 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.	(i)	6 Jan 2009	Bayan, Heilongjiang	50,000	100.00	53,400	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.		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	220,000	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.		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
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

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(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
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
Ning'an Rongxing Village and Township Bank Co., Ltd.	(ii)	25 Jan 2017	Ningan, Heilongjiang	30,000	100.00	30,000	Village and township bank
Huanan Rongxing Village and Township Bank Co., Ltd.	(ii)	21 Apr 2017	Huanan, Heilongjiang	30,000	100.00	30,000	Village and township bank
Nehe Rongxing Village and Township Bank Co., Ltd.	(ii)	19 Apr 2017	Nehe, Heilongjiang	50,000	80.00	40,000	Village and township bank
Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd.	(ii)	19 May 2017	Pingliang, Gansu	50,000	90.00	45,000	Village and township bank
Tianshui Maiji Rongxing Village and Township Bank Co., Ltd.	(ii)	2 June 2017	Tianshui, Gansu	50,000	98.00	49,000	Village and township bank
Zhongjiang Rongxing Village and Township Bank Co., Ltd.	(ii)	13 June 2017	Deyang, Sichuan	50,000	70.00	35,000	Village and township bank
Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd.	(ii)	5 Sep 2017	Chengdu, Sichuan	100,000	70.00	70,000	Village and township bank
Langzhong Rongxing Village and Township Bank Co., Ltd.	(ii)	4 July 2017	Langzhong, Sichuan	50,000	90.00	45,000	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
Harbin Bank Consumer Finance Co., Ltd.	(ii)	24 Jan 2017	Harbin, Heilongjiang	500,000	59.00	295,000	Consumer finance

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 2017 and 2016 have been audited by Ernst and Young Hua Ming Certified Public Accountants LLP.

During the years ended 31 December 2017 and 2016, the major changes to the structure of the Group are as follows:

(i) On 7 April 2016, the Bank entered into an equity transfer agreement with International Finance Corporation ("IFC") with respect to the purchase of IFC's 10% equity interests in Bayan Rongxing Village and Township Bank Co., Ltd. ("Bayan Rongxing"). On 25 October 2016, the Bank got the approval from CBRC Heilongjiang province office designated as Hei Yin Jian Fu [2016] No.199 "Approval of agreeing Harbin Bank to acquire IFC's equity interests in Bayan Rongxing". On 20 April 2017, the Bank remitted a transfer price of RMB8,400 thousand to IFC. After the payment, the Bank's equity interest in Bayan Rongxing has increased from 90% to 100%.

(ii) During the year ended 31 December 2017, the Bank has newly set up nine subsidiaries, including Ning'an Rongxing Village and Township Bank Co., Ltd., Huanan Rongxing Village and Township Bank Co., Ltd., Nehe Rongxing Village and Township Bank Co., Ltd., Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd., Tianshui Maiji Rongxing Village and Township Bank Co., Ltd., Zhongjiang Rongxing Village and Township Bank Co., Ltd., Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd., Langzhong Rongxing Village and Township Bank Co., Ltd. and Harbin Bank Consumer Finance Co., Ltd.. The Bank is the controlling shareholder of the above subsidiaries.

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES

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 International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2017, 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. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

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 2017. 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.

(In RMB thousands, unless otherwise stated)

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.2 Standards, Amendments and Interpretations Effective In 2017

On 1 January 2017, the Group adopted the following standards, amendments and interpretations.

IAS 7 Amendments	*Statement of Cash Flows*
IAS 12 Amendments	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements to *IFRSs 2014-2016 Cycle* (issued in December 2016):	
IFRS 12	*Disclosure of Interests in Other Entities*

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.

Annual Improvements to IFRSs 2014-2016 Cycle:

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

(In RMB thousands, unless otherwise stated)

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017

		Effective for annual periods beginning on or after
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 and 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
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*	1 January 2019
IFRS 9 Amendments	*Prepayment Features with Negative Compensation*	1 January 2019
IAS 19 Amendments	*Employee Benefits*	1 January 2019
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*	1 January 2019
IFRS 17	*Insurance Contracts*	1 January 2021
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):		
IAS 28	*Investments in Associates and Joint Ventures*	1 January 2018
IFRS 1	*First-time Adoption of International Financial Reporting Standards*	1 January 2018
Annual Improvements to *IFRSs 2015-2017 Cycle* (issued in December 2017)		1 January 2019

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.

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017 (Continued)

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.

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.

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.

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

Amendments to IFRS 9 allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendments clarify that a financial asset passes the “solely payments of principal and interest on the principal amount outstanding” criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination.

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017 (Continued)

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

In May 2017, the IASB issued IFRS 17 – *Insurance Contracts* to replace IFRS 4 – *Insurance Contracts*. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

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.

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.

Annual Improvements to IFRSs 2014-2016 Cycle was issued in December 2016. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. IAS 28 – *Investments in Associates and Joint Ventures* and IFRS 1 – *First-time Adoption of International Financial Reporting Standards* are effective from annual period beginning on or after 1 January 2018. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2017.

Annual Improvements to IFRSs 2015-2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 – *Business Combinations*, IFRS 11 – *Joint Arrangements*, IAS 12 – *Income Taxes* and IAS 23 – *Borrowing Costs*. The amendments are effective from annual period beginning on or after 1 January 2019. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2017.

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017 (Continued)

2.3.1 IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* which reflects all phases of the financial instruments project. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. On October 2017, the International Accounting Standards Board issued an amendment to IFRS 9 – *Financial Instruments*. This allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The Group adopted IFRS 9 and its amendments from 1 January 2018.

Classification and Measurement

In IFRS 9, investments in debt instruments are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017 (Continued)

2.3.1 IFRS 9 – Financial Instruments (Continued)

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from "incurred loss model" to "expected credit loss model" (ECL model) and this way of measurement applies to financial assets measured at amortised cost, measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts.

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage I: The financial instruments without significant increases in credit risk after initial recognition apply the Stage I Model of the ECL to calculate its impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage II: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment apply the Stage II Model of the ECL, with their impairment provision measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage III: Financial assets with objective evidence of impairment at the balance sheet date apply the Stage III Model of ECL, with their impairment provisions measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting period, the impairment provision has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment provision of the financial instruments on the balance sheet date of the current period according to the ECL in the next 12 months.

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017 (Continued)

2.3.1 IFRS 9 – Financial Instruments (Continued)

Impairment (Continued)

Measurement of ECL (Continued)

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and a large number of assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumption and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk;
- Definition of credit-impaired financial asset;
- Parameters for measuring ECL;
- Forward-looking information.

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017 (Continued)

2.3.1 IFRS 9 – Financial Instruments (Continued)

Impairment (Continued)

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or baseline criteria have been met:

Quantitative criteria

- At the reporting date, the rating/the probability of default (PD) of the financial instruments reaches a certain extent, comparing with the one at initial recognition.

Qualitative criteria

- The credit risk event of the debtor which is highly likely to lead to significant adverse effects
- The debtor meets problems of cash flow or liquidity, i.e. overdue loans
- The debtor is unwilling to repay the debt, i.e. debt dodge, fraud
- The debtor defaults on loans outside the Group, resulting in non-performing assets in PBOC credit system
- Credit spread increases significantly
- For collateralised and pledged loans, change of the value of collateral might incur a rise in credit risk

Baseline criteria

- Be classified into Special Mention category
- Be more than 30 days past due

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017 (Continued)

2.3.1 IFRS 9 – Financial Instruments (Continued)

Impairment (Continued)

Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganization
- The disappearance of an active market for that financial asset because of financial difficulties
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Bank overdue for more than 90 days

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current model used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, clients and transactions, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017 (Continued)

2.3.1 IFRS 9 – Financial Instruments (Continued)

Impairment (Continued)

Parameters of ECL measurement (Continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the borrower will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime.

- LGD refers to the Bank's expectation of the extent of the loss resulting from the default exposure, or the percentage of loss of risk exposure at the time of default. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies.

- EAD is the amount that the Bank should be reimbursed at the time of the default. The amount varies according to the component of the transaction and the computing method adopted.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Bank identifies the key economic indicators that affect the credit risk and ECL of various business types.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Bank applies external data in this process, supplemented by the judgement of internal experts. The Bank determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the internal experts of the Group determine the weight of other possible scenarios on the basis of the baseline scenario. The Bank measures the related impairment for the ECL of the 12-month ECL (stage I) or the weighted average lifetime credit losses (stage II and stage III). The weighted credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

2. BASIS OF PREPARATION AND SUMMARY OF MAJOR ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretations That are Not Yet Effective and Have Not Been Early Adopted By the Group In 2017 (Continued)

2.3.1 IFRS 9 – Financial Instruments (Continued)

Hedge accounting

The new hedge accounting model aims to provide a better link among an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. These amendments have no significant impact on the overall financial statements of Group.

Impacts

Considering the impact of these standards, and interpretations on the consolidated financial statements, the Group will record an adjustment to 1 January 2018 retained earnings and other comprehensive income at the adoption date, but will not restate comparative periods. The adoption of IFRS 9 is expected to reduce shareholders' equity by less than 2% as at 1 January 2018. The estimated impact relates primarily to the implementation of the ECL requirements in the Bank.

2.3.2 IFRS 15 – Revenue from Contracts with Customers

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 IFRSs.

IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains on financial investments which are covered under IFRS 9. According to the current assessment, IFRS 15 has no significant impact on the overall financial statements of the Group.

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 year 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 the case of a transferor selling 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.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

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.

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.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

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 the contributions to the local government agencies for the above pension and insurance schemes using an 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 rateably 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 the 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 and only if the Group has a legally enforceable right to set off current income tax assets and current tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current income tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

(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.

(i) 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)

(i) 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 terms.

