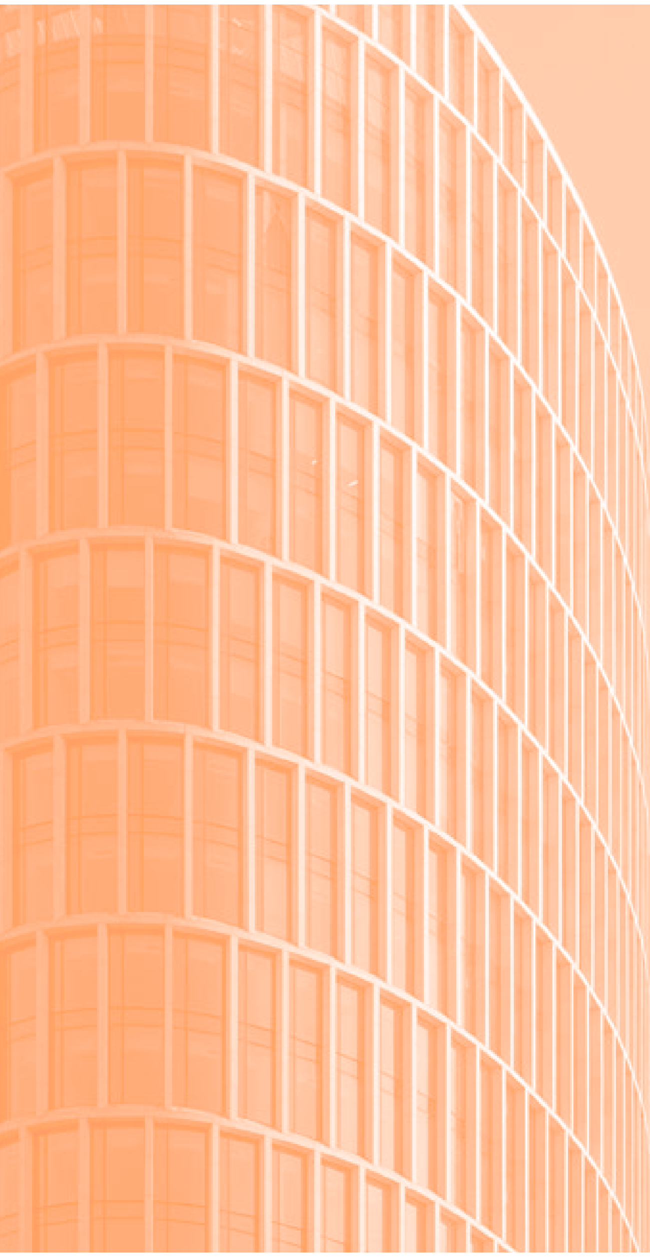
哈尔滨银行
HarbinBank

HARBIN BANK CO., LTD.

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

2018 Annual Report



The Company holds the Finance Permit No. B0306H223010001 approved by the China Banking and Insurance Regulatory Commission and has obtained the Business License (Unified 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 Share"	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 was applied for listing on the Shanghai Stock Exchange and subscribed and traded in RMB and the application was later revoked
"A Share Offering"	the Bank's proposed initial public offering of not more than 3,666,000,000 A Shares which was applied for listing on the Shanghai Stock Exchange and the application was later revoked
"Reporting Period" or "Year"	the year ended 31 December 2018
"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 RMB
"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
"CBIRC"	the China Banking and Insurance Regulatory Commission
"CBRC"	former 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:

LYU Tianjun* 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:

40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong

Contact Address:

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

Telephone:

86-451-86779933

Facsimile:

86-451-86779829

Email:

ir@hrbb.com.cn

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 Unified 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

* The surname of 呂天君 as shown on his passport is LYU.

Company Profile

Company Profile

The Company, 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 Company 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 Company, 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 2018, the Group had 368 business outlets with branches and sub-branches across seven administrative regions in China.

As at 31 December 2018, the Bank had total assets of RMB615.5885 billion, total loans and advances to customers of RMB253.7627 billion and total customer deposits of RMB395.5168 billion.

In 2018, the Bank was ranked 217th in “Brand Finance China 300 2018” published by Brand Finance (a famous UK-based branded business valuation consulting firm) and 32nd among 47 banks on the list, 207th in the “Top 1000 World Banks 2018” and 34th among the Chinese-funded banks on the list according to The Banker of United Kingdom, and 489th in the “Top 500 Chinese Companies for 2018” published by the Fortune China, and also won the “2018 Gold Medal Award of Chinese Financial Institutions•Golden Dragon Awards: Top Ten City Commercial Banks for the Year (2018中國金融機構金牌榜•金龍獎：年度十佳城市商業銀行)” and the “13th 21st Century Asian Financial Competitiveness: 2018 Inclusive Finance Bank (第十三屆21世紀亞洲金融競爭力：2018年度普惠金融業務銀行)”.

Company Profile

Major Awards for 2018

List of Major Awards for 2018

No.	Name of Award	Awarding Party	Time of Award
1	2017 China Financial Market Award – Best Corporate Governance Award	China Financial Market, a famous financial magazine in Hong Kong	January 2018
2	Outstanding China Banking News Stories of 2017 (2017年度中國銀行業好新聞優秀獎)	China Banking Association	January 2018
3	The Excellent Proprietary Institution Award of 2017: Excellent CCDC Member	Government Securities Depository Trust & Clearing Co., Ltd.	January 2018
4	2017 Financial Technology (Inclusive Finance) Award of the "Golden Cicada Award" ("金蟬獎"之2017年度金融科技（普惠金融）獎)	China Times	January 2018
5	Golden Label Road Race: Harbin Bank 2017 Harbin International Marathon	Chinese Athletic Association	January 2018
6	2017 National Banking Industry Wealth Management Information Registration Outstanding Units (2017全國銀行業理財信息登記工作傑出單位)	Banking Wealth Management Product Registration & Depository Center Co., Ltd.	January 2018
7	2017 Most Trustworthy Featured Financial Bank (2017最值得信任的特色金融銀行)	Investor Journal	February 2018
8	Ranked 217th in the 2018 Brand Finance China 300 and 32nd among 47 banks on the list	Brand Finance	February 2018
9	Best Progress Award of the Interbank RMB Market in 2017 (2017年度銀行間本幣市場最佳進步獎)	National Interbank Funding Center	March 2018
10	Smart Medical: Top Ten Innovative Financial Technology Products Award under 2018 China's Financial Service Innovation Award (智慧醫療：2018中國金融創新獎－十佳金融科技產品創新獎)	Chinese Banker, Research Center for Institute of Finance and Banking of Chinese Academy of Social Sciences, Research Center for Wealth Management, and China Center for Internet Economy Research of Central University of Finance and Economics	June 2018

Company Profile

No.	Name of Award	Awarding Party	Time of Award
11	An Ju Loan: Top Ten Innovative Financial Products Award (Retail Business) under 2018 China's Financial Service Innovation Award (安居貸：2018中國金融創新獎－十佳金融產品創新獎（零售業務）)	Chinese Banker, Research Center for Institute of Finance and Banking of Chinese Academy of Social Sciences, Research Center for Wealth Management, and China Center for Internet Economy Research of Central University of Finance and Economics	June 2018
12	Best Trade Finance City Commercial Bank (最佳貿易金融城商銀行)	Professional Trade Financing Committee of the China Banking Association	June 2018
13	Top 1000 World Banks 2018: ranked 207th and ranked 34th in China	The Banker	July 2018
14	Top 500 Chinese Companies for 2018: ranked 489th	Fortune China	July 2018
15	"Mobile Payment Security and Convenience Week" Outstanding Event Organisation Award (「移動支付安全便民宣傳周」活動優秀組織獎)	Payment & Clearing Association of China	July 2018
16	ARC Gold Award: Harbin Bank Co., Ltd. Social Responsibility Report 2016	International ARC Awards	August 2018
17	Iron-horse Bank Awards: Most Socially Responsible Bank (鐵馬銀行：最具社會責任銀行)	Modern Bankers	November 2018
18	2018 Gold Medal Award of Chinese Financial Institutions • Golden Dragon Awards: Top Ten City Commercial Banks for the Year (2018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 2018
19	13th 21st Century Asian Financial Competitiveness: 2018 Inclusive Finance Bank (第十三屆21世紀亞洲金融競爭力：2018年度普惠金融業務銀行)	21st Century Business Herald	December 2018
20	16th China's Financial Annual Champion Awards: Mobile Banking Progress Award for the Year (第十六屆中國財經風雲榜：年度手機銀行進步獎)	Hexun.com	December 2018
21	16th China's Financial Annual Champion Awards: Credit Card Brand for the Year (第十六屆中國財經風雲榜：年度信用卡品牌)	Hexun.com	December 2018

Company Profile

Major Subsidiaries

The details of major subsidiaries of the Company as at 31 December 2018 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	106	80.00	80
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30	100.00	30
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	55	80.00	40

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
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	40	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	1,050	75.71	795
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.	Zhongjiang, 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

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					
	2018	2017	2018 vs. 2017	2016	2015	2014
				(In RMB million, except percentages)		
Results of operations			**Rate of change**			
Net interest income	**10,127.0**	11,307.5	-10.44%	11,573.3	9,632.9	8,397.6
Net fee and commission income	**2,391.4**	2,444.6	-2.18%	2,393.4	1,959.4	1,600.3
Operating income	**14,325.4**	14,133.6	1.36%	14,172.0	11,945.4	10,252.8
Operating expenses	**(4,594.3)**	(4,343.5)	5.77%	(4,522.2)	(4,736.9)	(4,433.3)
Impairment losses	**(2,425.9)**	(2,662.1)	-8.87%	(3,294.8)	(1,338.5)	(709.2)
Profit before tax	**7,305.2**	7,128.0	2.49%	6,445.6	5,919.0	5,127.5
Net profit	**5,574.4**	5,308.9	5.00%	4,962.2	4,509.6	3,840.8
Net profit attributable to shareholders of the Bank	**5,548.6**	5,249.1	5.71%	4,876.6	4,457.6	3,806.6
For each share (RMB)			**Rate of change**			
Net assets per share attributable to shareholders of the Company	**4.21**	3.75	12.26%	3.32	3.01	2.69
Earnings per share	**0.50**	0.48	4.17%	0.44	0.41	0.37
Profitability indicators			**Change**			
Return on average total assets[1]	**0.94%**	0.96%	decreased by 0.02 percentage point	1.01%	1.14%	1.15%
Return on average equity[2]	**12.68%**	13.50%	decreased by 0.82 percentage point	14.01%	14.23%	15.46%
Net interest spread[3]	**1.67%**	1.95%	decreased by 0.28 percentage point	2.47%	2.47%	2.49%
Net interest margin[4]	**1.87%**	2.15%	decreased by 0.28 percentage point	2.65%	2.68%	2.71%
Net fee and commission income to operating income ratio	**16.69%**	17.30%	decreased by 0.61 percentage point	16.89%	16.40%	15.61%
Cost-to-income ratio[5]	**30.88%**	29.71%	increased by 1.17 percentage points	28.60%	31.75%	35.04%

Summary of Accounting Data and Financial Indicators

	As at 31 December					
	2018	2017	2018 vs. 2017	2016	2015	2014
				(In RMB million, except percentages)		
Capital adequacy indicators[6]			**Change**			
Core tier 1 capital adequacy ratio	**9.74%**	9.72%	increased by 0.02 percentage point	9.34%	11.14%	13.94%
Tier 1 capital adequacy ratio	**9.75%**	9.74%	increased by 0.01 percentage point	9.35%	11.14%	13.94%
Capital adequacy ratio	**12.15%**	12.25%	decreased by 0.10 percentage point	11.97%	11.64%	14.64%
Total equity to total assets	**7.71%**	7.52%	increased by 0.19 percentage point	6.93%	7.61%	8.78%
Assets quality indicators			**Change**			
NPL ratio[7]	**1.73%**	1.70%	increased by 0.03 percentage point	1.53%	1.40%	1.13%
Impairment coverage ratio[8]	**169.88%**	167.24%	increased by 2.64 percentage points	166.77%	173.83%	208.33%
Impairment losses on loans[9]	**2.94%**	2.84%	increased by 0.10 percentage point	2.55%	2.43%	2.35%

Summary of Accounting Data and Financial Indicators

	As at 31 December					
	2018	2017	2018 vs. 2017	2016	2015	2014
						(In RMB million, except percentages)
Other indicators			**Change**			
Loan-deposit ratio	**64.16%**	62.76%	increased by 1.40 percentage points	58.76%	48.46%	53.01%
Scale indicators			**Rate of change**			
Total assets	**615,588.5**	564,255.2	9.10%	539,016.2	444,851.3	343,641.6
Of which: total loans and advances to customers	**253,762.7**	237,397.8	6.89%	201,627.9	148,674.8	123,930.3
Total liabilities	**568,097.0**	521,846.2	8.86%	501,681.2	411,003.3	313,479.0
Of which: due to customers	**395,516.8**	378,258.4	4.56%	343,151.0	306,817.7	233,793.8
Share capital	**10,995.6**	10,995.6	–	10,995.6	10,995.6	10,995.6
Equity attributable to shareholders of the Company	**46,274.7**	41,260.5	12.15%	36,507.8	33,099.6	29,530.3
Non-controlling interests	**1,216.8**	1,148.4	5.96%	827.2	748.4	632.3
Total equity	**47,491.5**	42,409.0	11.98%	37,335.0	33,848.0	30,162.6

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 in accordance with the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation).