(ii) 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;

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);

(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 rateably 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. Proposed final dividends are disclosed in the notes to the consolidated financial statements. 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 as disclosed in note 46 to 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, 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, 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 techniques make 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 economic 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 economic 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.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

5. NET INTEREST INCOME

	2017	2016
Interest income on:		
Due from the central bank	**765,502**	624,928
Due from banks and other financial institutions	**651,377**	944,996
Reverse repurchase agreements	**497,328**	427,536
Loans and advances to customers	**13,440,843**	11,780,816
including:		
Corporate loans and advances	**6,126,628**	5,849,681
Personal loans	**7,286,475**	5,790,669
Discounted bills	**27,740**	140,466
Available-for-sale financial assets	**894,812**	586,787
Held-to-maturity financial investments	**1,152,639**	1,146,222
Debt instruments classified as receivables	**8,601,789**	6,248,564
Financial lease receivables	**797,420**	842,883
Subtotal	**26,801,710**	22,602,732
Interest expense on:		
Due to the central bank	**(17,238)**	(16,237)
Borrowings from banks and other financial institutions	**(591,777)**	(392,863)
Due to banks	**(2,658,946)**	(1,852,653)
Repurchase agreements	**(284,366)**	(321,736)
Due to customers	**(8,565,327)**	(7,296,894)
Debt securities issued	**(3,376,567)**	(1,149,016)
Subtotal	**(15,494,221)**	(11,029,399)
Net interest income	**11,307,489**	11,573,333
Including: Interest income on impaired loans	**79,198**	97,813
Interest income from:		
Listed debt instruments	**2,047,451**	1,733,009
Unlisted debt instruments	**24,754,259**	20,869,723
Subtotal	**26,801,710**	22,602,732

(In RMB thousands, unless otherwise stated)

6. NET FEE AND COMMISSION INCOME

	2017	2016
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	**935,266**	1,100,821
Agency and custodian fees	**1,085,504**	1,103,106
Including: Non-guaranteed wealth management products	**685,243**	544,241
Bank card fees	**398,937**	132,734
Settlement and clearing fees	**112,883**	166,021
Others	**79,315**	68,884
Subtotal	**2,611,905**	2,571,566
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	**(57,310)**	(20,639)
Agency fees	**(11,426)**	(16,403)
Bank card fees	**(58,936)**	(112,420)
Others	**(39,584)**	(28,741)
Subtotal	**(167,256)**	(178,203)
NET FEE AND COMMISSION INCOME	**2,444,649**	2,393,363

7. NET TRADING INCOME/(LOSS)

	2017	2016
Debt securities	**138,331**	(59,479)
Others	**9,342**	(14,990)
Total	**147,673**	(74,469)

The above amounts mainly include gains and losses arising from the purchase and sale of, interest income on, and changes in the fair value of financial assets held for trading, and changes in the fair value of derivative financial instruments.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

8. NET GAIN ON FINANCIAL INVESTMENTS

	2017	2016
Dividends from available-for-sale equity investments	**1,158**	1,541
Gain on disposal of an associate	**354,740**	–
Gain/(loss) on disposal of available-for-sale financial assets, net	**(118,018)**	11,588
Total	**237,880**	13,129

9. OTHER OPERATING INCOME/(LOSS), NET

	2017	2016
Net gain on sale of property and equipment	**52**	288
Gain/(Loss) from foreign exchange, net	**(122,380)**	171,755
Leasing income	**23,932**	13,933
Government grants and subsidies	**78,852**	65,867
Penalty and compensation payments	**138**	12
Others	**15,293**	14,758
Total	**(4,113)**	266,613

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

10. OPERATING EXPENSES

	2017	2016
Staff costs:		
Salaries, bonuses and allowances	**1,643,309**	1,592,457
Social insurance	**220,219**	198,506
Housing fund	**95,675**	84,790
Staff benefits	**129,835**	112,236
Labour union expenditure and education costs	**19,660**	20,086
Early retirement benefits	**10,199**	6,427
Subtotal	**2,118,897**	2,014,502
General and administrative expenses	**659,259**	683,027
Tax and surcharges	**144,687**	468,435
Depreciation and amortisation	**543,959**	528,654
Leasing expense	**392,406**	375,825
Auditors' remuneration	**6,995**	6,200
Others	**477,323**	445,560
Total	**4,343,526**	4,522,203

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' emoluments before tax are as follows:

		Year ended 31 December 2017						
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	2,969	-	3,743	1,901	1,842
Liu Zhuo	Executive Director and Vice Chairman	316	-	-	-	316	-	316
Zhang Qiguang	Executive Director, President and Chief financial officer	-	576	2,503	15	3,094	1,380	1,714
Chen Danyang	Non-executive Director	145	-	-	-	145	-	145
Zhang Taoxuan	Non-executive Director	-	-	-	-	-	-	-
Cui Luanyi	Non-executive Director	145	-	-	-	145	-	145
Ma Baolin	Non-executive Director	145	-	-	-	145	-	145
Peng Xiaodong	Non-executive Director	145	-	-	-	145	-	145
Zhang Shengping	Independent non-executive Director	307	-	-	-	307	-	307
He Ping	Independent non-executive Director	277	-	-	-	277	-	277
Du Qingchun	Independent non-executive Director	258	-	-	-	258	-	258
Kong Siu Chee	Independent non-executive Director	349	-	-	-	349	-	349
Wan Kam To	Independent non-executive Director	373	-	-	-	373	-	373
Gao Shuzhen	Chairman of the Board of Supervisors and Employee Supervisor	-	1,492	1,823	-	3,315	912	2,403
Lu Yujuan	Supervisor	60	-	-	-	60	-	60
Wang Ying	Employee Supervisor	-	435	219	8	662	72	590
Yang Dazhi	Employee Supervisor	-	708	382	54	1,144	127	1,017
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 18th meeting of the sixth Board held on 27 October 2017, Mr. Zhang Qiquang ceased to act as an executive Director, Strategic Development Committee member, President and Chief financial officer of the Bank.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

		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.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

During the year ended 31 December 2017, Zhang Taoxuan, the non-executive Directors of the Bank, agreed to waive remuneration before tax of RMB144 thousand (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).

During the year ended 31 December 2017, 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 (2016: 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 2017 and 2016, 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 48(b) to consolidated financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	2017	2016
Salaries, allowances and discretionary bonuses	**17,438**	15,659
Contribution to defined contribution schemes	**30**	165
Total	**17,468**	15,824

The number of non-director and non-supervisor employees whose emoluments fell within the following bands is set out below.

	Number of employees	
	2017	2016
RMB2,000,001 to RMB2,500,000	**-**	1
RMB3,500,001 to RMB4,000,000	**2**	1
Total	**2**	2

During the year ended 31 December 2017, 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 (2016: Nil).

(In RMB thousands, unless otherwise stated)

13. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	2017	2016
Impairment losses on:		
Debt instruments classified as receivables	**476,997**	1,360,455
Financial lease receivables	**106,920**	77,074
	583,917	1,437,529

14. INCOME TAX EXPENSE

(a) Income tax

	2017	2016
Current income tax	**2,256,405**	2,155,434
Deferred income tax	**(437,277)**	(672,107)
	1,819,128	1,483,327

(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% or 15%. 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:

	2017	2016
Profit before tax	**7,128,013**	6,445,566
Tax at the PRC statutory income tax rate	**1,782,003**	1,611,391
Effect of different tax rates for certain subsidiaries	**(8,384)**	(15,233)
Items not deductible for tax purposes	**86,506**	39,943
Non-taxable income (i)	**(97,914)**	(99,171)
Adjustment for income tax from prior years	**64,704**	(6,902)
Profits attributable to an associate	**–**	(22,632)
Others	**(7,787)**	(24,069)
Tax expense at the Group's effective income tax rate	**1,819,128**	1,483,327

(i) The non-taxable income mainly represents interest income arising from the PRC government bonds and micro-loans to farmers, which is exempted from income tax under Chinese tax regulations.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

15. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2017 includes a profit of RMB4,865 million (2016: RMB4,520 million) which has been dealt with in the financial statements of the Bank.

16. DIVIDENDS

	2017	2016
Dividends on ordinary shares declared and paid:		
Final dividend for 2016: did not declare any dividend** (2015: RMB0.107 per share*)	**–**	1,176,529
Dividends on ordinary shares proposed for approval (not recognised as at 31 December):		
Final dividend for 2017: RMB0.05 per share*** (2016: did not declare any dividend**)	**549,780**	–

* Based on the total number of shares as at 31 December 2015 at RMB0.107 per share, distributed in cash.

** The Bank did not distribute any dividend for the year ended 31 December 2016.

*** Based on the total number of shares as at 31 December 2017 at RMB0.05 per share, distributed in cash.

17. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	2017	2016
Earnings:		
Profit attributable to owners of the parent	**5,249,106**	4,876,602
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)	**0.48**	0.44

The Group had no potentially dilutive ordinary shares for both the current and prior years.

Basic earnings per share for the years ended 31 December 2017 and 2016 were computed by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

(In RMB thousands, unless otherwise stated)

18. CASH AND BALANCES WITH THE CENTRAL BANK

	As at 31 December	
	2017	2016
Cash and balances with the central bank:		
Cash on hand	**1,009,852**	845,338
Mandatory reserves with the central bank (i)	**47,779,822**	38,761,014
Surplus reserves with the central bank (ii)	**20,688,584**	27,369,303
Fiscal deposits with the central bank	**54,903**	34,681
Total	**69,533,161**	67,010,336

(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 2017 and 2016, the mandatory deposit reserve ratios of the branches and subsidiaries of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirements of the PBOC.