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

(8) Calculated with the allowance for impairment loss of loans 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 2018, the global economy grew at a moderate pace and the growth momentum slowed down. The development of major economies clearly diverged and international trade regulations went through substantial adjustments. Escalating China-US trade frictions brought unprecedented external uncertainties to China's economy. Facing the more complicated and changing economic and financial situation and more stringent external regulatory requirements, the Board of the Bank, with the support from our shareholders, proactively responded to the government policies and strictly complied with the regulatory requirements, enhanced our financial service level and kept up high quality development with steady progress, thereby achieving more satisfactory operation results with stable and sound operation, and further enhancing our market competitiveness and corporate image.

Chairman's Statement

During the year, the Bank developed against the economic downward trend. As at the end of 2018, the total assets of the Bank amounted to RMB615.5885 billion, representing an increase of 9.1% from the beginning of the year, breaking a record high of more than RMB600 billion. The asset and liability business of the Bank sustained sound development as a whole. Its structure was continuously optimised with effective loan granted and robust growth in deposits, realizing a net profit of RMB5.5744 billion for the year, representing a year-on-year increase of 5.0%. Net income from intermediary business amounted to RMB2.391 billion, representing a year-on-year decrease of RMB53.2 million and accounting for 16.7% of the total income. Financial indicators, including return on average total assets, return on average equity, cost-to-income ratio, profit per capital, etc., recorded satisfactory results. The subsidiaries maintained stable growth. Total assets and net profit of HB Leasing amounted to RMB23.3730 billion and RMB0.1736 billion respectively, showed good momentum in the business expansion. Total assets and net profit of HBCF amounted to RMB7.1644 billion and RMB49.8785 million respectively. It completed the first round of capital injection efficiently and rose to the top among the industry peers in terms of capital strength. Total assets and net profit of the 32 village and township banks amounted to RMB21.0290 billion and RMB63.9 million respectively.

During the year, the governance of the Bank was enhanced efficiently, and the management mechanism continued to be improved. Centring on the work theme of "governance enhancement", the Bank standardised the management of shareholders' equity, strengthened the decision-making mechanism of the Board, the supervision mechanism of the Board of Supervisors and the execution mechanism of the senior management, revamped the strategy management mechanism, constantly improved the risk management methods and tools, completed the differentiated risk pricing mechanism, and effectively reinforced the liquidity management. The technology operation ability was effectively enhanced and the new core system was put into operation.

During the year, the development of the Bank's featured businesses accelerated and the Bank actively explored innovative business models. The Bank adhered to our customer-oriented concept, and operated by unique strategies with sufficient resources. The Bank took comprehensive retail finance as our priority, and retail loans, small and micro enterprise business loans, agricultural finance business and credit card business showed good momentum of development. HB Leasing focused on the utility, green energy and high-tech equipment manufacturing industries, and adhered to provide specialized services to "Agriculture, Rural Areas and Farmers". HBCF commenced a collaboration with the leading internet companies to launch the joint lending business.

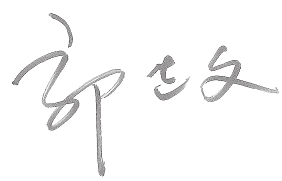
During the year, the Bank stretched out for further external cooperation, and continued to strengthen the business foundation. The Company deepened the cooperation with important industry peers such as China Development Bank, reached out to major securities firms for direct business collaboration, accepted new strategic clients which were mostly central enterprises, state-owned enterprises and listed companies, established cooperation with Russian central enterprises for the first time, spread the agricultural finance business to government agricultural institutions and agricultural big data platform. The cross-border platform achieved full cooperation with 3 major international credit card organizations and got connected with the largest third-party payment channel in Russia.

Chairman's Statement

During the year, re-election of the senior management of the Bank was completed successfully, and the construction of talent was further enhanced. The Bank strictly complied with the corporate governance requirement, and carried out the nomination, elections and engagement procedures of Directors, Supervisors and the senior management, and re-election of the Board, the Board of Supervisors and the senior management was conducted smoothly. After the re-election, the age distribution, profession structure and management experiences of the Company's senior management were further enhanced. The Bank reinforced the recruitment of talents at different levels from the market, and hence the construction of senior management team in the subsidiaries was improved considerably.

During the year, the Bank proactively fulfilled the social responsibilities and showcased good corporate image. The Bank proactively adhered to the national and regulatory policies, promoted services such as microcredit, agricultural finance and Russia featured finance, and gave 8 commitments for small and micro enterprises. The Bank was awarded 17 national key awards such as 2018 Inclusive Finance Bank by Financial News and 4 international awards such as Top 500 Chinese Companies for 2018 by Fortune China. HBCF was awarded the 2018 Influential Financial Technology Brand in the seventh China Finance Summit.

In 2019, adhering to the general principle of making stable and comprehensive progress, the Bank will accelerate the implementation of development strategies, promote the business development competitiveness, enhance the management delicacy, comprehensively strengthen the management of the Group, ensure to uplift the Group's operating results to a higher level as a whole, so as to create greater value for the shareholders and to provide better financial services for the majority financial consumers.



Guo Zhiwen
Chairman

President's Statement

Lyu Tianjun
President

2018 marked the first year for the implementation of the Bank's new development strategy, and also the year for the Bank to pull out all the stops to embrace comprehensive development with high quality and high efficiency. In the face of severe business conditions and complicated and difficult external environment, the Bank persisted in its strategic development, worked tirelessly for reform and adjustment, kept enhancing corporate governance, while maintaining stable operation and management with favourable progress. Over the past year, the Bank made new achievements for various tasks by focusing on the theme of "governance enhancement" and adhering to the standard of "strategic focus, problem orientation and pursuit of truth and practicability".

President's Statement

In 2018, the Bank achieved coordinated growth in quality and efficiency. As at 31 December 2018, the Group's total assets were RMB615.5885 billion, hitting the record of more than RMB600 billion and representing an increase of RMB51.3333 billion or 9.1% as compared to the end of last year. Total loans were RMB253.7627 billion, representing an increase of RMB16.3649 billion or 6.9% as compared to the end of last year. Total customer deposit amounted to RMB395.5168 billion, representing an increase of RMB17.2584 billion or 4.6% as compared to the end of last year. The quality of assets was stable and the overall risk was under control. The NPL ratio was 1.73% and provision coverage was 169.88%. Operation efficiency continued to improve. In 2018, the Bank realised a net profit of RMB5.5744 billion, representing an increase of RMB0.2655 billion or 5.0% year on year.

In 2018, the Bank accomplished the phased tasks in respect of strategic goverance. The Bank completed the Group's strategic risk governance mechanism and established three major systems at the group level, namely strategic evaluation, strategic planning and strategic implementation. Drawing on the wisdom of the Bank, the Bank completed the mid-term evaluation and adjustment of the Group's strategy and rolled out the new three-year development plan for 2018-2020 which specified the strategic vision, business objectives and implementation approaches of the Group for the coming three years. The plan was introduced and explained at all levels in the Group. The Bank facilitated the effective connection between the strategic management system and systems relating to marketing, risk policy, performance management, human resource management, technology research and development and others, so as to establish a strategic closed-loop management system for the Group while making consistent improvement in practice.

In 2018, the Bank optimised and adjusted its organisational governance. At the beginning of 2018, the Bank completed the largest organisation structure adjustment in history and the change of key management staff upon the expiry of their terms of office in the shortest time. The optimised organisation structure was more consistent with the regulatory requirements of returning to the basics of business, can better meet the requirements of implementing the microcredit strategy, and better reflect the "customer-oriented" guideline of business development. At the same time, the Bank put enormous efforts into tackling the unresolved conflicts and issues and establishing a long-term mechanism for organisational governance by setting up various customer manager performance appraisal mechanisms, optimising the promotion pathway of professional and technical employees, facilitating the communication and exchange between the employees at the head office and in branches, and establishing a complete and comprehensive talent cultivation and training system.

In 2018, the Bank supported market expansion with business governance. The Bank established and enhanced the service system for institutional customers, non-debt clients and strategic customers, and the number of corporate customers increased by 2,299 for the year, hitting a record high. The Bank commenced practical cooperation with Russian state-owned enterprises for the first time, and achieved cooperation between its cross-border E-commerce service platform and the three major international credit card organisations for all channels. The Bank pushed ahead with its pilot run and promotion of retail exclusive branches, and 23 outlets were transformed to exclusive branches. Sound progress was made in the cooperation with Alibaba (China) Technology Co., Ltd., Shenzhen Tencent Computer System Co., Ltd., Beijing Jingdong Century Trading Co., Ltd., Baidu Online Network Technology (Beijing) Co., Ltd., and other companies, to expedite the transition into smart retail credit. The replacement rate of business transactions through the Bank's electronic banking and mobile banking reached 91% and 51%, respectively.

President's Statement

In 2018, the Bank strengthened its competitiveness through product governance. The Bank developed innovative standardised product packages for microfinance service and customised financial service plans for customers from various sectors, and initiated whitelist marketing on mid-end and high-end customers of agriculture finance on a broad scale. Five leading debt products, including certificates of deposit and "Cun Li Bao" (存利寶), achieved sales of nearly RMB60 billion for the year. The Bank issued Marathon theme cards nationwide for the first time and fully launched its international card products. It also made an effort to develop new cross-border financial businesses such as domestic letters of credit, and introduced 100 online customised wealth management products.

In 2018, the Bank improved its risk governance system. Focusing on the construction of three risk defence lines, the Bank strengthened its positioning in risk, compliance and credit, enhanced coordination of cooperation and integration of management, and pooled its resources to consolidate the "major risk control" system. The Bank established and launched a differentiated and precise risk pricing mechanism for both retail and non-retail businesses under rigid control. Through strengthening on-site risk investigation, multi-dimension risk monitoring, and third-party data reference and verification, an independent risk balance mechanism was gradually established. By virtue of the establishment of the two-way reporting and vertical management system in the review process of credit approval, the enhanced mechanism for segregation of duties, the strengthened independence of the review process, and the improved means of investigation and examination on authenticity, the Bank made constant improvement in due diligence at all levels.

In 2018, the Bank kept on enhancing its governance on technology operation. In order to adapt to the general trend of digital development and put the development vision of "Digital Inclusive Finance" into practice, the Bank increased its investment in information technology while focused on the improvement of collaboration efficiency between business departments and technology and R&D departments and the evaluation of technology project planning and construction. After making concerted efforts to resolve various problems arising during the construction, research and development, start-up and operating of new core projects, the Bank launched and achieved stable operation of the new generation core system, while completed construction and commenced official operation of the data centre in Jiangbei, thus creating a green, safe and controllable infrastructure environment consisting of three centres in two regions.