(ii) Surplus reserves with the central bank include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

19. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2017	2016
Nostro accounts:		
Banks operating in Mainland China	**16,579,304**	31,599,932
Banks operating outside Mainland China	**2,434,268**	1,396,020
	19,013,572	32,995,952
Less: Allowance for impairment losses	**–**	–
	19,013,572	32,995,952
Placements with banks and other financial institutions:		
Banks operating in Mainland China	**1,427,660**	400,057
Banks operating outside Mainland China	**184,855**	604,055
	1,612,515	1,004,112
Less: Allowance for impairment losses	**–**	–
	1,612,515	1,004,112
	20,626,087	34,000,064

(In RMB thousands, unless otherwise stated)

20. FINANCIAL ASSETS HELD FOR TRADING

	As at 31 December	
	2017	2016
Debt securities	**4,540,089**	1,704,229
Debt securities analysed into:		
Listed in Mainland China	**4,540,089**	1,704,229

21. REVERSE REPURCHASE AGREEMENTS

	As at 31 December	
	2017	2016
Reverse repurchase agreements analysed by counterparty:		
Banks	**4,096,700**	13,402,778
Other financial institutions	**679,000**	1,135,840
	4,775,700	14,538,618
Reverse repurchase agreements analysed by collateral:		
Securities	**4,775,700**	13,739,270
Bills	**–**	799,348
	4,775,700	14,538,618

22. LOANS AND ADVANCES TO CUSTOMERS

	As at 31 December	
	2017	2016
Corporate loans and advances	**118,477,580**	95,024,689
Personal loans	**118,375,788**	105,793,366
Discounted bills	**544,417**	809,878
	237,397,785	201,627,933
Less: Allowance for impairment	**(6,751,250)**	(5,139,687)
	230,646,535	196,488,246

(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 2017	**773,220**	**4,366,467**	**5,139,687**
Exchange difference	**(2,020)**	**(1,959)**	**(3,979)**
Impairment loss:	**481,290**	**1,596,832**	**2,078,122**
Impairment allowances charged	**597,952**	**1,596,832**	**2,194,784**
Reversal of impairment allowances	**(116,662)**	**–**	**(116,662)**
Accreted interest on impaired loans (note 5)	**(26,816)**	**(52,382)**	**(79,198)**
Write-offs and transferred	**(79,042)**	**(345,364)**	**(424,406)**
Recoveries of loans and advances previously written off	**–**	**41,024**	**41,024**
As at 31 December 2017	**1,146,632**	**5,604,618**	**6,751,250**
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

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	As at 31 December	
	2017	2016
Loans and advances:		
Unimpaired loans and advances (i)	**233,360,774**	198,545,954
Impaired loans and advances to customers (ii)		
Individually assessed	**1,715,976**	1,515,517
Collectively assessed	**2,321,035**	1,566,462
	237,397,785	201,627,933
Less: Allowance for impairment losses:		
Unimpaired loans and advances (i)	**(4,258,328)**	(3,545,763)
Impaired loans and advances to customers (ii)		
Individually assessed	**(1,146,632)**	(773,220)
Collectively assessed	**(1,346,290)**	(820,704)
	(6,751,250)	(5,139,687)
Net loans and advances:		
Unimpaired loans and advances (i)	**229,102,446**	195,000,191
Impaired loans and advances to customers (ii)		
Individually assessed	**569,344**	742,297
Collectively assessed	**974,745**	745,758
	230,646,535	196,488,246
Percentage of impaired loans and advances	**1.70%**	1.53%

(i) Unimpaired loans and advances to customers 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 currency rate related derivative financial instruments for trading and on behalf of customers.

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 on 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 foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	As at 31 December					
	2017			2016		
	Contractual/ notional amount	**Fair value**		Contractual/ notional amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
FX forward	**999,648**	**22,841**	**(33,116)**	3,124,852	70,775	(90,392)
	999,648	**22,841**	**(33,116)**	3,124,852	70,775	(90,392)

24. FINANCIAL INVESTMENTS

	As at 31 December	
	2017	2016
Debt instruments classified as receivables (a)	**145,366,598**	144,192,982
Held-to-maturity investments (b)	**27,279,545**	30,500,981
Available-for-sale financial assets (c)	**29,622,774**	17,597,348
Subtotal	**202,268,917**	192,291,311
Less: Allowance for impairment losses	**(2,315,119)**	(1,838,122)
Net balance	**199,953,798**	190,453,189

(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	
	2017	2016
Certificate treasury bonds	**100,109**	75,628
Trust fund plans (i)	**54,931,375**	60,436,778
Asset management plans (ii)	**90,335,114**	83,680,576
Subtotal	**145,366,598**	144,192,982
Less: Allowance for impairment losses	**(2,315,119)**	(1,838,122)
Net balance	**143,051,479**	142,354,860

(i) The trust fund plans are purchased from trust companies, with no active market quotes, definite period length and the interest rate is fixed or determinable. These include investments in trust loans, trust beneficial rights, etc.

(ii) Asset management plans are purchased from security companies and other financial institutions, with no active market quotes, definite period length and the interest rate is fixed or determinable. These include investments in trust loans, trust beneficial rights, designated loans, etc.

(b) Held-to-maturity investments

Held-to-maturity investments are stated at amortised cost and comprise the following:

	As at 31 December	
	2017	2016
Debt securities analysed into		
Listed in Mainland China	**27,279,545**	30,500,981

(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	
	2017	2016
Debt securities analysed into:		
Listed in Mainland China	**28,916,214**	17,193,762
Unlisted:		
Equity investments at cost (i)	**24,620**	24,620
Wealth management products	**100,000**	352,270
Trust investments and asset management plans	**553,840**	–
Funds	**28,100**	26,696
	29,622,774	17,597,348
Market value of listed debt securities:	**28,916,214**	17,193,762

(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	
	2017	2016
Finance lease receivables	**17,564,751**	16,898,232
Less: Unearned finance lease income	**(1,512,276)**	(1,615,535)
Finance lease receivables, net	**16,052,475**	15,282,697
Less: Allowance for impairment losses	**(293,299)**	(186,379)
Including: Individually assessed	**(69,477)**	–
Collectively assessed	**(223,822)**	(186,379)
Net balance	**15,759,176**	15,096,318

(In RMB thousands, unless otherwise stated)

25. FINANCE LEASE RECEIVABLES (Continued)

Finance lease receivables, unearned finance lease income and net of finance lease receivables analysed by remaining period are as follows:

	As at 31 December					
	2017			2016		
	Finance lease receivables	**Unearned finance lease income**	**Finance lease receivables, net**	Finance lease receivables	Unearned finance lease income	Finance lease receivables, net
Less than 1 year	**7,267,697**	**(727,278)**	**6,540,419**	5,213,674	(693,713)	4,519,961
1 year to 2 years	**4,947,242**	**(406,676)**	**4,540,566**	4,567,402	(460,375)	4,107,027
2 years to 3 years	**3,053,072**	**(198,669)**	**2,854,403**	3,596,618	(275,249)	3,321,369
3 years to 5 years	**2,136,911**	**(167,074)**	**1,969,837**	3,312,247	(167,408)	3,144,839
More than 5 years	**159,829**	**(12,579)**	**147,250**	208,291	(18,790)	189,501
	17,564,751	**(1,512,276)**	**16,052,475**	16,898,232	(1,615,535)	15,282,697

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

26. 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 2017	5,693,296	2,540,057	470,251	1,598,427	76,574	314,398	10,693,003
Additions	29,732	320,607	27,169	125,898	9,027	–	512,433
Transfers to/(from) construction in progress	405,515	(456,244)	–	50,729	–	–	–
Disposals	(2,814)	(21,530)	–	(5,742)	(4,261)	–	(34,347)
At 31 December 2017	6,125,729	2,382,890	497,420	1,769,312	81,340	314,398	11,171,089
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 to/(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
Accumulated depreciation:							
At 1 January 2017	632,956	–	303,781	949,390	59,026	29,916	1,975,069
Depreciation charge for the year	171,889	–	56,490	205,125	6,280	14,886	454,670
Disposals	(1,729)	–	–	(4,979)	(4,048)	–	(10,756)
At 31 December 2017	803,116	–	360,271	1,149,536	61,258	44,802	2,418,983
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
Net carrying amount:							
At 31 December 2017	5,322,613	2,382,890	137,149	619,776	20,082	269,596	8,752,106
At 31 December 2016	5,060,340	2,540,057	166,470	649,037	17,548	284,482	8,717,934

(In RMB thousands, unless otherwise stated)

26. PROPERTY AND EQUIPMENT (Continued)

The carrying value of the Group's properties and buildings is analysed based on the remaining terms of the land leases as follows:

	As at 31 December	
	2017	2016
Held in China		
Over 50 years	**1,770,516**	1,829,358
10 to 50 years	**3,516,433**	3,194,081
Less than 10 years	**35,664**	36,901
	5,322,613	5,060,340

As at 31 December 2017, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,334 million (31 December 2016: RMB2,592 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 operation of the Group.

27. DEFERRED INCOME TAX ASSETS

(a) Analysed by nature

	As at 31 December			
	2017		2016	
	Deductible temporary differences	**Deferred income tax assets**	Deductible temporary differences	Deferred income tax assets
Deferred income tax assets:				
Allowance for impairment losses	**6,760,544**	**1,690,510**	4,955,659	1,229,556
Change in fair value of available-for-sale financial assets	**701,357**	**175,339**	124,371	31,092
Change in fair value of financial assets held for trading	**101,828**	**25,457**	45,399	11,350
Change in fair value of derivatives	**10,275**	**2,569**	19,618	4,905
Salaries, bonuses, allowances and subsidies payable	**52,348**	**12,720**	42,932	10,366
Early retirement benefits	**23,337**	**5,835**	18,556	4,639
Deferred revenue	**335,017**	**83,754**	491,008	122,752
Total	**7,984,706**	**1,996,184**	5,697,543	1,414,660

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

27. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements in deferred income tax

For the year of 2017

	Balance as at the beginning of the year	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	Balance as at the end of the year
Deferred income tax assets:				
Allowance for impairment losses	1,229,556	460,954	–	1,690,510
Change in fair value of available-for-sale financial assets	31,092	–	144,247	175,339
Change in fair value of financial assets held for trading	11,350	14,107	–	25,457
Changes in fair value of derivatives	4,905	(2,336)	–	2,569
Salaries, bonuses, allowances and subsidies payable	10,366	2,354	–	12,720
Early retirement benefits	4,639	1,196	–	5,835
Deferred revenue	122,752	(38,998)	–	83,754
Total	1,414,660	437,277	144,247	1,996,184

(In RMB thousands, unless otherwise stated)

27. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements in deferred income tax (Continued)

For the year of 2016

	Balance as at the beginning of the year	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	Balance as at the end of the year
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

28. ASSET HELD FOR SALE

	As at 31 December	
	2017	2016
Asset held for sale	**–**	1,234,169

As approved at the 29th meeting of the fifth Board 2015, the Bank decided to dispose of its total interest in Guangdong Huaxing Bank Company Limited ("Huaxing Bank"). On 21 October 2016, the Bank entered into a sale and purchase agreement with Keenstar Holding Co., Ltd. ("Keenstar", as buyer), in relation to the proposed sale and purchase of the Bank's investment in Huaxing Bank, with a transfer price of RMB1,250,000 thousand. As at 31 December 2016, the Bank had classified its investment in Huaxing Bank as an asset held for sale with a carrying amount of RMB1,234,169 thousand. As at 31 December 2017, the transaction was completed and the Bank has received the transfer price of RMB1,250,000 thousand.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

29. OTHER ASSETS

	As at 31 December	
	2017	2016
Interest receivables (a)	**3,932,409**	3,593,039
Land use rights (b)	**5,004**	4,802
Advance payments	**299,418**	237,939
Settlement and clearing accounts	**3,051,718**	3,714,041
Intangible assets (c)	**166,720**	158,830
Prepaid investment funds	**–**	419,000
Other receivables	**157,082**	153,306
Input VAT carried forward	**32,499**	1,245
Others	**4,624**	5,481
	7,649,474	8,287,683

(a) Interest receivable

	As at 31 December	
	2017	2016
Banks and other financial institutions	**167,180**	206,129
Reverse repurchase agreements	**3,629**	7,587
Loans and advances to customers	**2,142,943**	1,723,609
Bond and other investments	**1,496,680**	1,551,039
Finance lease receivables	**121,977**	104,675
	3,932,409	3,593,039

(b) Land use rights

	As at 31 December	
	2017	2016
Located in Mainland China		
10 to 50 years	**5,004**	4,802

(c) Intangible assets

Intangible assets consist primarily of computer software, which is amortised within five years.

(In RMB thousands, unless otherwise stated)

30. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2017	2016
Unsecured borrowings	**12,131,614**	11,150,000
Pledged borrowings	**666,477**	1,232,462
	12,798,091	12,382,462

As at 31 December 2017 and 31 December 2016, the pledged borrowings of RMB666 million and RMB1,232 million were secured by the finance lease receivables of RMB804 million and RMB1,462 million respectively.

31. DUE TO BANKS

	As at 31 December	
	2017	2016
Deposits:		
Banks operating in Mainland China	**23,060,543**	79,613,055
Banks operating outside Mainland China	**11,659**	20,880
Subtotal	**23,072,202**	79,633,935
Placements:		
Banks operating in Mainland China	**549,861**	879,370
Subtotal	**549,861**	879,370
Total	**23,622,063**	80,513,305

Interest due to banks is calculated based on contractual interest rates.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

32. REPURCHASE AGREEMENTS

	As at 31 December	
	2017	2016
Repurchase agreements analysed by counterparty:		
Banks	**4,590,000**	10,399,800
Other financial institutions	**–**	3,294,250
	4,590,000	13,694,050
Repurchase agreements analysed by collateral:		
Bonds	**4,590,000**	13,694,050

33. DUE TO CUSTOMERS

	As at 31 December	
	2017	2016
Demand deposits:		
Corporate deposits	**110,714,291**	105,653,901
Personal deposits	**42,580,802**	40,145,433
Subtotal	**153,295,093**	145,799,334
Time deposits:		
Corporate deposits	**138,792,569**	130,044,237
Personal deposits	**86,170,736**	67,307,463
Subtotal	**224,963,305**	197,351,700
Total	**378,258,398**	343,151,034

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

34. DEBT SECURITIES ISSUED

	As at 31 December	
	2017	2016
Financial bonds issued	**9,994,837**	9,495,318
Tier 2 capital bonds issued	**7,998,676**	7,997,793
Negotiable certificates of deposit issued	**73,340,477**	24,390,282
Total	**91,333,990**	41,883,393

As approved by the PBOC and the CBRC, the Group issued several financial bonds through the open market, 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 financial bonds issued during the year ended 31 December 2017 (2016: Nil). The relevant information on these financial bonds is set out below:

Name	Issue date	Issued price (RMB)	Coupon rate	Value date	Maturity date	Issue amount (RMB)
12 Harbin Bank 01	15 May 2012	100	4.55%	16 May 2012	16 May 2017	2,500 million
14 Harbin Bank 01	15 Dec 2014	100	4.60%	17 Dec 2014	17 Dec 2017	2,000 million
15 Harbin Bank 01	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
17 Harbin Bank green financial bonds 01	6 April 2017	100	4.79%	11 April 2017	11 April 2020	2,000 million
17 Harbin Bank green financial bonds 02	5 May 2017	100	4.68%	10 May 2017	10 May 2020	2,000 million
17 Harbin Bank green financial bonds 03	5 May 2017	100	4.75%	10 May 2017	10 May 2022	1,000 million

(In RMB thousands, unless otherwise stated)

34. DEBT SECURITIES ISSUED (Continued)

In 2017 and 2016, the Group issued 261 tranches and 57 tranches of interbank negotiable certificates of deposit through domestic interbank bond markets respectively, at a face value of RMB100 and sold at discount. As at 31 December 2017 and 31 December 2016, 137 tranches and 32 tranches of negotiable certificates of deposit issued by the Group have not yet expired, the balances of which were RMB73.34 billion and RMB24.39 billion respectively, with a time limit of 1 month to 1 year.

35. OTHER LIABILITIES

	As at 31 December	
	2017	2016
Interest payable (a)	**6,014,262**	4,524,786
Wealth management products payable	**4,758**	8,084
Settlement and clearing accounts	**753,723**	564,660
Accounts payable from agency services	**378,851**	121,532
Salaries, bonuses, allowances and subsidies payable (b)	**557,036**	584,079
Sundry tax payables	**225,764**	239,838
Deferred revenue (c)	**449,389**	646,987
Dividends payable	**28,689**	36,521
Accrued expenses	**57,636**	41,554
Lease guarantee fee	**950,278**	916,860
Other payables	**541,206**	948,934
	9,961,592	8,633,835

(a) Interest payable

	As at 31 December	
	2017	2016
Due to banks	**552,613**	911,709
Due to customers	**4,999,649**	3,244,652
Repurchase agreements	**10,952**	3,092
Issued debt securities	**451,048**	365,333
	6,014,262	4,524,786

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

35. OTHER LIABILITIES (Continued)

(b) Salaries, bonuses, allowances and subsidies payable

	As at 31 December	
	2017	2016
Salaries, bonuses and allowances	**511,845**	546,054
Social insurance	**8,785**	6,075
Housing fund	**4,593**	3,555
Labour union expenditure and education costs	**8,476**	9,839
Early retirement benefits	**23,337**	18,556
	557,036	584,079

(c) Deferred revenue

Deferred revenue consists mainly of deferred revenue from the provision of 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	
	2017	2016
Intermediary services	**449,389**	646,985
Others	**–**	2
	449,389	646,987

36. SHARE CAPITAL

	2017		2016	
	Number of shares (thousands)	**Nominal value**	Number of shares (thousands)	Nominal value
At 1 January	**10,995,600**	**10,995,600**	10,995,600	10,995,600
Shares issued	**–**	**–**	–	–
At 31 December	**10,995,600**	**10,995,600**	10,995,600	10,995,600

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

37. CAPITAL RESERVE

	Share premium	Other capital reserve	Total
At 1 January 2016	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
Increase during the year	–	1,158	1,158
Decrease during the year	–	–	–
At 31 December 2017	**7,624,993**	**11,874**	**7,636,867**

38. SURPLUS RESERVES

	Statutory surplus reserve	Discretionary surplus reserve	Total
At 1 January 2016	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
Appropriation during the year	486,452	–	486,452
At 31 December 2017	**2,869,997**	**26,186**	**2,896,183**

Under the Company Law of the People's Republic of China, the Bank is required to appropriate 10% of its net profit to the statutory surplus reserves. The appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the shareholders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

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)

39. GENERAL AND REGULATORY RESERVES

	2017	2016
Balance as at the beginning of the year	**5,481,049**	4,064,056
Increase during the year	**1,324,771**	1,416,993
Balance as at the end of the year	**6,805,820**	5,481,049

From 1 July 2012, according to the requirements of the Administrative Measures for the Provision of Reserves of Financial Enterprises (No.20 [2012] of the Ministry of Finance) by the Ministry of Finance, 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 its risk assets balance at year end.

40. UNDISTRIBUTED PROFITS

	2017	2016
Balance as at the beginning of the year	**10,014,136**	8,183,051
Profit for the year attributable to owners of the parent	**5,249,106**	4,876,602
Less:		
Appropriation to surplus reserves	**(486,452)**	(451,995)
Appropriation to general and regulatory reserves	**(1,324,771)**	(1,416,993)
Cash dividends payable of ordinary shares	**–**	(1,176,529)
Balance as at the end of the year	**13,452,019**	10,014,136

As approved by the equity holders of the Group at the Annual General Meeting of 2016 held in May 2017, the Bank did not distribute any cash dividends.