President's Statement

In 2018, the Bank further enhanced its brand image. Adhering to the philosophy of "Inclusive Finance, Harmonious Co-Enrichment", the Bank was determined to uphold its microcredit strategy, and continuously provided full support for "agriculture, rural areas and farmers" by making eight commitments to small and micro private enterprises on mitigating their financing difficulties in the course of development. The United Charity Foundation organised nearly 600 events under the Happy Community Programme, serving nearly 25,000 people. The Bank initiated the "Harbin Bank Lilac Blossom • Dream Achieving Hope Project", giving continuous support for education affairs. The Bank sponsored the Harbin International Marathon for the third consecutive year and sponsored the Chengdu International Marathon for the first time. The Bank was ranked 207th in the "Top 1000 World Banks 2018" published by The Banker of the United Kingdom.

These above results could not have been achieved without the strong support from our customers, investors and the public, nor without the dedication of all the staff amid difficulties and challenges. On behalf of our management, I hereby extend my most sincere gratitude to all of them who have been following and supporting the Bank's development.

Any notable man who had left awesome tracks in the history is supposed to not only have God-gifted talents but also unshakable wills. The Bank's new development mission and responsibility have all rested on our shoulders. In light of the new mission, new strategy and new objectives, we must have the spirit of "accomplishing a task without taking credit" and the sense of "accomplishing a task with our contribution". We will make concrete efforts to enhance our sense of pressure, sense of responsibility and sense of mission, while staying true to the mission, being determined and carrying through to the end. We will use new strategy to direct new practice and use new achievements to inspire new leaps. We will dedicate ourselves to turning over a new leaf for the Bank's development with high quality and efficiency, so as to accomplishing various tasks in the "Year of Comprehensive Improvement" with excellent results.

Lyu Tianjun
President

Report of the Board of Directors

I. Past Economy and Environment and Operation Overview

(I) Past Economy and Environment

In 2018, affected by external factors including the rise of trade protectionism, the tightening US monetary policy and heightened geopolitical risks, the global economy gradually slowed down, financial conditions tightened and downside risks increased. Faced with the changing international environment and the challenging tasks of carrying out reform and development and maintaining stability in China, the strategic planning of the 19th National Congress of the Communist Party of China was steadfastly carried out within the Party and across China with commitment to the general principle of making progress while keeping performance stable. The battles against major financial risks, poverty and pollution got off to a good start. The supply-side structural reform made significant headway, and the reform and opening up policy was further reinforced. Constant improvements were made in people's living standards, contributing to the sustained and sound economic development as well as overall social stability. In 2018, the gross domestic product (GDP) amounted to RMB90,030.9 billion, representing a year-on-year increase of 6.6%, while China's consumer price index (CPI) rose by 2.1% year on year. As at the end of December 2018, the balance of M2 amounted to RMB182.67 trillion, representing a year-on-year increase of 8.1%, the balance of M1 amounted to RMB55.17 trillion, representing a year-on-year increase of 1.5%, and the balance of M0 amounted to RMB7.32 trillion, representing a year-on-year increase of 3.6%. As at the end of December 2018, the balance of RMB loans amounted to RMB136.3 trillion, and the balance of RMB deposits amounted to RMB177.52 trillion. New RMB loans made during the year amounted to RMB16.17 trillion, representing a year-on-year increase of RMB2.64 trillion; and new RMB deposits amounted to RMB13.4 trillion, representing a year-on-year decrease of RMB107.1 billion. Increment of social financing scale for the year was RMB19.26 trillion.

In 2018, as an active response to the downward pressure and challenges of the economy, Heilongjiang Province coordinated various tasks related to growth stabilisation, reform promotion, structure modification, benefiting of people's livelihood and risk prevention and implemented the general objectives of consolidating employment, finance, foreign investment, foreign trade, investment and expectation by capitalising on the general principle of making progress while keeping performance stable, thoroughly implementing the ideology of socialism with Chinese characteristics for a new era under Xi Jinping and the spirit of the 19th National Congress of the Communist Party of China, constantly carrying out the spirit behind the important address and instructions given by Xi Jinping, General Secretary, to Heilongjiang, and a series of decisions and arrangements of the Party Central Committee and the State Council for the revitalisation of northeast China, and remaining dedicated to the implementation of the spirit of the second and fourth plenary sessions of the twelfth CPC Heilongjiang Provincial Committee, thereby putting the new development philosophy into practice, and fulfilled the objective of high-quality development with a focus on the supply-side structural reform, "three battles" and "three missions". In Heilongjiang, the economy maintained a steady pace of development, people's livelihood continued to improve, and the economic growth constantly gained momentum. In 2018, the regional gross domestic product (GDP) of Heilongjiang Province amounted to RMB1,636.2 billion, representing year-on-year growth of 4.7%. consumer price index (CPI) rose by 2% year on year; total retail sales of consumer goods increased by 6.3% year on year; and disposable income per capita of urban and rural residents increased by 6.4% and 9% year on year respectively.

(II) Operation Overview

In 2018, in the face of complicated and changing economic and financial situation and more stringent external regulatory requirements, the Bank, under the leadership of the Board and supervision of the Board of Supervisors, earnestly put the spirit of the meeting at the beginning of the year into practice with a focus on the theme of "governance enhancement" and the ten governance tasks, seriously implemented all requirements under the regulatory policies and in the industry. The Bank adhered to the standard of "strategic focus, problem orientation and pursuit of truth and practicability", actively responded to the changing situation and completed all tasks in a satisfying manner by acting on its own initiative, making joint efforts to overcome challenges, exploiting potential and improving efficiency. The Bank recorded an improvement in composite indicators with much stable development quality.

Steady business scale development

As at 31 December 2018, the Group had total assets of RMB615.5885 billion, representing an increase of RMB51.3333 billion or 9.1% as compared to the end of last year. The Group's total loans and advances to customers amounted to RMB253.7627 billion, representing an increase of RMB16.3649 billion or 6.9% as compared to the end of last year. The Bank's deposits from customers amounted to RMB395.5168 billion, representing an increase of RMB17.2584 billion or 4.6% as compared to the end of last year.

Stable profitability

In 2018, the Group recorded a net profit of RMB5.5744 billion, representing a year-on-year increase of RMB0.2655 billion or 5.0%. The Bank recorded net profit attributable to shareholders of the Bank that amounted to RMB5.5486 billion, representing a year-on-year increase of RMB0.2995 billion or 5.7%. The average rate of return on total assets was 0.94%, representing a slight decrease as compared with 0.96% in 2017. The rate of return on average equity was 12.68%, representing a decrease as compared with 13.50% for 2017.

Upward turning point in NPLs

As at 31 December 2018, the Group had NPLs of RMB4.3966 billion. NPL ratio was 1.73%. Loans past due for more than 90 days was RMB4.23 billion, down by RMB414 million as compared to the end of last year; and representing 1.67% of total loans, down by 0.29 percentage point as compared to the end of last year. Impairment losses on loans was 2.94%, representing an increase of 0.10 percentage point from the end of last year. Reserve ratio was 169.88%, representing an increase of 2.64 percentage points from the end of last year.

Stable development of subsidiaries

In 2018, HB Leasing, HBCF and 32 village and township banks controlled by the Company kept on stable and healthy development momentum. As at 31 December 2018, HB Leasing had total assets of RMB23.3730 billion, representing an increase of 28.49% from the end of last year, and realised a net profit of RMB0.1736 billion for the year. While HBCF had total assets of RMB7.164 billion and realised a net profit of RMB50 million. The controlling village and township banks of the Company recorded total net profit of RMB63.9 million for the year.

Report of the Board of Directors

Compliance with Applicable Laws and Regulations

The Bank was, throughout its operation, in compliance with applicable laws and regulations, including 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 2018, net interest spread of the Bank was 1.67%, which decreased by 0.28 percentage point as compared to last year, and net interest margin was 1.87%, which decreased by 0.28 percentage point as compared to last year, mainly attributable to (1) the decrease in margin of investment in debt securities due to factors such as slowdown of economic increase and declining asset quality; (2) the market competition and the increased market interest rate in the first half of the year resulting in the increase of the average cost ratios of the customer deposits, due to banks and the newly issued debt securities; (3) the increase in the cost on liquidity interest payment through gradual improvement of its level of liquidity reserve and reduction of maturity mismatch in order to prevent liquidity risks; (4) the impact of reclassification after the implementation of new accounting standards for financial instruments. Looking forward to 2019, it is expected that the downward pressure faced by China's economy will continue, the competition will be intensified, the cost control of debt will be more difficult, and the net interest spread and net interest margin will be subject to relatively great downward pressure following complete deposit rate marketisation. To this end, the Bank will further strengthen its active management of assets and liabilities, proactively adjust its credit structure, adjust its investment portfolios in due course, strengthen its risk control, optimise pricing mechanisms and perform customer-oriented differentiated pricing in order to maintain a relatively steady return on assets. In addition, the Bank will be active in coping with challenges posed by such interest rate marketisation by strengthening its liquidity management, consolidating its customer base, optimising its debt structure and endeavouring to maintain its cost of debt to ensure a generally stable net interest spread and net interest margin.

2. *Quality of key assets*

As at 31 December 2018, the NPL ratio of the Bank amounted to 1.73%. Loans past due for more than 90 days amounted to RMB4,230 million, representing a decrease by RMB414 million from the end of last year. The ratio of loans past due for more than 90 days amounted to 1.67%, representing a decrease by 0.29 percentage point from the end of last year. Ratio of loans of special mention amounted to 2.75%, which decreased by 0.10 percentage point as compared to the end of last year. The impairment losses on loans ratio was 2.94%, which increased by 0.10 percentage point as compared to the end of last year. Asset quality of the Bank achieved a positive turnaround, with the decrease of the amount and ratio of loans past due for more than 90 days, as well as the ratio of loans of special mention. The Bank strictly adhered to the classification principal according to the five-category loan classification, the ratio of loans which have been past due for more than 90 days to NPL was lowered by 18.83 percentage points to 96.21%. The Bank intensified the disposal of non-performing assets, hence the asset quality remained healthy development with the risk management level improved.

Report of the Board of Directors

The NPLs of the corporate loans of the Bank during the Reporting Period primarily concentrated in the manufacturing industry and the wholesale and retail industry, which amounted to RMB0.8331 billion and 0.4463 billion with NPL ratio of 7.28% and 1.50%, 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 and backward manufacturing industries. 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, products quota, credit facilities to related clients, distant loans, collateral loans to third parties, credit facilities to specific business districts and loans overdue. For the risk concentrated regions, the Bank selectively raised the credit access standard and dynamically adjusted the credit authorisation so as to prevent the occurrence of regional systematic risks.

3. Capital management

During the Reporting Period, the Bank fulfilled and implemented requirements of its capital management plans, continuously strengthened its capital management fundamental capability, and further enhanced the role of capital in leading and restraining its business development. On the one hand, the Bank, based on its strategic goal and developmental stage of establishing a microcredit bank, prioritised business areas including microcredit in allocating its capital. On the other hand, it placed its capital in business areas with lower capital occupancy and higher benefits in accordance with the Administration Measures for the Capital of Commercial Banks (for Trial Implementation). During the Reporting Period, the Bank met the minimum capital requirement, reserve capital requirement and countercyclical capital buffer for the transitional period as required by the CBRC.

Report of the Board of Directors

As at 31 December 2018, the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio of the Bank were 9.74%, 9.75% and 12.15%, respectively, representing a increase of 0.02 percentage point, 0.01 percentage point and a decrease of 0.10 percentage point, respectively, as compared to the end of last year. The decrease in capital adequacy ratio was mainly because of the increase in risk-weighted assets of the Bank, payment of cash dividends and changes in accounting policies. As at the end of the Reporting Period, risk-weighted assets of the Bank amounted to RMB479.1599 billion, representing an increase of RMB52.1016 billion, or 12.2% as compared to the end of last year. Meanwhile, IFRS 9 requires that impairment of financial assets is measured based on an "expected credit loss model" instead of "incurred loss model", based on which, the impairment provision of financial assets of the Company as at 1 January 2018 increased by RMB1,055.7 million as compared to that as at 31 December 2017, and the undistributed profit correspondingly decreased by RMB863.5 million. Looking forward to 2019, the Bank will continue to strengthen its capital management by: (1)continuing its differentiated competition strategies of characteristic development path to further enhance internal capital generation ability; (2)actively responding to changes in current situations and strengthening its active capital management, continuously optimizing its business structure and raising awareness of intensive capital use; and (3)establishing multi-layered and multi-channel mechanisms for capital replenishment to ensure that the capital level satisfied the regulatory requirements on an ongoing basis.