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 of 2015 held on May 2016 and was distributed during the year.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

41. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Transactions of other comprehensive income attributed to owners of the parent in the consolidated statement of profit or loss:

	2017	2016
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income	**(532,112)**	(389,951)
Transfer to the statement of profit or loss arising from disposal	**(44,876)**	17,671
Income tax effect	**144,247**	93,070
	(432,741)	(279,210)
Share of other comprehensive income of an associate	**(64,860)**	(12,656)
	(497,601)	(291,866)

Other comprehensive income attributed to owners of the parent in the consolidated statement of financial position:

	2017 1 January	**Changes during the year**	**2017 31 December**
Share of other comprehensive income of an associate to be reclassified to profit or loss subsequently under the equity method	**64,860**	**(64,860)**	**–**
Changes in fair value of available-for-sale financial assets	**(93,277)**	**(432,741)**	**(526,018)**
	(28,417)	**(497,601)**	**(526,018)**

	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)

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

42. 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	
	2017	2016
Cash on hand (note 18)	**1,009,852**	845,338
Balances with the central bank (note 18)	**20,688,584**	27,369,303
Due from banks and other financial institutions	**13,197,333**	16,924,809
Reverse repurchase agreements	**4,775,700**	14,538,618
	39,671,469	59,678,068

During the reporting period, the Group was not involved in non-cash investing and financing activities.

43. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

The Group had capital commitments as follows:

	As at 31 December	
	2017	2016
Contracted, but not provided for	**771,185**	894,189
	771,185	894,189

(b) Operating lease commitments

Operating lease commitments – Lessee

Under irrevocable operating lease contracts, the minimum lease payments that should be paid by the Group in the future as for the following periods are summarised as follows:

	As at 31 December	
	2017	2016
Within one year	**282,869**	240,585
Between one year and five years	**675,452**	667,559
Over five years	**170,551**	145,150
	1,128,872	1,053,294

(In RMB thousands, unless otherwise stated)

43. 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 acceptances 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 undrawn credit card limit are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantee represent the maximum potential losses that would be recognised at the end of the reporting period had the counterparties failed to perform as contracted.

	As at 31 December	
	2017	2016
Bank bill acceptances	**58,339,376**	54,882,985
Letters of guarantee issued	**8,778,764**	8,504,659
Letters of credit	**6,722,094**	5,460,144
Undrawn credit card limits	**9,266,766**	4,152,494
	83,107,000	73,000,282

(d) Credit risk-weighted amount of financial guarantees and credit related commitments

	As at 31 December	
	2017	2016
Financial guarantees and credit related commitments	**21,366,262**	16,517,199

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 2017 and 2016, significant legal proceedings exceeding RMB10,000 thousand outstanding against the Group (for itself or as a third party) amounted to RMB69,000 thousand and RMB50,000 thousand respectively. Management expects that there will be no loss caused by these litigations and no provisions need to be made.

(In RMB thousands, unless otherwise stated)

43. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(f) Redemption commitments of government bonds

As an underwriting agent of the government, the Bank 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 2017, the Bank had underwritten and sold bonds with an accumulated amount of RMB2,740 million (31 December 2016: RMB2,986 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 Bank 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

Since 31 December 2012, the Bank has been a member of the Asia Financial Cooperation Association ("AFCA"), which has established a risk fund divided into equal shares. The price per share was RMB100 million as at the fund establishment date. The Bank subscribed for 2 shares with 10% of cash and 90% of the cooperative obligation. This means the Bank has the obligation to provide support to the AFCA members through certain methods such as placements within the limit of RMB180 million.

44. FIDUCIARY ACTIVITIES

	As at 31 December	
	2017	2016
Designated funds	**6,690,147**	7,044,027
Designated loans	**6,690,147**	7,044,027

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 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.

45. 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 entities. 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 2017 and 2016, none of the above-mentioned financial assets which did not qualify for derecognition was transferred to third parties.

Securitisation transactions

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose entities 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 2017, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB641,464 thousand and RMB33,473 thousand as at 31 December 2017 and 2016 respectively, which also approximates to the Group's maximum exposure to loss.

46. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments, asset management and credit assets transfers. 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 control on them. The interests held by the Group in the unconsolidated structured entities are set out below:

46.1 Unconsolidated structured entities managed by the Group

(a) Wealth management products

When conducting wealth management businesses, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 31 December 2017, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB67,308 million (31 December 2016: RMB59,539 million). For the year ended 31 December 2017, fee and commission income included commission and custodian fee and management fee income from wealth management business that amounted to RMB685,243 thousand (2016: RMB544,241 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 2017, the Group did not provide any financing to the unconsolidated wealth management products (2016: Nil).

(b) Asset securitisation business

Another type of structured entity managed by the Group but not yet consolidated is the special purpose entities 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 entities and charges the corresponding fees and commissions. The Group believes that its variable returns on this structured entity are not significant.

The total carrying amount as at the transfer date of credit assets transferred by the Group into the special purpose entities was RMB12,715,754 thousand for the year ended 31 December 2017 (2016: RMB2,257,307 thousand).

46.2 Structured entities sponsored by other financial institutions

The Group invested some structured entities which are out of consolidation scope, issued and managed by other institutions, and recognised its investment income. These structured entities mainly include the financial product, specific asset management plan, investment trust plan, etc. These structured entities' nature and purpose are earning management fee by managing the investors' assets, and the way of financing is to issue investment products to investors. For the year ended 31 December 2017 and 2016, the Group has not provided liquidity support for those kinds of structured entities.

(In RMB thousands, unless otherwise stated)

46. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

46.2 Structured entities sponsored by other financial institutions (Continued)

The interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out below:

	As at 31 December 2017			
	Available-for-sale financial assets	**Debt instruments classified as receivables**	**Total**	**Maximum exposure to loss**
Wealth management products	**100,000**	**–**	**100,000**	**100,000**
Trust investments and asset management plans	**553,840**	**145,266,489**	**145,820,329**	**143,505,210**
Funds	**28,100**	**–**	**28,100**	**28,100**

	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
Trust investments and asset management plans	–	144,117,354	144,117,354	142,279,232
Funds	26,696	–	26,696	26,696

47. 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 time deposits agreements. As at 31 December 2017, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB14,485 million (31 December 2016: RMB17,663 million).

(In RMB thousands, unless otherwise stated)

48. RELATED PARTY DISCLOSURES

(a) Significant related party disclosures

The following parties constitute related parties of the Group

(i) Shareholders of the Bank with ownership of 5% or above

Name	Share percentage in the Bank As at 31 December 2017 %	 2016 %
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 information about the associate of the Group is set out in note 28 Asset Held for Sale to the 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

(In RMB thousands, unless otherwise stated)

48. 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 expense

Name	2017	2016
Harbin Economic Development and Investment Company	**23,706.14**	727.91
Heilongjiang Xin Yongsheng Trading Company Limited	**22.27**	98.09
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**95.46**	134.28

(ii) *Transactions between the Group and key management personnel or their close family members*

Name	2017	2016
Loan interest income	**1,074**	744
Deposit interest expense	**73**	105

(iii) *Transactions between the Bank and its subsidiaries*

Name	2017	2016
Interest income	**38,947**	117,196
Interest expense	**45,226**	22,681

(iv) *Transactions between the Group and its associate*

Name	2017	2016
Interest income on reverse repurchase agreements	**8**	–

(In RMB thousands, unless otherwise stated)

48. 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 expense

Name	2017	2016
Dalian Port Company Limited	**6,765**	60
Huaxia Life Insurance Company Limited (i)	**45,308**	7,778

(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

Name	2017	2016
Da Cheng Fund Management Company Limited (i)	**3,942**	59

(i) The above commission income is earned from the sale of fund products of Da Cheng Fund Management Company Limited as an agent.

(In RMB thousands, unless otherwise stated)

48. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

1. *Transactions between the Group and related parties (Continued)*

(vi) Transactions with other related parties

Name	2017	2016
Emoluments of key management personnel and their close family members	**34,242**	31,248

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 ownership of 5% or above

Deposits

	As at 31 December	
Name	2017	2016
Harbin Economic Development and Investment Company	**4,024,434**	1,000,728
Heilongjiang Xin Yongsheng Trading Company Limited	**2,474**	232
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**186**	504

(ii) Balances between the Group and key management personnel or their close family members

	As at 31 December	
	2017	2016
Loans	**27,700**	31,660
Deposits	**13,191**	10,585

(In RMB thousands, unless otherwise stated)

48. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

2. The balances with related parties (Continued)

(iii) Balances between the Group and its subsidiaries

	As at 31 December	
	2017	2016
Due from banks	**1,159,000**	480,000
Due to banks	**5,594,619**	3,330,893
Interest receivable	**21,289**	615
Interest payable	**7,875**	6,048
Other assets	**3,008**	–
Deposits	**425,762**	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	**2017**	2016
Dalian Port Company Limited	**100,027**	240,000
Huaxia Life Insurance Company Limited(i)	**–**	5,000,000

As at 31 December 2017, the Group's unconsolidated wealth management products had RMB400,000 thousand of "2014 Huaxia subordinated bond", which was issued by Huaxia Life Insurance Company Limited (31 December 2016: RMB400,000 thousand).

49. SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into four different operating segments as follows:

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 the 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 covers interbank deposit/loan, resale/repurchasing investments, foreign exchange transactions, etc. 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.

The transfer prices among segments are determined by the capital sources and due time which should match with the level of leading and deposit rates and interbank market rates announced by the PBOC. Expenses are distributed among different segments according to their benefits.

(In RMB thousands, unless otherwise stated)

49. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
Year ended 31 December 2017					
External net interest income	546,789	4,534,092	6,226,608	–	11,307,489
Internal net interest income/(expense)	2,949,355	(416,261)	(2,533,094)	–	–
Net fee and commission income	554,518	422,469	1,467,662	–	2,444,649
Other income/(loss), net (i)	–	–	(92,726)	474,166	381,440
Operating income	4,050,662	4,540,300	5,068,450	474,166	14,133,578
Operating expenses	(1,109,741)	(1,141,683)	(1,953,389)	(138,713)	(4,343,526)
Impairment losses on:					
Loans and advances to customers	(1,041,890)	(1,036,232)	–	–	(2,078,122)
Others	(106,920)	–	(476,997)	–	(583,917)
Operating profit	1,792,111	2,362,385	2,638,064	335,453	7,128,013
Profit before tax	1,792,111	2,362,385	2,638,064	335,453	7,128,013
Income tax expense					(1,819,128)
Profit for the year					5,308,885
Other segment information:					
Depreciation and amortisation	137,832	141,799	255,682	8,646	543,959
Capital expenditure	154,007	158,440	285,688	9,660	607,795
As at 31 December 2017					
Segment assets	183,029,901	141,822,482	238,853,121	549,647	564,255,151
Segment liabilities	253,189,974	130,575,052	136,535,715	1,545,492	521,846,233
Other segment information:					
Credit commitments	73,840,234	9,266,766	180,000	–	83,287,000

(i) Includes net trading income/loss, net gain on financial investments and other net operate income/loss.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

49. 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/(loss), 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 net trading income/loss, net gain on financial investments and other net operating income/loss.

49. 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, Qiqihar, Yichun, Nongken, Harbin Bank Financial Leasing Co., Ltd. and Harbin Bank Consumer Finance Co., Ltd., as well as 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:	Including Chengdu, Chongqing, as well as village and township banks operating in Southwestern China and mainly located in Sichuan and Chongqing.
Northern China:	Including Tianjin as well as village and township banks operating in Northern China which are mainly located in Beijing and Tianjin.
Other regions:	Including village and township banks operating in regions other than those listed above.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

49. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

	Mainland China					
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	Total
Year ended 31 December 2017						
External net interest income	9,329,312	238,979	959,013	401,612	378,573	11,307,489
Internal net interest income/(loss)	(1,761,232)	866,599	510,077	370,207	14,349	–
Net fee and commission income	1,678,721	137,665	464,854	135,705	27,704	2,444,649
Other income, net (i)	353,572	3,858	21,685	795	1,530	381,440
Operating income	9,600,373	1,247,101	1,955,629	908,319	422,156	14,133,578
Operating expenses	(2,972,465)	(374,173)	(573,521)	(244,398)	(178,969)	(4,343,526)
Impairment losses on:						
Loans and advances to customers	(1,296,712)	(181,914)	(353,922)	(188,489)	(57,085)	(2,078,122)
Others	(583,917)	–	–	–	–	(583,917)
Operating profit	4,747,279	691,014	1,028,186	475,432	186,102	7,128,013
Profit before tax	4,747,279	691,014	1,028,186	475,432	186,102	7,128,013
Income tax expense						(1,819,128)
Profit for the year						5,308,885
Other segment information:						
Depreciation and amortisation	406,063	31,336	87,898	9,146	9,516	543,959
Capital expenditure	417,673	42,250	83,256	46,330	18,286	607,795
As at 31 December 2017						
Segment assets	420,583,706	46,161,281	53,916,012	30,842,460	12,751,692	564,255,151
Segment liabilities	335,427,805	55,803,096	64,659,992	54,487,169	11,468,171	521,846,233
Other segment information:						
Credit commitments	24,688,587	16,203,681	24,374,528	12,623,603	5,396,601	83,287,000

(i) Includes net trading income/loss, net gain on financial investments and other net operating income/loss.

(In RMB thousands, unless otherwise stated)

49. 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/(loss)	(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/loss.

50. 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 to monitor 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 statement of financial position.

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;
- A 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 customers 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.

50. 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.

50. 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 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 2017, the carrying value of corporate loans covered by collateral amounted to RMB64,858 million (31 December 2016: RMB57,713 million).

Personal loans are mainly collateralised by residential properties. As at 31 December 2017, the carrying value of personal loans covered by collateral amounted to RMB70,182 million (31 December 2016: RMB51,392 million).

50. 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 50(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)

50. 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	
	2017	2016
Balances with the central bank	**68,523,309**	66,164,998
Due to and due\ from banks and other financial institutions	**20,626,087**	34,000,064
Financial assets held for trading	**4,540,089**	1,704,229
Reverse repurchase agreements	**4,775,700**	14,538,618
Loans and advances to customers	**230,646,535**	196,488,246
Derivative financial assets	**22,841**	70,775
Financial investments		
– Debt instruments classified as receivables	**143,051,479**	142,354,860
– Held-to-maturity investments	**27,279,545**	30,500,981
– Available-for-sale financial assets	**29,598,154**	17,572,728
Finance lease receivables	**15,759,176**	15,096,318
Others	**7,141,209**	7,460,386
	551,964,124	525,952,203
Credit commitments	**83,287,000**	73,180,282
Total maximum credit risk exposure	**635,251,124**	599,132,485

(In RMB thousands, unless otherwise stated)

50. 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, finance lease receivables and investments in debt securities. Details of the composition of the Group's investments in debt securities are set out in note 50(a)(v) to the 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	
	2017	2016
Agriculture, forestry, animal husbandry and fishing	**3,438,945**	2,847,544
Mining	**324,895**	305,600
Manufacturing	**11,612,529**	11,604,372
Production and supply of electricity, gas and water	**3,588,720**	3,892,347
Construction	**6,088,702**	4,228,498
Transportation, storage and postal services	**3,712,895**	1,840,510
Information transmission, computer services and software	**1,093,027**	1,101,464
Wholesale and services	**33,717,160**	30,356,637
Lodging and catering	**3,375,677**	2,511,497
Finance	**5,000**	51,320
Real estate	**13,726,652**	14,062,830
Leasing and commercial services	**23,418,895**	15,659,477
Scientific research, technological services and geological prospecting	**329,896**	425,050
Water, environment and public utility management and investment industry	**10,477,581**	3,044,832
Resident services and other services	**490,527**	508,467
Education	**391,673**	384,940
Health, social security and social welfare	**1,143,360**	1,382,254
Culture, sports and entertainment	**1,117,950**	392,050
Public administration, social security and social organisations	**423,496**	425,000
Subtotal for corporate loans and advances	**118,477,580**	95,024,689
Personal business	**32,841,427**	26,768,088
Personal consumption	**75,431,921**	69,405,062
Loans to farmers	**10,102,440**	9,620,216
Subtotal for personal loans	**118,375,788**	105,793,366
Discounted bills	**544,417**	809,878
Total for loans and advances to customers	**237,397,785**	201,627,933

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

50. 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	
	2017	2016
Neither past due nor impaired	**228,056,765**	194,313,194
Past due but not impaired	**5,304,009**	4,232,760
Impaired	**4,037,011**	3,081,979
	237,397,785	201,627,933
Less: Allowance for impairment losses		
Collectively assessed	**(5,604,618)**	(4,366,467)
Individually assessed	**(1,146,632)**	(773,220)
	(6,751,250)	(5,139,687)
	230,646,535	196,488,246

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 2017		
	Pass	**Special Mention**	**Total**
Unsecured loans	**34,466,622**	**41,064**	**34,507,686**
Guaranteed loans	**60,537,172**	**1,184,132**	**61,721,304**
Loans secured by mortgages	**100,605,714**	**1,729,552**	**102,335,266**
Pledged loans	**29,492,480**	**29**	**29,492,509**
	225,101,988	**2,954,777**	**228,056,765**

(In RMB thousands, unless otherwise stated)

50. 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 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

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 2017		
	Corporate loans and advances	**Personal loans**	**Total**
Past due for:			
Less than one month	**1,702,176**	**744,060**	**2,446,236**
One to two months	**659,381**	**633,456**	**1,292,837**
Two to three months	**591,588**	**344,533**	**936,121**
Over three months	**465,114**	**163,701**	**628,815**
	3,418,259	**1,885,750**	**5,304,009**
Fair value of collateral held	**6,204,542**	**1,972,942**	**8,177,484**

(In RMB thousands, unless otherwise stated)

50. 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 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	5,939,266	1,587,711	7,526,977

Impaired

Impaired loans and advances are defined as those loans and advances which 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.

As at 31 December 2017, the fair values of collateral that the Group holds relating to loans individually determined to be impaired amounted to RMB2,486,566 thousand (31 December 2016: RMB1,794,395 thousand). The collateral mainly consists of land, buildings, equipment and others.

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 the repayment method, improvement of collateral, changing the type of guarantee, etc. As at 31 December 2017, the gross value of the loans and advances rescheduled held by the Group amounted to RMB3.688 billion (31 December 2016: RMB3.032 billion).

(iv) Finance lease receivables

	As at 31 December	
	2017	2016
Finance lease receivables, net		
Neither past due nor impaired	**14,947,659**	15,282,697
Past due but not impaired	**718,835**	–
Impaired	**385,981**	–
	16,052,475	15,282,697
Less: Allowance for impairment losses	**(293,299)**	(186,379)
Net amount	**15,759,176**	15,096,318

(In RMB thousands, unless otherwise stated)

50. 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 types of issuers and investments:

	31 December 2017				
	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	100,109	6,121,028	7,222,030	827,305	14,270,472
Policy banks	–	14,554,768	10,790,798	126,007	25,471,573
Banks and other financial institutions	–	2,769,872	7,749,922	3,527,087	14,046,881
Corporate entities	140,283,296	3,833,877	3,835,404	59,690	148,012,267
Subtotal	140,383,405	27,279,545	29,598,154	4,540,089	201,801,193
Past due but not impaired					
Corporate entities	2,722,876	–	–	–	2,722,876
Subtotal	2,722,876	–	–	–	2,722,876
Impaired					
Corporate entities	2,260,317	–	–	–	2,260,317
Subtotal	2,260,317	–	–	–	2,260,317
Less: Allowance for impairment losses	(2,315,119)	–	–	–	(2,315,119)
Total	143,051,479	27,279,545	29,598,154	4,540,089	204,469,267

(In RMB thousands, unless otherwise stated)

50. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Debt securities (Continued)

	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

(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 the 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)

50. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(i) Analysis of the remaining maturity of the financial assets and financial liabilities is set out below:

31 December 2017

	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	-	21,698,436	-	-	-	-	-	47,834,725	69,533,161
Due from banks and other financial institutions	-	4,613,167	5,305,000	5,037,718	5,337,376	332,826	-	-	20,626,087
Financial assets held for trading	-	-	299,545	3,227,543	40,102	449,169	523,730	-	4,540,089
Reverse repurchase agreements	-	-	4,775,700	-	-	-	-	-	4,775,700
Loans and advances to customers	6,548,345	-	13,545,200	13,816,920	76,296,251	49,722,403	70,717,416	-	230,646,535
Derivative financial assets	-	-	-	22,841	-	-	-	-	22,841
Financial investments	4,008,806	-	12,166,604	4,925,717	48,505,180	99,155,155	31,139,616	28,100	199,929,178
Finance lease receivables	992,896	-	492,363	589,888	4,290,581	9,247,965	145,483	-	15,759,176
Other financial assets	127,445	318,515	4,002,487	2,300,481	301,862	68,733	21,686	-	7,141,209
Total financial assets	11,677,492	26,630,118	40,586,899	29,921,108	134,771,352	158,976,251	102,547,931	47,862,825	552,973,976
Financial liabilities:									
Due to the central bank	-	-	50,000	17,960	453,150	-	-	-	521,110
Borrowings from banks and other financial institutions	-	-	1,700,000	200,000	10,231,614	666,477	-	-	12,798,091
Due to banks	-	22,202	790,000	3,725,861	19,084,000	-	-	-	23,622,063
Derivative financial liabilities	-	-	-	33,116	-	-	-	-	33,116
Repurchase agreements	-	-	4,580,000	10,000	-	-	-	-	4,590,000
Due to customers	-	153,926,420	13,439,460	39,508,641	121,456,085	48,804,262	1,123,530	-	378,258,398
Debt securities issued	-	-	7,015,192	28,366,091	41,959,194	5,994,837	7,998,676	-	91,333,990
Other financial liabilities	-	1,218,460	538,968	1,279,770	3,095,570	2,499,097	68,849	-	8,700,714
Total financial liabilities	-	155,167,082	28,113,620	73,141,439	196,279,613	57,964,673	9,191,055	-	519,857,482
Net position	11,677,492	(128,536,964)	12,473,279	(43,220,331)	(61,508,261)	101,011,578	93,356,876	47,862,825	33,116,494

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

50. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(i) Analysis of the remaining maturity of the financial assets and financial liabilities is set out below: (Continued)

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	381,349	–	246,267	528,433	3,438,507	10,314,536	187,226	–	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	6,739,520	30,856,937	40,185,116	40,584,491	142,207,113	148,865,762	78,536,211	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	6,739,520	(117,215,761)	249,836	1,077,790	(69,984,646)	98,638,959	69,121,446	38,822,391	27,449,535

(In RMB thousands, unless otherwise stated)

50. 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 2017

	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	21,698,436	-	-	-	-	-	47,834,725	69,533,161
Due from banks and other financial institutions (*)	4,613,799	10,143,689	5,135,688	5,498,265	337,658	-	-	25,729,099
Financial assets held for trading	-	306,606	3,255,550	75,819	562,190	569,938	-	4,770,103
Loans and advances to customers	-	15,255,671	17,795,919	85,065,929	72,374,550	103,029,693	7,737,110	301,258,872
Financial investments	-	13,292,654	7,122,180	55,553,193	113,578,091	35,121,055	4,041,431	228,708,604
Finance lease receivables	-	564,997	701,521	4,779,368	10,011,595	158,061	1,003,288	17,218,830
Other financial assets	69,520	3,008,302	31,530	61,698	19,560	18,190	-	3,208,800
Total financial assets	26,381,755	42,571,919	34,042,388	151,034,272	196,883,644	138,896,937	60,616,554	650,427,469

(In RMB thousands, unless otherwise stated)

50. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) *Maturity analysis of contractual undiscounted cash flows (Continued)*

31 December 2017

	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	-	50,970	19,672	457,694	-	-	-	528,336
Borrowings from banks and other financial institutions	-	1,756,505	295,895	10,410,297	701,594	-	-	13,164,291
Due to banks (**)	22,257	5,506,929	4,056,595	19,645,275	-	-	-	29,231,056
Due to customers	154,004,536	14,438,422	41,776,369	127,181,585	52,923,010	1,922,748	-	392,246,670
Debt securities issued	-	7,030,000	28,610,000	43,819,900	7,883,800	9,280,000	-	96,623,700
Other financial liabilities	1,148,677	110,753	290,617	812,246	328,764	400	-	2,691,457
Total financial liabilities	155,175,470	28,893,579	75,049,148	202,326,997	61,837,168	11,203,148	-	534,485,510
Net position	(128,793,715)	13,678,340	(41,006,760)	(51,292,725)	135,046,476	127,693,789	60,616,554	115,941,959
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	-	-	1,022,489	-	-	-	-	1,022,489
Total outflow	-	-	1,032,764	-	-	-	-	1,032,764
Credit commitments	9,266,766	3,010,936	8,493,865	60,230,607	2,104,826	-	180,000	83,287,000

(*) Includes reverse repurchase agreements

(**) Includes repurchase agreements

(In RMB thousands, unless otherwise stated)

50. 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
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 (*)	2,480,334	18,235,274	12,957,555	14,508,322	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	–	242,152	640,206	3,947,663	11,271,382	206,136	404,314	16,711,853
Other financial assets	116,371	3,616,813	16,286	90,172	14,674	13,031	–	3,867,347
Total financial assets	30,811,346	42,299,310	44,632,388	156,296,864	180,738,116	104,994,990	46,065,755	605,838,769

(In RMB thousands, unless otherwise stated)

50. 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	(117,323,296)	1,579,025	3,746,139	(60,199,424)	126,541,703	93,204,516	46,065,755	93,614,418
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

50. 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 Bank uses different management methods to control market risks, including trading book and banking book risks.

(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 and foreign exchange dealings.

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 in which the Group has significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis shows 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, has 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

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

50. 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	**2017**	2016
USD	-1%	**(20,320)**	(20,733)
HKD	-1%	**160**	191
RUB	-1%	**(715)**	(678)

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)

50. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

A breakdown of the financial assets and financial liabilities analysed by currency is as follows:

31 December 2017

	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	69,361,340	161,551	1,167	7,026	2,077	69,533,161
Due from banks and other financial institutions	17,049,290	3,301,779	18,093	152,393	104,532	20,626,087
Financial assets held for trading	4,540,089	–	–	–	–	4,540,089
Reverse repurchase agreements	4,775,700	–	–	–	–	4,775,700
Loans and advances to customers	229,913,397	730,512	–	–	2,626	230,646,535
Derivative financial assets	22,841	–	–	–	–	22,841
Financial investments	199,929,178	–	–	–	–	199,929,178
Finance lease receivables	15,759,176	–	–	–	–	15,759,176
Other financial assets	7,069,550	71,656	–	–	3	7,141,209
Total financial assets	548,420,561	4,265,498	19,260	159,419	109,238	552,973,976
Financial liabilities:						
Due to the central bank	521,110	–	–	–	–	521,110
Borrowings from banks and other institutions	12,798,091	–	–	–	–	12,798,091
Due to banks	23,500,135	99,886	–	10,339	11,703	23,622,063
Derivative financial liabilities	–	33,116	–	–	–	33,116
Repurchase agreements	4,590,000	–	–	–	–	4,590,000
Due to customers	375,846,707	2,083,265	1,181	77,610	249,635	378,258,398
Debt securities issued	91,333,990	–	–	–	–	91,333,990
Other financial liabilities	8,649,383	17,225	34,060	–	46	8,700,714
Total financial liabilities	517,239,416	2,233,492	35,241	87,949	261,384	519,857,482
Net position	31,181,145	2,032,006	(15,981)	71,470	(152,146)	33,116,494
Credit commitments	83,165,970	121,030	–	–	–	83,287,000

(In RMB thousands, unless otherwise stated)

50. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) *Currency risk (Continued)*

A breakdown of the financial assets and financial liabilities analysed by currency is as follows: (continued)

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

50. 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 the 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 the 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.

(In RMB thousands, unless otherwise stated)

50. 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		Effect on equity	
	31 December		31 December	
	2017	2016	**2017**	2016
+100 basis points	**(370,409)**	(333,439)	**(628,094)**	(342,512)
-100 basis points	**370,409**	333,439	**669,755**	362,300

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)

50. 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 are earlier, of the Group's financial assets and financial liabilities:

31 December 2017

	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	68,523,309	-	-	-	1,009,852	69,533,161
Due from banks and other financial institutions	14,955,885	5,337,376	332,826	-	-	20,626,087
Financial assets held for trading	3,527,088	40,102	449,169	523,730	-	4,540,089
Reverse repurchase agreements	4,775,700	-	-	-	-	4,775,700
Loans and advances to customers	90,590,859	101,269,365	28,005,388	4,232,578	6,548,345	230,646,535
Derivative financial assets	-	-	-	-	22,841	22,841
Financial investments	29,780,560	46,631,165	90,193,054	29,280,093	4,044,306	199,929,178
Finance lease receivables	13,755,647	678,664	331,969	-	992,896	15,759,176
Other financial assets	-	-	-	-	7,141,209	7,141,209
Total financial assets	225,909,048	153,956,672	119,312,406	34,036,401	19,759,449	552,973,976
Financial liabilities:						
Due to the central bank	67,960	453,150	-	-	-	521,110
Borrowings from banks and other financial institutions	1,900,000	10,231,614	666,477	-	-	12,798,091
Due to banks	4,538,063	19,084,000	-	-	-	23,622,063
Derivative financial liabilities	-	-	-	-	33,116	33,116
Repurchase agreements	4,590,000	-	-	-	-	4,590,000
Due to customers	206,769,654	121,456,085	48,804,262	1,123,530	104,867	378,258,398
Debt securities issued	35,381,283	41,959,194	5,994,837	7,998,676	-	91,333,990
Other financial liabilities	-	-	-	-	8,700,714	8,700,714
Total financial liabilities	253,246,960	193,184,043	55,465,576	9,122,206	8,838,697	519,857,482
Total interest sensitivity gap	(27,337,912)	(39,227,371)	63,846,830	24,914,195	N/A	N/A

(In RMB thousands, unless otherwise stated)