4. Investment in debt instruments issued by financial institutions

As at 31 December 2018, total investment in debt financial instruments issued by financial institutions by the Bank amounted to RMB158.0266 billion, increased by 8.3% as compared to the end of last year. Pursuant to relevant regulations including the Notice on Regulating the Interbank Business of Financial Institutions (Yin Fa [2014] No. 127), the Bank consistently performed rigid review on risk and compliance with respect to use of capital. It accurately measured risks, and set aside capital and made provisions therefore based on the principle of "substance over formality" and the nature of the underlying assets. Following loan provision requirements, it progressively raised the coverage ratio for debt instruments issued by financial institutions to a relatively higher level in a steady, prudent and dynamic manner based on the expected credit loss model measurement. As at 31 December 2018, provision balance of investment in debt financial instruments issued by financial institutions of the Bank amounted to RMB3.0662 billion, representing an increase of RMB0.7511 billion as compared to the end of last year, and the coverage ratio was 1.94%, representing an increase of 0.35 percentage point as compared to the end of last year.

Report of the Board of Directors

5. *Impact of the New Asset Management Regulation and its supporting documents*

During the Reporting Period, the PBOC, the CBIRC, the CSRC and the State Administration of Foreign Exchange issued the Guiding Opinions on Regulating Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (the "New Asset Management Regulation"). Afterwards, the PBOC issued the Notice on Further Clarifying the Matters Related to the Guiding Opinions on Regulating Asset Management Business of Financial Institutions (《關於進一步明確規範金融機構資產管理業務指導意見有關事項的通知》), and the CBIRC issued the Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》) and the Measures for the Administration of Wealth Management Subsidiaries of Commercial Banks (《商業銀行理財子公司管理辦法》).

The New Asset Management Regulation and its supporting documents aim at regulating the asset management business of financial institutions and adopting consistent regulatory standards for similar asset management products, so as to effectively control financial risks, divert the social funds to the real economy, better support structural adjustment and transformation and upgrading of the economy, while adhering to risk prevention in combination with orderly regulation. At the same time, the New Asset Management Regulation stipulated a reasonable transitional period to allow financial institutions enough time to adjust and adapt their asset management business, ensuring stable operation of the financial market. The implementation of the New Asset Management Regulation and its supporting documents will eliminate the irregularities of the asset management business such as multi-layered nesting, rigid repayments and dodging of financial regulation and macro-regulation, minimise regulatory arbitrage, and safeguard the legitimate interests of financial consumers.

During the Reporting Period, the asset management business faced a complicated market environment with further deleveraging at the macro-economic level, high financing cost of wealth management and volatility in the capital market. In compliance with a series of regulatory policies and requirements including the New Asset Management Regulation, the Bank readjusted the target of its strategic planning, specifying that the wealth management business shall gradually transform into a market-oriented asset allocation business with regional features pursuant to the New Asset Management Regulation in the coming three years, and strived to create conditions for applying licenses for its wealth management subsidiaries. The Bank attached great importance to the national guidance of national macroeconomic policy and promoted the smooth transformation of the Bank's wealth management business in terms of products, channels, sales, systems, personnel, and internal risk control. While strengthening risk prevention and returning to the basics of business, the Bank focused on major national strategies, provided effective support for the development of the real economy, and achieved healthy development of the asset management business under effective risk control.

Report of the Board of Directors

II. Analysis on Income Statement

	For the year ended 31 December			
	2018	2017	Change in amount	Rate of change
	(In RMB million, except percentages)			
Interest income	**27,631.7**	26,801.7	830.0	3.1%
Interest expense	**(17,504.7)**	(15,494.2)	(2,010.5)	13.0%
Net interest income	**10,127.0**	11,307.5	(1,180.5)	-10.4%
Fee and commission income	**2,586.1**	2,611.9	(25.8)	-1.0%
Fee and commission expense	**(194.7)**	(167.3)	(27.4)	16.4%
Net fee and commission income	**2,391.4**	2,444.6	(53.2)	-2.2%
Net trading income or loss	**1,432.1**	147.7	1,284.4	869.6%
Net gain on financial investments	**169.8**	237.9	(68.1)	-28.6%
Other operating income or loss, net	**205.0**	(4.1)	209.1	5,100.0%
Operating income	**14,325.4**	14,133.6	191.8	1.4%
Operating expenses	**(4,594.3)**	(4,343.5)	(250.8)	5.8%
Impairment losses	**(2,425.9)**	(2,662.1)	236.2	-8.9%
Operating profit	**7,305.2**	7,128.0	177.2	2.5%
Profit before tax	**7,305.2**	7,128.0	177.2	2.5%
Income tax expense	**(1,730.8)**	(1,819.1)	88.3	-4.9%
Net profit	**5,574.4**	5,308.9	265.5	5.0%

In 2018, the Bank recorded profit before tax of RMB7,305.2 million and net profit of RMB5,574.4 million, representing a year-on-year increase of 2.5% and 5.0%, respectively.

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

In 2018, the Bank recorded a net interest income of RMB10,127.0 million, representing a decrease of RMB1,180.5 million or 10.4% year on year. 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					
	2018			2017		
	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	**247,116.8**	**14,933.1**	**6.04%**	222,743.4	13,440.9	6.03%
Investments in debt securities[1]	**196,938.5**	**10,104.7**	**5.13%**	200,739.1	10,649.2	5.31%
Cash and balances with Central Bank	**52,358.0**	**746.8**	**1.43%**	52,181.4	765.5	1.47%
Due from banks and other financial institutions[2]	**28,177.3**	**857.5**	**3.04%**	33,964.0	1,148.7	3.38%
Long-term receivables	**18,005.6**	**989.6**	**5.50%**	16,226.8	797.4	4.91%
Total interest-earning assets	**542,596.2**	**27,631.7**	**5.09%**	525,854.7	26,801.7	5.10%

	For the year ended 31 December					
	2018			2017		
	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	**355,463.0**	**10,243.0**	**2.88%**	329,772.1	8,565.3	2.60%
Due to banks[3]	**47,311.6**	**2,212.8**	**4.68%**	83,605.8	3,535.1	4.23%
Debt securities issued	**107,896.2**	**5,005.2**	**4.64%**	77,966.2	3,376.6	4.33%
Due to Central Bank	**1,469.6**	**43.7**	**2.97%**	654.2	17.2	2.63%
Total interest-bearing liabilities	**512,140.4**	**17,504.7**	**3.42%**	491,998.3	15,494.2	3.15%
Net interest income		**10,127.0**			11,307.5	
Net interest spread[4]			**1.67%**			1.95%
Net interest margin[5]			**1.87%**			2.15%

Report of the Board of Directors

Notes:

(1) Include financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost.

(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 balance of interest-earning assets, calculated based on the daily average of the interest-earning assets.

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

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

	For the year ended 31 December		
	2018 vs. 2017		
	Increase/(decrease)		Net increase/
	Volume[1]	Interest rate[2]	(decrease)[3]
			(In RMB million)
Interest-earning assets			
Loans and advances to customers	1,468.6	23.6	1,492.2
Investments in debt securities	(195.9)	(348.6)	(544.5)
Cash and balances with the Central Bank	2.4	(21.1)	(18.7)
Due from banks and other financial institutions	(195.5)	(95.7)	(291.2)
Long-term receivables	86.7	105.5	192.2
Change in interest income	1,166.3	(336.3)	830.0
Interest-bearing liabilities			
Due to customers	675.2	1,002.5	1,677.7
Due to banks	(1,535.2)	212.9	(1,322.3)
Debt securities issued	1,295.0	333.6	1,628.6
Due to the Central Bank	21.5	5.0	26.5
Change in interest expense	456.5	1,554.0	2,010.5

Notes:

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

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

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

(II) Interest Income

In 2018, the Bank's interest income increased by RMB830.0 million or 3.1% to RMB27,631.7 million year on year. The increase in the Bank's interest income was primarily due to the increase in the Bank's average balance of interest-earning assets by 3.2% from RMB525,854.7 million for the last year to RMB542,596.2 million for 2018 attributable to the increases in the Bank's loans and advances to customers, deposit at the Central Bank and long-term receivables, and was partly offset by the decrease in average yield ratio of interest-earning assets from 5.10% for the last year to 5.09% for 2018. The decrease in average yield ratio of interest-earning assets was mainly attributable to the decline in the yield ratio of investments in debt securities, deposit with the Central Bank, amounts due from banks and other financial institutions for 2018.

1. Interest income from loans and advances to customers

In 2018, the Bank's interest income from loans and advances to customers increased by RMB1,492.2 million or 11.1% to RMB14,933.1 million year on year, primarily as a result of a 10.9% increase in the average balance of loans and advances to customers. The increase in the average balance of loans and advances to customers was mainly attributable to the Bank's efforts to increase credits granted for better supporting the real economy.

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					
	2018			2017		
	Average balance	**Interest income**	**Average yield ratio**	Average balance	Interest income	Average yield ratio
				(In RMB million, except percentages)		
Corporate loans	**130,186.8**	**7,796.9**	**5.99%**	104,863.1	6,126.7	5.84%
Personal loans	**114,917.7**	**7,025.8**	**6.11%**	117,172.1	7,286.5	6.22%
Discounted bills	**2,012.3**	**110.4**	**5.49%**	708.2	27.7	3.92%
Total loans and advances to customers	**247,116.8**	**14,933.1**	**6.04%**	222,743.4	13,440.9	6.03%

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2. *Interest income from investments in debt securities*

In 2018, the Bank's interest income from investments in debt securities decreased by RMB544.5 million or 5.1% to RMB10,104.7 million year on year, mainly attributable to a decrease in the average yield ratio by 0.18 percentage point. The decrease in the average yield ratio of investment in debt securities was mainly attributable to the yield ratio of new investment business in debt instruments issued by financial institutions being lower than that of the same period of the last year affected by the market factors and the declined quality of some investment assets in debt instruments issued by financial institutions as a result of the economic downturn.

3. *Interest income from cash and balances with Central Bank*

In 2018, the Bank's interest income from cash and balances with the Central Bank decrease by RMB18.7 million or 2.4% to RMB746.8 million year on year.

4. *Interest income from amounts due from banks and other financial institutions*

In 2018, the Bank's interest income from amounts due from banks and other financial institutions decreased by RMB291.2 million or 25.4% to RMB857.5 million year on year, primarily attributable to a 17.0% decrease of average balance of relevant assets and a 0.34 percentage point decrease of average yield ratio. The decrease in the average balance of such assets was primarily attributable to the resources allocation to assets with higher yield upon the assets structure adjustment of the Bank, while the decrease of average yield ratio was primarily attributable to the changes in liquidity in the market during the second half of 2018.

5. *Interest income from long-term receivables*

In 2018, the Bank's interest income from long-term receivables increased by RMB192.2 million to RMB989.6 million year on year, primarily attributable to a 11.0% increase in the average balance of long-term receivables and the 0.59 percentage point increase in the average yield ratio, the increase in average balance of the such assets were mainly attributable to the accumulation of customers resources and the enhancement in market development capacity, and the increase in average yield ratio was mainly attributable to the adjustment of pricing policy and improved bargain power when facing customers.

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(III) Interest Expense

In 2018, the Bank's interest expense increased by RMB2,010.5 million or 13.0% to RMB17,504.7 million year on year, primarily attributable to an increase in the average cost ratio of the interest-bearing liabilities from 3.15% for 2017 to 3.42% for 2018, and an increase of 4.1% in the average balance of the interest-bearing liabilities from RM491,998.3 million for 2017 to RMB512,140.4 million for 2018. The increase in the average cost ratio of the interest-bearing liabilities was mainly due to the increases of the average cost ratio in due to customers, amounts due to banks, debt securities issued and due to the Central Bank in 2018.