50. 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 are earlier, of the Group's financial assets and financial liabilities: (Continued)

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	14,714,969	–	–	–	381,349	15,096,318
Other financial assets	–	–	–	–	7,460,386	7,460,386
Total financial assets	216,026,702	154,422,422	114,965,195	26,426,913	14,956,309	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	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	(9,446,865)	(55,286,967)	67,677,776	17,023,977	N/A	N/A

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

50. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(d) Capital management

The Group's objectives on 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, issue 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 fully complied with all the 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 meet the regulatory requirement of the capital adequacy ratio by the end of 2018. The regulatory requirements request a commercial bank 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%.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

50. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

	As at 31 December	
	2017	2016
Core capital		
Qualified part of share capital	**10,995,600**	10,995,600
Qualified part of capital reserve	**7,110,849**	7,607,292
Surplus reserve and general reserves	**9,702,003**	7,890,780
Undistributed profits	**13,452,019**	10,014,136
Qualified part of non-controlling interests	**433,950**	492,080
Core tier 1 capital deductible items:		
Fully deductible items	**(166,720)**	(158,830)
Net core tier 1 capital	**41,527,701**	36,841,058
Net other tier 1 capital	**57,860**	43,309
Net tier 1 capital	**41,585,561**	36,884,367
Net tier 2 capital	**10,735,959**	10,343,023
Net capital	**52,321,520**	47,227,390
Total risk-weighted assets	**427,058,292**	394,614,936
Core tier 1 capital adequacy ratio	**9.72%**	9.34%
Tier 1 capital adequacy ratio	**9.74%**	9.35%
Capital adequacy ratio	**12.25%**	11.97%

(In RMB thousands, unless otherwise stated)

51. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determination and disclosure of 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 the fair value hierarchy of financial instruments measured or disclosed at fair value:

31 December 2017

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	–	22,841	–	22,841
Financial assets held for trading				
Debt securities	–	4,540,089	–	4,540,089
Available-for-sale financial assets				
Debt securities	–	28,916,214	–	28,916,214
Wealth management products	–	100,000	–	100,000
Trust investments and asset management plans	–	553,840	–	553,840
Funds	–	28,100	–	28,100
	–	29,598,154	–	29,598,154
	–	34,161,084	–	34,161,084
Financial liabilities measured at fair value				
Derivative financial liabilities	–	33,116	–	33,116
Financial assets disclosed at fair value				
Debt instruments classified as receivables	–	143,047,633	–	143,047,633
Held-to-maturity investments	–	26,267,479	–	26,267,479
	–	169,315,112	–	169,315,112
Financial liabilities disclosed at fair value				
Financial bonds issued	–	9,855,434	–	9,855,434
Tier 2 capital bonds issued	–	6,984,784	–	6,984,784
Negotiable certificates of deposit issued	–	73,196,892	–	73,196,892
	–	90,037,110	–	90,037,110

(In RMB thousands, unless otherwise stated)

51. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

The following tables show the fair value hierarchy of financial instruments measured or disclosed at fair value: (Continued)

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
Funds	–	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 issued	–	9,486,924	–	9,486,924
Tier 2 capital bonds issued	–	7,783,920	–	7,783,920
Negotiable certificates of deposit issued	–	24,323,793	–	24,323,793
	–	41,594,637	–	41,594,637

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, fair values are estimated on the basis of discounted cash flows or pricing models. For debt securities, the fair values 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.

(In RMB thousands, unless otherwise stated)

51. 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 on the basis of pricing models or discounted cash flows.

(ii) The fair values of held-to-maturity investments, Tier 2 capital 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 are estimated on the basis of pricing models or discounted cash flows.

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 financial 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 repriced 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

52. SUBSEQUENT EVENTS

As approved at the Board of Directors' meeting held on 28 March 2018, the profit distribution plan of 2017 was as follows:

1. 10% of 2017 net profit amounting to RMB486,452 thousand is appropriated to the statutory surplus reserve;

2. RMB218,593 thousand is appropriated to the general reserve;

3. Based on the number of total shares of 10,995,600 thousand issued as at 31 December 2017, a cash dividend of RMB0.05 per share amounting to approximately RMB549,780 thousand was approved, and is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting.

Except for the above, there were no significant events after the reporting period.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

53. STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY OF THE BANK

(a) Statement of financial position of the bank

	As at 31 December	
	2017	2016
ASSETS		
Cash and balances with the central bank	**66,014,734**	63,037,117
Due from banks and other financial institutions	**18,094,646**	30,932,328
Financial assets held for trading	**4,540,089**	1,704,229
Reverse repurchase agreements	**4,775,700**	14,538,618
Loans and advances to customers	**217,466,503**	184,750,461
Derivative financial assets	**22,841**	70,775
Financial investments	**199,949,798**	190,453,189
Investments in subsidiaries	**3,617,420**	2,970,020
Property and equipment	**8,291,258**	8,271,985
Deferred income tax assets	**1,901,028**	1,358,823
Asset held for sale	**–**	1,234,169
Other assets	**6,853,137**	7,593,359
TOTAL ASSETS	**531,527,154**	506,915,073
LIABILITIES		
Due to banks	**29,213,048**	83,799,198
Derivative financial liabilities	**33,116**	90,392
Repurchase agreements	**4,590,000**	13,694,050
Due to customers	**358,669,261**	325,388,399
Income tax payable	**658,142**	774,561
Debt securities issued	**90,337,011**	40,886,505
Other liabilities	**8,303,030**	6,925,341
TOTAL LIABILITIES	**491,803,608**	471,558,446
EQUITY		
Share capital	**10,995,600**	10,995,600
Capital reserve	**7,639,362**	7,639,362
Other comprehensive income	**(526,018)**	(28,417)
Surplus reserves	**2,896,183**	2,409,731
General and regulatory reserves	**6,422,980**	5,295,564
Undistributed profits	**12,295,439**	9,044,787
TOTAL EQUITY	**39,723,546**	35,356,627
TOTAL EQUITY AND LIABILITIES	**531,527,154**	506,915,073

Guo Zhiwen	**Lv Tianjun**	**Yang Dazhi**
Chairman	Vice President (performing the duties of the President)	General Manager of Finance and Accounting Department

(In RMB thousands, unless otherwise stated)

53. STATEMENT OF FINANCIAL POSITION AND STATEMENT OF 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
I.	**Balance as at 1 January 2017**	**10,995,600**	**7,639,362**	**(28,417)**	**2,409,731**	**5,295,564**	**9,044,787**	**35,356,627**
II.	**Movements in this year**	**–**	**–**	**(497,601)**	**486,452**	**1,127,416**	**3,250,652**	**4,366,919**
(I)	Total comprehensive income	–	–	(497,601)	–	–	4,864,520	4,366,919
(II)	Profit distribution	–	–	–	486,452	1,127,416	(1,613,868)	–
1.	Appropriation to surplus reserves	–	–	–	486,452	–	(486,452)	–
2.	Appropriation to general and regulatory reserves	–	–	–	–	1,127,416	(1,127,416)	–
III.	**Balance as at 31 December 2017**	**10,995,600**	**7,639,362**	**(526,018)**	**2,896,183**	**6,422,980**	**12,295,439**	**39,723,546**
I.	**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
II.	**Movements in this year**	–	–	(291,390)	451,995	1,312,710	1,578,713	3,052,028
(I)	Total comprehensive income	–	–	(291,390)	–	–	4,519,947	4,228,557
(II)	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

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2018.

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

In accordance with the Hong Kong Listing Rules and the Banking (Disclosure) Rules, the Group discloses the unaudited supplementary financial information as follows:

(a) LIQUIDITY RATIO

	As at 31 December	
	2017	2016
RMB current assets to RMB current liabilities	**50.97%**	44.66%
Foreign currency current assets to foreign currency current liabilities	**581.52%**	94.18%

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 2017					
Spot assets	**4,265,498**	**19,260**	**159,419**	**109,238**	**4,553,415**
Spot liabilities	**(2,233,492)**	**(35,241)**	**(87,949)**	**(261,384)**	**(2,618,066)**
Forward purchases	**471,845**	**–**	**–**	**–**	**471,845**
Forward sales	**(471,845)**	**–**	**–**	**–**	**(471,845)**
Net long/(short) position	**2,032,006**	**(15,981)**	**71,470**	**(152,146)**	**1,935,349**
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

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2017
(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	
Due from banks and other financial institutions	**2017**	2016
Asia Pacific excluding Mainland China	**67,310**	60,738
– of which attributed to Hong Kong	**23,040**	21,137
Europe	**1,047,452**	1,028,863
North America	**1,319,506**	306,419
Total	**2,434,268**	1,396,020

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

(d) LOANS AND ADVANCES TO CUSTOMERS

(i) Overdue loans and advances to customers

	As at 31 December	
	2017	2016
Balances of overdue loans and advances to customers		
Between 3 and 6 months	**503,695**	446,584
Between 6 and 12 months	**1,498,220**	1,102,431
Over 12 months	**2,642,295**	1,663,342
As a percentage of the total gross loans and advances to customers		
Between 3 and 6 months	**0.21%**	0.22%
Between 6 and 12 months	**0.63%**	0.55%
Over 12 months	**1.11%**	0.82%
	1.95%	1.59%

(ii) Overdue loans and advances to customers by geographical location

	As at 31 December	
	2017	2016
Balances of overdue loans and advances to customers		
Heilongjiang region	**4,224,008**	3,527,001
Northeastern China	**1,217,658**	947,436
Southwestern China	**2,585,381**	1,983,609
Northern China	**735,455**	426,169
Other regions	**566,144**	402,582
	9,328,646	7,286,797

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2017
(In RMB thousands, unless otherwise stated)

(e) OVERDUE AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 31 December 2017 and 2016, 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 2017 and 2016, 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	
	2017	2016
On-balance sheet exposure	**246,540,294**	211,910,526
Off-balance sheet exposure	**83,287,000**	73,180,282
Individually assessed allowance for impairment losses	**1,977,857**	1,141,368

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

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