1. *Interest expense on due to customers*

In 2018, the Bank's interest expense on due to customers increased by RMB1,677.7 million or 19.6% to RMB10,243.0 million year on year, primarily attributable to an increase in the average cost ratio of the Bank's due to customers from 2.60% for 2017 to 2.88% for 2018 arising from the onset of interest rate liberalisation, increased market competition and significant growth of customers deposit with an increase of RMB25,690.9 million in the average balance from RMB329,772.1 million for 2017 to RMB355,463.0 million for 2018.

	For the year ended 31 December					
	2018			2017		
	Average Balance	Interest expense	Average cost ratio	Average balance	Interest expense	Average cost ratio
				(In RMB million, except percentages)		
Corporate deposits						
Demand	**82,093.4**	**670.8**	**0.82%**	88,185.4	606.0	0.69%
Time	**147,763.8**	**6,291.7**	**4.26%**	130,420.8	5,295.1	4.06%
Subtotal	**229,857.2**	**6,962.5**	**3.03%**	218,606.2	5,901.1	2.70%
Personal deposits						
Demand	**35,734.4**	**127.2**	**0.36%**	34,227.2	121.4	0.35%
Time	**89,871.4**	**3,153.3**	**3.51%**	76,938.7	2,542.8	3.30%
Subtotal	**125,605.8**	**3,280.5**	**2.61%**	111,165.9	2,664.2	2.40%
Total deposits from customers	**355,463.0**	**10,243.0**	**2.88%**	329,772.1	8,565.3	2.60%

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2. Interest expense on due to banks

In 2018, the Bank's interest expense on due to banks decreased by RMB1,322.3 million or 37.4% to RMB2,212.8 million year on year. It was primarily attributable to a 43.4% decrease in the average balance of the underlying liabilities from RMB83,605.8 million for 2017 to RMB47,311.6 million for 2018, and was partly offset by the increase in the average cost ratio of the underlying liabilities from 4.23% for 2017 to 4.68% for 2018. The decrease in the average balance of the underlying liabilities was mainly due to the liabilities structure adjustments proactively initiated by the Bank by replacing due to banks with relatively high cost with interbank negotiable certificates of deposit with relatively low cost, and the increase in the average cost ratio of the underlying liabilities was attributable to market capital which remained at a high price during the first half of the year.

3. Interest expense on debt securities issued

In 2018, the Bank's interest expense on debt securities issued amounted to RMB5,005.2 million, representing an increase of RMB1,628.6 million or 48.2 % year on year, mainly attributable to an increase in the average cost ratio of the underlying liabilities from 4.33% for 2017 to 4.64% for 2018 and a 38.4% increase in the average balance of the underlying liabilities from RMB77,966.2 million for 2017 to RMB107,896.2 million for 2018. The increase in the average cost ratio of the underlying liabilities was mainly due to market capital which remained at a high price during the first half of the year and the structural adjustment in the term of inter-bank certificates of deposit, while the increase in the average balance of the underlying liabilities was mainly attributable to the liabilities structure adjustments proactively initiated by the Bank to preferably match the assets business, and the increase in the average balance of interbank negotiable certificates of deposit in 2018.

(IV) Net Interest Spread and Net Interest Margin

In 2018, the Bank's net interest spread decreased from 1.95% for 2017 to 1.67% for 2018 and the net interest margin decreased from 2.15% for 2017 to 1.87% for 2018, mainly attributable to the sluggish economic growth, the deteriorated quality of certain assets and the intensified market competition resulting in the narrowing down of interest spread between the Bank's deposit and loan.

(V) Non-interest Income

1. Net fee and commission income

In 2018, the Bank's net fee and commission income decreased by RMB53.2 million or 2.2% to RMB2,391.4 million year on year, primarily due to the income decrease in the Bank's advisory and consultancy fee and agency and custodian fee.

	For the year ended 31 December			
	2018	2017	Change in amount	Rate of change
	(In RMB million, except percentages)			
Fee and commission income	**2,586.1**	2,611.9	(25.8)	-1.0%
Advisory and consultancy fee	**792.3**	935.3	(143.0)	-15.3%
Settlement fee	**77.1**	112.9	(35.8)	-31.7%
Agency and custodian fee	**885.2**	1,085.5	(200.3)	-18.5%
Of which: non-principal protected wealth management agency fee	**494.2**	685.2	(191.0)	-27.9%
Bank card fee	**806.3**	398.9	407.4	102.1%
Others	**25.2**	79.3	(54.1)	-68.2%
Fee and commission expense	**(194.7)**	(167.3)	(27.4)	16.4%
Net fee and commission income	**2,391.4**	2,444.6	(53.2)	-2.2%

In 2018, the Bank's advisory and consultancy fee income reached RMB792.3 million, decreased by RMB143.0 million or 15.3% year on year, mainly attributable to the volume change of advisory and consultancy business.

In 2018, the Bank realized an income of RMB77.1 million from settlement fee, representing a year-on-year decrease of RMB35.8 million or 31.7%, mainly attributable to the volume change of the Bank's settlement business and the adjustment in relevant pricing policy.

In 2018, the Bank's agency and custodian fee income was RMB885.2 million, decreased by RMB200.3 million or 18.5% year on year, mainly attributable to the decrease in the income from non-principal protected wealth management fee.

In 2018, the Bank realised RMB806.3 million from bank card fee, increased by RMB407.4 million or 102.1% year on year, mainly as a result of the increase in number of customers and business volume resulting from the Bank's great effort in expanding the card related intermediary business.

In 2018, the Bank realized RMB25.2 million from other charges and commission generated income, decreased by RMB54.1 million or 68.2% year on year.

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2. Net trading income or loss

In 2018, the Bank's net trading income increased by RMB1,284.4 million or 869.6% to RMB1,432.1 million year on year, mainly attributable to the fair value change in the financial assets measured at fair value through profit or loss and the increase in its interest income.

3. Net gains on financial investments

In 2018, the Bank's net gains on financial investments decreased by RMB68.1 million or 28.6% to RMB169.8 million year on year, mainly attributable to the higher net gains from financial investment resulting from the gains on disposal of associates by the Bank in 2017.

4. Other operating income or loss, net

In 2018, the Bank's other operating income, net, increased by RMB209.1 million or 5,100.0% to RMB205.0 million year on year, mainly due to the change in foreign exchange.

(VI) Operating Expenses

In 2018, the Bank's operating expenses increased by RMB250.8 million or 5.8% to RMB4,594.3 million year on year.

	For the year ended 31 December			
	2018	2017	Change in amount	Rate of change
	(In RMB million, except percentages)			
Staff costs	**2,269.5**	2,118.9	150.6	7.1%
Tax and surcharges	**170.9**	144.7	26.2	18.1%
Depreciation and amortization	**547.4**	543.9	3.5	0.6%
Others	**1,606.5**	1,536.0	70.5	4.6%
Total operating expenses	**4,594.3**	4,343.5	250.8	5.8%

Staff costs are the largest component of the Bank's operating expenses, representing 49.4% and 48.8% of the Bank's total operating expenses for 2018 and 2017, respectively.

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

	For the year ended 31 December			
	2018	2017	Change in amount	Rate of change
			(In RMB million, except percentages)	
Staff costs				
Salaries, bonuses and allowances	**1,715.6**	1,643.3	72.3	4.4%
Social insurance	**256.2**	220.2	36.0	16.3%
Housing fund	**114.0**	95.7	18.3	19.1%
Staff benefits	**138.3**	129.8	8.5	6.5%
Labor's union expenditure and education costs	**23.4**	19.7	3.7	18.8%
Early retirement benefits	**22.0**	10.2	11.8	115.7%
Total	**2,269.5**	2,118.9	150.6	7.1%

In 2018, the staff costs of the Bank were RMB2,269.5 million, increased by RMB150.6 million or 7.1% year on year, primarily attributable to more branches being established by the Bank, the increase in wages and benefits, the improved remuneration structure, and more emphasis on performance element under the performance appraisal.

In 2018, the Bank had to pay taxes and surcharges of RMB170.9 million, increased by RMB26.2 million or 18.1% year on year, primarily attributable to the impact of change in tax policies and the increase in related taxes as a result of the development of the Bank's business.

In 2018, depreciation and amortization of the Bank were RMB547.4 million, increased by RMB3.5 million or 0.6% year on year, primarily as a result of an increase in the capital cost related to the information technology and the operating offices of the Bank.

In 2018, the Bank's other operating expenses were RMB1,606.5 million, increased by RMB70.5 million or 4.6% year on year.

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(VII) Impairment Losses

In 2018, the Bank's impairment losses decreased by RMB236.2 million or 8.9% to RMB2,425.9 million year on year, primarily attributable to the continuing impairment provision for assets on a 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			
	2018	2017	Change in amount	Rate of change
	(In RMB million, except percentages)			
Loans and advances to customers	**1,632.1**	2,078.2	(446.1)	-21.5%
Other assets	**793.8**	583.9	209.9	35.9%
Total impairment losses	**2,425.9**	2,662.1	(236.2)	-8.9%

(VIII) Income Tax Expenses

In 2018, the Bank's income tax decreased by RMB88.3 million or 4.9% to RMB1,730.8 million year on year.

	For the year ended 31 December			
	2018	2017	Change in amount	Rate of change
	(In RMB million, except percentages)			
Current income tax expenses	**1,751.4**	2,256.4	(505.0)	-22.4%
Deferred income tax expenses	**(20.6)**	(437.3)	416.7	-95.3%
Effective income tax expenses	**1,730.8**	1,819.1	(88.3)	-4.9%

III. Analysis of Key Items of Financial Position

(I) Assets

As at 31 December 2018, the Bank's total assets increased by RMB51,333.3 million or 9.1% to RMB615,588.5 million as compared to the end of last year. The increase was mainly attributable to the increase in the Bank's loans and advances to customers, investment in securities and other financial assets, cash and balances with the Central Bank and financial assets held under reverse repurchase agreements.

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Loans and advances to customers, net	**248,571.8**	**40.4%**	230,646.5	40.9%
Net investment in securities and other financial assets	**224,878.6**	**36.5%**	204,493.9	36.2%
Cash and balances with the Central Bank	**75,808.7**	**12.3%**	69,533.2	12.3%
Due from banks and other financial institutions	**21,333.5**	**3.5%**	20,626.1	3.7%
Financial assets held under reverse repurchase agreements	**10,856.2**	**1.8%**	4,775.7	0.8%
Other assets	**34,139.7**	**5.5%**	34,179.8	6.1%
Total assets(1)	**615,588.5**	**100.0%**	564,255.2	100.0%

Note:

(1) Of which, accrued interest in 2018 is accounted in each of the interest-generating assets items but not in other discussions and analysis.

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1. *Loans and advances to customers*

As at 31 December 2018, the Bank's total loans and advances to customers increased by RMB16,364.9 million to RMB253,762.7 million, representing an increase of 6.9% as compared to the end of last year.

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

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Corporate loans	**138,344.3**	**54.5%**	118,477.6	49.9%
Personal loans	**115,387.8**	**45.5%**	118,375.8	49.9%
Discounted bills	**30.6**	**0.0%**	544.4	0.2%
Total loans and advances to customers	**253,762.7**	**100.0%**	237,397.8	100.0%

(1) *Corporate loans*

As at 31 December 2018, the Bank's corporate loans increased by RMB19,866.7 million to RMB138,344.3 million, representing an increase of 16.8% as compared to the end of last year, mainly due to an increase in the Bank's loans to customers to continuously support the real economy development.

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

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Loans to small enterprises [(1)]	**65,327.3**	**47.2%**	73,049.8	61.7%
Other corporate loans excluding loans to small enterprises	**73,017.0**	**52.8%**	45,427.8	38.3%
Total corporate loans	**138,344.3**	**100.0%**	118,477.6	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 5 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. 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 5 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 2018, the Bank's loans to small enterprises decreased by RMB7,722.5 million to RMB65,327.3 million, representing a decrease of 10.6% as compared to the end of last year. As at 31 December 2018 and 31 December 2017, the Bank's loans to small enterprises accounted for 47.2% and 61.7% of the Bank's total corporate loans respectively.

(2) *Personal loans*

As at 31 December 2018, the Bank's personal loans decreased by RMB2,988.0 million to RMB115,387.8 million, representing a decrease of 2.5% as compared to the end of last year, mainly attributable to a decrease of RMB5,816.7 million or 7.7% in personal consumption loans as compared to the end of last year.

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

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Loans to small enterprise owners	**32,865.2**	**28.5%**	32,841.5	27.8%
Personal consumption loans	**69,615.2**	**60.3%**	75,431.9	63.7%
Loans to farmers	**12,907.4**	**11.2%**	10,102.4	8.5%
Total personal loans	**115,387.8**	**100.0%**	118,375.8	100.0%

As at 31 December 2018, loans to small enterprise owners and loans to farmers increased as compared to the end of last year, representing an increase of 0.1% and 27.8% respectively, and the personal consumption loans decreased by 7.7%.

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2. *Investment in securities and other financial assets*

As at 31 December 2018, the total amount of the Bank's investment in securities and other financial assets was RMB226,005.0 million, representing an increase of RMB19,196.0 million or 9.3% as compared to the end of last year. The increase in such assets of the Bank for 2018 was mainly due to the Bank's efforts to increase the use of various types of investments, and continuously expand the Bank's capital allocation channels, in order to improve the utilisation efficiency of the Bank's funds.

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

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Financial assets measured at fair value through profit or loss	**38,197.8**	**16.9%**	4,540.1	2.2%
Financial investment				
– Financial assets measured at amortised cost	**153,451.4**	**67.9%**	–	–
– Financial assets measured at fair value through other comprehensive income	**34,355.8**	**15.2%**	–	–
– Debt instruments classified as receivables	**–**	**–**	145,366.6	70.3%
– Held-to-maturity investments	**–**	**–**	27,279.5	13.2%
– Available-for-sale financial assets	**–**	**–**	29,622.8	14.3%
Total investment in securities and other financial assets	**226,005.0**	**100.0%**	206,809.0	100.0%

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

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Debt investments:				
Bond investments	**67,897.0**	**30.0%**	60,836.0	29.4%
Debt instruments issued by financial institutions[(1)]	**158,026.6**	**69.9%**	145,948.4	70.6%
Subtotal	**225,923.6**	**99.9%**	206,784.4	100.0%
Equity investment	**81.4**	**0.1%**	24.6	0.0%
Total investment in securities and other financial assets	**226,005.0**	**100.0%**	206,809.0	100.0%

Note:

(1) Includes fund trust scheme, funds and asset management plans.

As at 31 December 2018, the Bank's investment in debt instruments issued by financial institutions was RMB158,026.6 million, representing an increase of RMB12,078.2 million or 8.3% as compared to the end of last year. As a percentage of total investment in securities and other financial assets, investments of this class decreased from 70.6% as at 31 December 2017 to 69.9% as at 31 December 2018.

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Government bonds	**20,502.1**	**30.2%**	14,270.5	23.4%
Bonds issued by financial institutions	**10,312.1**	**15.2%**	13,364.9	22.0%
Corporate bonds	**13,672.0**	**20.1%**	7,729.0	12.7%
Bonds issued by policy banks	**23,410.8**	**34.5%**	25,471.6	41.9%
Total bond investments	**67,897.0**	**100.0%**	60,836.0	100.0%

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 2018, the Bank's cash and balances with the Central Bank increased by RMB6,252.9 million to RMB75,786.1 million, representing an increase of 9.0% as compared to the end of last year.

As at 31 December 2018, the Bank's due from banks and other financial institutions increased by RMB634.0 million to RMB21,260.1 million, representing an increase of 3.1% 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.

As at 31 December 2018 the Bank's financial assets held under reverse repurchase agreements increased by RMB6,071.8 million to RMB10,847.5 million, representing an increase of 127.1% 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 liquidities and the situation of market liquidity.

(II) Liabilities

As at 31 December 2018, the Bank's total liabilities were RMB568,097.0 million, representing an increase of RMB46,250.8 million or 8.9% as compared to the end of last year.

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Due to customers	**400,280.2**	**70.5%**	378,258.4	72.4%
Due to banks [1]	**43,323.1**	**7.6%**	36,420.2	7.0%
Repurchase agreements	**2,990.7**	**0.5%**	4,590.0	0.9%
Debt securities issued	**112,766.4**	**19.8%**	91,334.0	17.5%
Due to Central Bank	**3,173.6**	**0.6%**	521.1	0.1%
Other liabilities [2]	**5,563.0**	**1.0%**	10,722.5	2.1%
Total liabilities[3]	**568,097.0**	**100.0%**	521,846.2	100.0%

Notes:

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

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

(3) Of which, interest payable in 2018 is accounted in each of the interest-generating assets items but not in other discussions and analysis.

1. *Due to customers*

As at 31 December 2018, the Bank's due to customers increased by RMB17,258.4 million to RMB395,516.8 million, representing an increase of 4.6% 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			
	2018		2017	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Corporate deposits				
Demand deposits	**88,853.4**	**22.5%**	110,714.3	29.3%
Time deposits	**164,355.0**	**41.5%**	138,792.6	36.7%
Subtotal	**253,208.4**	**64.0%**	249,506.9	66.0%
Personal deposits				
Demand deposits	**41,152.7**	**10.4%**	42,580.8	11.2%
Time deposits	**101,155.7**	**25.6%**	86,170.7	22.8%
Subtotal	**142,308.4**	**36.0%**	128,751.5	34.0%
Total due to customers	**395,516.8**	**100.0%**	378,258.4	100.0%

2. *Due to banks*

As at 31 December 2018, the amount due to banks increased by RMB6,276.2 million to RMB42,696.4 million, representing an increase of 17.2% as compared to the end of last year. The changes in the Bank's amount due to banks reflected adjustment of the portion of the amount due to banks in the liabilities based on market liquidity and the Bank's capital needs in view of the need to match assets and liabilities.

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3. *Repurchase agreement*

As at 31 December 2018, the Bank's repurchase agreement were RMB2,990.0 million, representing a decrease of RMB1,600.0 million or 34.9% as compared to the end of last year. The changes in the Bank's repurchase agreement reflected the scale of liabilities adjusted by the Bank in accordance with market liquidity and the Bank's capital needs.

4. *Debt securities issued*

As at 31 December 2018, the Bank's debt securities issued were RMB112,379.7 million, representing an increase of RMB21,045.7 million or 23.0% as compared to the end of last year, mainly due to the increase of the balance of the inter-bank negotiable certificates of deposit.

(III) Shareholders' Equity

As at 31 December 2018, the Bank's total shareholders' equity increased by RMB5,082.6 million to RMB47,491.5 million, representing an increase of 12.0% as compared to the end of last year. As at 31 December 2018, total equity attributable to shareholders of the parent company increased by RMB5,014.2 million to RMB46,274.7 million, representing an increase of 12.2% as compared to the end of last year. The increase in shareholders' equity was mainly due to realisation of the Bank's net profit in 2018.

	As at 31 December			
	2018		2017	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Share capital	**10,995.6**	**23.2%**	10,995.6	25.9%
Reserves	**18,558.6**	**39.0%**	16,812.9	39.7%
Undistributed profits	**16,720.5**	**35.2%**	13,452.0	31.7%
Equity attributable to equity holders of the Bank	**46,274.7**	**97.4%**	41,260.5	97.3%
Non-controlling interests	**1,216.8**	**2.6%**	1,148.4	2.7%
Total equity	**47,491.5**	**100.0%**	42,408.9	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	
	2018	2017
		(In RMB million)
Credit commitments:		
Bank bills acceptance	**74,246.8**	58,339.3
Issued letters of guarantee	**3,135.4**	8,778.8
Issued letters of credit	**7,871.4**	6,722.1
Credit limit of credit card	**14,066.2**	9,266.8
Subtotal	**99,319.9**	83,107.0
Capital expenditure commitments	**714.5**	771.2
Operating lease commitments	**946.1**	1,128.9
Treasury bond redemption commitments	**2,645.0**	2,740.0
Relief obligation under risk cooperative fund	**–**	180.0
Total	**103,625.5**	87,927.1

In addition, as at 31 December 2018, the amount involved in the significant legal proceedings outstanding against the Group (for itself or as the third party) each with a dispute amount of over RMB10 million was RMB30 million. It is expected that no loss will be caused by these litigations and no provisions need to be made. As at the date of this report, the Bank has no significant contingent liabilities. Details of off-balance sheet commitments contracts are disclosed in "Commitments and Contingent Liabilities" in the notes to financial statements.

V. Analysis of Loan Quality

During the Reporting Period, the Bank adhered to the core philosophy of "create value through risk management", focused on meticulous risk management, continuously improved the comprehensive risk management system and enhanced the credit risk management which covered the pre-lending, lending and post-lending processes. The Bank continuously upgraded the assets portfolio, gradually adjusted the asset structure, strengthened its efforts in the recovery of NPLs and tightened the requirements of risk management performance assessment, the loan quality level was improved. Due to changes in the external business environment and pressure from economic slowdown, the Bank persistently reinforced the risk prevention and control system regarding asset quality and tightened the standard for loans classification. As at 31 December 2018, the NPL ratio was 1.73%, the ratio of loans past due for more than 90 days was 1.67%, down by 0.29 percentage point from the end of last year. The deviation between ratio of loans which have been past due for more than 90 days and NPL constantly decreased to 96.21%, as NPL level achieved a positive turnaround. The overall asset quality was generally improved and was beyond the average level of the commercial banks in China.

(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			
	2018		2017	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Pass	**242,391.6**	**95.5%**	226,597.8	95.5%
Special mention	**6,974.5**	**2.8%**	6,763.0	2.8%
Substandard	**1,591.4**	**0.6%**	832.8	0.3%
Doubtful	**1,474.4**	**0.6%**	2,037.1	0.9%
Loss	**1,330.8**	**0.5%**	1,167.1	0.5%
Total loans to customers	**253,762.7**	**100.0%**	237,397.8	100.0%
NPLs and NPL ratio(1)	**4,396.6**	**1.73%**	4,037.0	1.70%

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					
	2018			2017		
	Loan amount	NPL amount	NPL ratio	Loan amount	NPL amount	NPL ratio
	(In RMB million, except percentages)					
Corporate loans						
Loans to small enterprises	**65,327.3**	**1,164.0**	**1.78%**	73,049.8	1,392.5	1.91%
Other corporate loans excluding loans to small enterprises	**73,017.0**	**337.6**	**0.46%**	45,427.8	323.5	0.71%
Subtotal	**138,344.3**	**1,501.6**	**1.09%**	118,477.6	1,716.0	1.45%
Personal loans						
Loans to small enterprise owners	**32,865.2**	**1,097.4**	**3.34%**	32,841.5	1,015.2	3.09%
Personal consumption loans	**69,615.2**	**1,246.8**	**1.79%**	75,431.9	955.1	1.27%
Loans to farmers	**12,907.4**	**550.8**	**4.27%**	10,102.4	350.7	3.47%
Subtotal	**115,387.8**	**2,895.0**	**2.51%**	118,375.8	2,321.0	1.96%
Discounted bills	**30.6**	**–**	**–**	544.4	–	–
Total	**253,762.7**	**4,396.6**	**1.73%**	237,397.8	4,037.0	1.70%

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In 2018, the Bank continued to actively adjust the credit structure, limit the credit investment in industries with overcapacity and relatively high expected risks and therefore the anti-risk capability of our credit assets was further enhanced. By closely keeping up with the national policies and strategic guidelines, the Bank continued to vigorously develop microfinance business, and deeply develop business which benefits agriculture, rural areas and farmers based on geographical advantages and needs.

During the year, the Bank strictly regulated the customer access standards of corporate loans, gradually shifted its resources to strategic customers, implemented the name list entry system and dynamic management. The Bank enhanced vertical management of the inspection team, and advocated the notion of "uniform risk preference, uniform review process and uniform review standards". Through multi-level quota management and customer categorization, customer structure adjustment was smoothly carried out. The Bank constantly strengthened management over loan quotas by industry or product and in high-risk area, effectively adjusting the asset structure. As at the end of the Reporting Period, NPL ratio of the Bank's corporate loans decreased by 0.36 percentage point to 1.09% as compared to the end of last year, as asset quality effectively improved.

The NPL ratio of personal loans increased by 0.55 percentage point to 2.51% as compared to the end of last year. 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 owners and farmers in particular. With the Bank's great effort in small loan development and agriculture-benefiting businesses, the NPL ratio of the small loan increased due to the downward trend of macroeconomics. The slight increase in NPL ratio of the personal consumption loans was primarily due to the Bank adjusting credit structure and the decrease of the scale of the personal consumption loans.

The Bank responded positively to the NPL problem of the loans to small enterprise owners and farmers, constantly enhancing quota and concentration management, increasing the comprehensive application of "trading suspension and resumption", "AI + big data" and credit ratings published by the PBOC, and strengthening centralized management of approval. On the one hand, with respect to small enterprise customers, the Bank actively supported the development of the real economy, continuously increased its support for the transformation and upgrading of small enterprises. With the "innovative small and micro enterprises" as its business development orientation and "customer-oriented" as the principle of elevating comprehensive customer service while implementing full-life-cycle risk management of the customers, the Bank focused on customer groups "with business data and good performance", and performed precise marketing and precise risk control by leveraging on financial technology and big data. On the other hand, for the loans to farmers, the Bank vigorously supported the green credit business of modern agriculture, appealed to the fundamental nature of "agriculture-benefitting business", and further identified fraud risk in conjunction with reclamation area data platform, while striving to optimize the collateral type of loans to farmers, exiting joint guarantee and mutual insurance, focusing on the development of land operation right mortgage business, in order to mitigate the risk of traditional agriculture loan business.

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

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

	As at 31 December							
	2018				2017			
	Loan amount	**% of total**	**NPL amount**	**NPL ratio**	Loan amount	% of total	NPL amount	NPL ratio
						(In RMB million, except percentages)		
Agriculture, forestry, husbandry and fishery	**2,135.8**	**0.8%**	**38.8**	**1.82%**	3,438.9	1.3%	105.2	3.06%
Mining	**157.6**	**0.1%**	**3.0**	**1.90%**	324.9	0.1%	3.0	0.92%
Manufacturing	**11,451.2**	**4.5%**	**833.1**	**7.28%**	11,612.5	4.9%	472.3	4.07%
Production and supply of electricity, heating, gas and water	**2,767.4**	**1.1%**	**80.5**	**2.91%**	3,588.7	1.5%	61.0	1.70%
Construction	**12,168.2**	**4.8%**	**11.0**	**0.09%**	6,088.7	2.6%	80.1	1.32%
Transportation, storage and postal services	**3,801.9**	**1.5%**	**–**	**–**	3,712.9	1.6%	20.0	0.54%
Information transmission, software and information technology services	**817.1**	**0.3%**	**–**	**–**	1,093.0	0.5%	0.7	0.06%
Wholesale and retail	**29,781.7**	**11.7%**	**446.3**	**1.50%**	33,717.2	14.2%	926.9	2.75%
Accommodations and catering	**3,451.5**	**1.4%**	**52.9**	**1.53%**	3,375.7	1.4%	13.9	0.41%
Finance	**734.9**	**0.3%**	**–**	**–**	5.0	0.0%	–	–
Real estate	**21,385.7**	**8.4%**	**16.6**	**0.08%**	13,726.7	5.8%	6.0	0.04%
Leasing and commercial services	**37,357.3**	**14.7%**	**6.6**	**0.02%**	23,418.9	9.9%	18.8	0.08%
Scientific research and technological services	**384.2**	**0.2%**	**2.8**	**0.73%**	329.9	0.1%	2.9	0.88%
Water conservation, environment and public utility management	**9,362.5**	**3.7%**	**4.5**	**0.05%**	10,477.6	4.4%	5.2	0.05%
Residential, repair and other services	**338.0**	**0.1%**	**5.5**	**1.63%**	490.5	0.2%	–	–
Education	**338.1**	**0.1%**	**–**	**–**	391.7	0.2%	–	–
Health and social work	**1,143.3**	**0.5%**	**–**	**–**	1,143.4	0.5%	–	–
Culture, sports and entertainment	**345.9**	**0.1%**	**–**	**–**	1,118.0	0.5%	–	–
Public management, social security and social organisation	**422.0**	**0.2%**	**–**	**–**	423.4	0.2%	–	–
Total corporate loans	**138,344.3**	**54.5%**	**1,501.6**	**1.09%**	118,477.6	49.9%	1,716.0	1.45%
Total personal loans	**115,387.8**	**45.5%**	**2,895.0**	**2.51%**	118,375.8	49.9%	2,321.0	1.96%
Discounted bills	**30.6**	**0.0%**	**–**	**–**	544.4	0.2%	–	–
Total	**253,762.7**	**100.0%**	**4,396.6**	**1.73%**	237,397.8	100.0%	4,037.0	1.70%

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In 2018, the Bank continued to intensify its efforts in supporting real economy and small and micro enterprises. As at 31 December 2018, the non-performing assets of the Bank concentrated in the manufacturing, and wholesale and retail, with NPL ratio of 7.28% and 1.50%, respectively. The Bank actively adjusted its industry structure of loans, differentiated risk prevention and control strategies in key areas such as overcapacity industries, and local government financing platform businesses, and tightened or withdrew loans for risky customers such as overcapacity and third party customers, which result in decreases in the ratios of loans to manufacturing, wholesale and retail industry. With "name list management" as an effective starting point, the Bank implemented differentiated loan granting standards to customers, continued to optimize customer structure, and, by simultaneously adopting multiple measures, strictly controlled new NPLs, actively resolved existing NPLs and improved asset quality loan granting.

(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							
	2018				2017			
	Loan amount	**% of total**	**NPL amount**	**NPL ratio**	Loan amount	% of total	NPL amount	NPL ratio
								(In RMB million, except percentages)
Heilongjiang region	**104,044.3**	**41.0%**	**2,518.0**	**2.42%**	94,177.2	39.7%	2,660.7	2.83%
Other regions in Northeastern China	**40,015.7**	**15.8%**	**388.1**	**0.97%**	44,382.0	18.7%	323.9	0.73%
Southwestern China	**50,694.5**	**20.0%**	**462.2**	**0.91%**	48,349.3	20.4%	584.1	1.21%
Northern China	**41,089.2**	**16.2%**	**849.7**	**2.07%**	30,702.7	12.9%	206.1	0.67%
Other regions	**17,919.0**	**7.0%**	**178.6**	**1.00%**	19,786.6	8.3%	262.2	1.33%
Total	**253,762.7**	**100.0%**	**4,396.6**	**1.73%**	237,397.8	100.0%	4,037.0	1.70%

As at 31 December 2018, by virtue of the Bank's focus on regional advantageous industries, leading industries and the key government support projects, enhancing precise credit granting and risk management with regional characters, the NPL ratio of Heilongjiang region decreased by 0.41 percentage point to 2.42%. With certain large-scale state-owned enterprises in Northern China going into bankruptcy and restructuring during the year, the Northern China NPL ratio of the Bank increased to 2.07%, but the overall regional NPL ratio remained relatively low, and risk was diversified and controllable. The Bank will continue to optimize the regional credit resource allocation and promote the balanced development of credit granting in each region.

(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							
	2018				2017			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
	(In RMB million, except percentages)							
Unsecured loans	39,731.4	15.7%	978.0	2.46%	35,684.0	15.1%	739.1	2.07%
Guaranteed loans	72,315.3	28.5%	1,815.2	2.51%	64,445.8	27.1%	1,294.0	2.01%
Collateralised loans	125,073.6	49.3%	1,522.6	1.22%	107,534.8	45.3%	1,928.7	1.79%
Pledged loans	16,642.4	6.5%	80.8	0.49%	29,733.2	12.5%	75.2	0.25%
Total	253,762.7	100.0%	4,396.6	1.73%	237,397.8	100.0%	4,037.0	1.70%

During the Reporting Period, the Bank made dynamic responses to changes in the economic environment, raised the controllability of ultimate credit risk and increased the investment in collateralised loans, resulted in an increase in the ratio of collateralised loans of 4 percentage points to 49.3%. The Bank admitted good quality collaterals and increased the clients' default costs through the collateral risk evaluation system and precise collateral classification management, the NPL ratio of collateralised loans was decreased to 1.22%. Meanwhile, a risk pricing system based on clients' contribution was launched in the year, a differentiated risk pricing method was commenced to ensure high risk and high return and customers with high risk could be eliminated through the risk pricing mechanism, hence the gain was able to offset the risk with a slight increase in unsecured and guaranteed loan ratio. In addition, the guarantees provided by the related customers, distant customers and private guarantee companies were carefully chosen and a quota was implemented by the Bank during the year, and new mutual guarantees and joint guarantees were prohibited, which strengthen the capacity of guarantee provision.

The Bank increased cooperation with third-party institutions such as credit agencies, made due reference to the credit ratings published by the PBOC and carried out dynamic monitoring of and adjusting its internal assessment model to prevent credit risk in a timely and accurate manner. During the year, the Bank commenced the comprehensive re-assessment of all collaterals, enhanced the foundations of collateral risk management and data management, proactively implemented the supplemental risk controlling strategies through evaluation of collaterals, thus increased the controllability of risk. Furthermore, it implemented stronger collection through both internal institutions and judicial proceedings to ensure the effective control of credit risk and the overall stability of loan quality.

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(VI) Concentration of Borrowers

As of 31 December 2018, 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 2018, 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 2018		
	Industry	Loan balance	% of Total loans	% of Net capital
		(In RMB million, except percentages)		
Borrower A	C-Manufacturing	2,000.0	0.79%	3.44%
Borrower B	L- Leasing and commercial services	1,544.0	0.61%	2.65%
Borrower C	K- Real estate	1,500.0	0.59%	2.58%
Borrower D	K- Real estate	1,472.2	0.58%	2.53%
Borrower E	L- Leasing and commercial services	1,460.5	0.58%	2.51%
Borrower F	K- Real estate	1,393.6	0.55%	2.39%
Borrower G	K- Real estate	1,334.0	0.53%	2.29%
Borrower H	L- Leasing and commercial services	1,280.0	0.50%	2.20%
Borrower I	L- Leasing and commercial services	1,195.0	0.47%	2.05%
Borrower J	L- Leasing and commercial services	1,187.2	0.47%	2.04%
Total		14,366.5	5.67%	24.68%

(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			
	2018		2017	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Current loans	**242,974.4**	**95.7%**	228,069.2	96.1%
Loans past due:[1]				
For 1 to 90 days	**6,558.5**	**2.6%**	4,684.4	2.0%
For 91 days to 1 year	**2,400.0**	**1.0%**	2,001.9	0.8%
For 1 year and above	**1,829.8**	**0.7%**	2,642.3	1.1%
Subtotal	**10,788.3**	**4.3%**	9,328.6	3.9%
Total loans to customers	**253,762.7**	**100.0%**	237,397.8	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 2018, the overdue loans accounted for 4.3% of the total loans, the majority of which were loans within 90 days overdue, accounting for 2.6% of the total loans, primarily attributable to, among others, economic slowdown, slower capital turnover, reduced loans from banks, more difficult financing, resulting in the capital chain tension and increase temporary overdue. The Bank conducted the whole process management of loan granting. According to different stages and different risk levels of the loans being exposed to, it adopted specific preventive measures to prevent overdue loans from increasing and loan quality from declining. During the year, the Bank adopted relatively strict classification criteria, intensified control on risk assets, as the ratio of loans past due for more than 90 days to NPL reached 96.21%, representing a decrease of 18.83 percentage points, and the percentage of loans past due for more than 90 days or NPL ratio slightly decreased as compared to last year.

(VIII) Movements of Allowance for Impairment Losses on Loans

Pursuant to the requirements of IFRS 9, the Bank made use of“expected credit loss model” instead for the measurement of impairment of underlying financial assets. The Bank takes prudence as its principle and makes provision for impairment losses on loans in the full amount. As at 31 December 2018, impairment losses on loans amounted to RMB7,469.1 million, which increased by RMB717.8 million as compared to the end of last year. The impairment losses on loans ratio was 2.94%, which increased by 0.10 percentage point as compared to the end of last year.

Movements of allowance for impairment losses on loans are as follows:

	As at 31 December	
Items	**2018**	2017
		(In RMB million)
Balance at the beginning of the period[(1)]	**7,173.5**	5,139.7
Exchange difference	**2.6**	(4.0)
Charged during the year	**1,632.1**	2,078.2
Accreted interest on impaired loans	**(70.8)**	(79.2)
Write-offs and transferred	**(1,374.3)**	(424.4)
Recoveries of loans and advances previously written off	**106.0**	41.0
Balance at the end of the period	**7,469.1**	6,751.3

Note:

(1) Of which, RMB422 million was attributable to the adoption of IFRS9.

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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 Nongken, as well as HB Leasing, HBCF and village and township banks operating within Heilongjiang;
Other regions in Northeastern China:	Branches in Dalian and Shenyang, as well as village and township banks operating in Northeastern China excluding the ones in Heilongjiang;
Southwestern China:	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 Northeastern China	Southwestern China	Northern China	Other regions	Total
						(In RMB million)
For the year ended 31 December 2018						
Operating income	9,564.4	1,179.4	2,007.1	1,116.8	457.7	14,325.4
Operating expenses	(3,305.2)	(352.6)	(535.8)	(227.0)	(173.7)	(4,594.3)
Impairment losses	(1,268.3)	(110.5)	(628.9)	(398.4)	(19.8)	(2,425.9)
Operating profit	4,990.9	716.3	842.4	491.4	264.2	7,305.2
As of 31 December 2018						
Segment assets	468,728.3	40,955.0	54,157.4	42,007.7	9,740.1	615,588.5
Segment liabilities	385,685.1	59,045.5	67,954.8	47,170.1	8,241.5	568,097.0

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	Mainland China					
	Heilongjiang region	Other regions in Northeastern China	Southwestern China	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

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			
	2018		2017	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Heilongjiang region	**9,564.4**	**66.8%**	9,600.4	67.9%
Other regions in Northeastern China	**1,179.4**	**8.2%**	1,247.1	8.8%
Southwestern China	**2,007.1**	**14.0%**	1,955.6	13.9%
Northern China	**1,116.8**	**7.8%**	908.3	6.4%
Other regions	**457.7**	**3.2%**	422.2	3.0%
Total operating income	**14,325.4**	**100.0%**	14,133.6	100.0%

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(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			
	2018		2017	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Corporate finance business	**3,681.3**	**25.7%**	4,050.7	28.7%
Retail finance business	**4,120.0**	**28.8%**	4,540.3	32.1%
Financial institutions business	**6,421.0**	**44.8%**	5,068.4	35.8%
Other businesses[1]	**103.1**	**0.7%**	474.2	3.4%
Total operating income	**14,325.4**	**100.0%**	14,133.6	100.0%

Note:

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

VII. Analysis of Capital Adequacy Ratio

The Group continued to optimise its business structure and strengthen capital management, and as at 31 December 2018, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.74%, 9.75% and 12.15%, which were in line with the regulatory requirements during the transition period provided in the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) issued by the CBRC, and increased by 0.02 percentage point, 0.01 percentage point and decreased by 0.10 percentage point, respectively, as compared to the end of last year. The decrease in capital adequacy ratio was mainly due to the increase of risk-weighted assets, payment of cash dividends and changes in accounting policies (the impact of adopting IFRS 9).

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

	As at 31 December	
	2018	2017
	(In RMB million, except percentages)	
Core capital	**46,844.8**	41,694.4
Core Tier 1 Capital deductible items:		
Full deductible items	**(181.3)**	(166.7)
Net core tier 1 capital	**46,663.5**	41,527.7
Net other tier 1 capital	**76.0**	57.9
Net tier 1 capital	**46,739.5**	41,585.6
Net tier 2 capital	**11,477.2**	10,735.9
Net capital	**58,216.7**	52,321.5
Credit risk-weighted assets	**440,690.3**	395,691.1
Market risk-weighted assets	**11,953.1**	6,263.9
Operational risk-weighted assets	**26,516.5**	25,103.3
Total risk-weighted assets	**479,159.9**	427,058.3
Core tier 1 capital adequacy ratio	**9.74%**	9.72%
Tier 1 capital adequacy ratio	**9.75%**	9.74%
Capital adequacy ratio	**12.15%**	12.25%

VIII. Business Operation

The principal businesses of the Company comprise the provision of banking services such as deposit, loan payment and settlement, 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.

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In 2018, 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 RMB2,202.8 million (accounting for 30.15% of profit before tax of the Bank) and operating income of RMB4,120.0 million, representing a year-on-year decrease of 9.3% and accounting for 28.8% of the operating income of the Bank.

Retail customers

Facing new trends in the economy, the Bank pays attention to the improvement of customer service and the enrichment of the service channels, captures customers' diversified financial demand and establishes a new customer value-added service system in order to comprehensively optimise retail customers' experience. As at 31 December 2018, the Company had 12,253.1 thousand retail deposit customers, representing an increase of 1,487.4 thousand or 13.82% as compared to the same period of last year. The number of customers with personal financial assets (in RMB and other currencies) over RMB50,000 amounted to 568.5 thousand representing an increase of 48.3 thousand or 9.3% as compared to the same period of 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, which are mostly denominated in RMB with only a small portion being denominated in foreign currencies. As at 31 December 2018, the total retail deposits of the Company (in RMB and other currencies) amounted to RMB142,308.4 million, representing an increase of RMB13,556.9 million or 10.5% as compared to the end of last year. The average balance of retail deposits (in RMB and other currencies) amounted to RMB125,605.8 million, representing an increase of RMB14,439.9 million or 13.0% as compared to the end of last year. Demand deposits accounted for 28.99% of retail customer deposits balance. According to the statistics provided by 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 14.9% during the Reporting Period.

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Retail loans

During the Reporting Period, upholding its special development concept of "microcredit", the retail loan business of the Bank leveraged its advantages in the comprehensive contribution of retail loans to contribute for the Bank's brand and value, depending on scenario-based model for major retail business, primarily residence scenario and supplemented with health, education, entertainment, consumption, transportation and finance scenarios. By applying the concept of big data and mobile internet, and exploring the existing customers and third-party platforms, the Bank achieved the operation model of "touch net" and conducted precision marketing to secure a huge number of customers. The Bank also formulated a "full life cycle" product upgrading management mechanism, focusing on groups of customers who had house(s), high-credit rating, and/or significant financial assets, so as to build three product systems, namely, "Property Mortgage Loan (房抵貸)", "White-collar Loans (白領貸)", and "Scenario Loans (場景貸)", which in turn established an integrated on-line operating system for retail loans, and realised 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, which introduced third party data to strengthen the ability of anti-fraud and risk prevention and control, identification and early warning, thus further improved the risk management and control capabilities of the retail loan business of the Bank. During the Reporting Period, with its successful practice of introducing Internet big data thinking, "An Ju Loan (安居貸)" won the "Top Ten Innovative Financial Products Award (十家金融產品創新獎)" in the assessment of 2018 China's Financial Service Innovation Award, which better established the Bank's brand image. As at 31 December 2018, the balance of the Bank's personal loans reached RMB115,387.8 million, representing 45.5% of the Bank's total loans to customers, of which the balance of loans to small enterprise owners, personal consumption loans and loans to farmers amounted to RMB32,865.2 million, RMB69,615.2 million and RMB12,907.4 million, respectively, and accounted for 28.5%, 60.3% and 11.2%, respectively, of the Bank's total personal loans.

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 2018, the total number of issued credit cards reached 747.6 thousand representing an increase of 48.8% as compared to last year, of which 245.2 thousand were newly issued during the Reporting Period, representing an increase of 12.12% as compared to the number of new cards issued in the same period of last year. The credit card asset balance amounted to RMB10,810 million, representing an increase of 43.5% as compared to the end of last year, which was mainly due to the Bank's consistently emphasis on the innovation and optimisation of credit card products and the customer-oriented development of specific products and services with respect to customers' needs, preference and interests. At the same time, the Company conducted various marketing campaigns on its credit cards and went further on the collaborative marketing with its branches. All these acts achieved remarkable results in the market. The Bank issued Marathon theme cards nationwide for the first time and received the "China Financial Brand Case of the Year Competition: Best Marketing Brand of the Year" award. As at 31 December 2018, the number of debit cards issued by the Company recorded steady increase. The total number of issued debit cards reached 15.4012 million, of which 1.9735 million were newly issued during the Reporting Period, representing an increase of 14.70% as compared to last year.

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Wealth management

The Bank's wealth management business focuses on three scenarios, namely children's education, investment and consumption and health care for the elderly. The Bank continuously improves its wealth product management system and strives to promote innovative product, so as to enhance customers' loyalty and retain loyal customers. It also enhances the comprehensive financial service capability with family wealth planning at its core, fully covers the financial services for both basic and mid-to-high end customers and builds up the brand of "Lilac Fortune". During the Reporting Period, the Bank recorded total sales of personal wealth management products of RMB153,636 million, sales of funds of RMB17,049 million and retail management fee and commission of RMB77 million.

(II) Corporate Finance Business

In 2018, centring on the work theme of "governance enhancement", adhering to the objective of returning to the basics and making stable progress and primarily through obtaining customers, controlling risks and expanding channels, the Bank carried out in-depth corporate deposit marketing, expanded channels for deposits and optimised the deposit structure. It vigorously developed projects supported by the government and involving people's livelihood and bond market business, with emphasis on supporting the development of private enterprises and green economy projects, so as to promote the strategic transformation of the corporate finance business. The Bank also built a marketing service system for strategic customers, expanded customer access channels, and strengthened product and service innovation, to create a sustainable business development model.

During the Reporting Period, the Bank constantly strengthened the product development of corporate finance business, developed more complete product lines, and steadily improved customer service capability, thus actively promoting the steady development of the corporate finance business. During the Reporting Period, the corporate finance business of the Bank recorded profit before tax of RMB1,172.8 million, accounting for 16.1 % of profit before tax of the Bank, and operating income of RMB3,681.3 million, representing a decrease of 9.1% as compared to the same period of last year and accounting for 25.7 % of operating income of the Bank.

Corporate customers

By leveraging the Bank's strengths in cross-regional operation and outlet resources and closely following the direction of the national strategy, the Bank implemented active marketing activities towards state-owned enterprises, central enterprises, listed companies, high-quality private enterprises, advanced industries and park-based growth enterprises, thus optimising its customer structure. It promoted the development of strategic customer service mechanism, designed exclusive financial comprehensive service plan based on the needs of its strategic customers, and achieved refined and professional business management. Through multi-field and multi-product cooperation, deposit returns, product application and comprehensive income of the Bank's customers received a boost across the board. Meanwhile, the Bank also forged the general-to-general quality customer resource sharing mechanism and established normalised customer access channels through visiting mainstream securities brokers and organising bank-government-enterprise docking events. As at 31 December 2018, the Company had 91.6 thousand corporate customers.

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The Bank adhered to the "customer-oriented and market-oriented" principle, delved deep into customer demand, continued to enhance product innovation and comprehensive service capability, actively established the four-in-one comprehensive financial service model of "integration between assets and liabilities operation, domestic and foreign currency, stock, bond and investment and public and private", and achieved the precision marketing and full-cycle financial services management to core customers.

Corporate deposits

During the Reporting Period, the Bank proactively carried out green deposit marketing to optimise its gearing structure. The Bank actively established deposit marketing mechanism for institutional customers, strengthened the design and marketing of scenarios for non-debtors in multiple dimensions, promoted key system construction and deposit product research and development and improved deposit precipitation. The Bank promoted the special activity of deposting marketing by adopting multiple measures, As at 31 December 2018, balance of corporate deposits of the Bank amounted to RMB253,208.4 million with demand deposits accounting for 35.1%. The average daily deposits of the Bank amounted to RMB229,857.2 million, representing an increase of 5.1% year on year.

According to the statistics provided by 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 15.9% of corporate deposits in the local market, ranking the first in this region.

Corporate loans

During the Reporting Period, the Bank conducted all-round promotion for the orderly deployment of assets business through enhancement of business guidance, project management and risk control, so as to increase the comprehensive income of the projects. Conforming to the general principle of returning to the basics, the Bank supported the development of regional real economy, encouraged and guided the branches in their prioritised deployment of green industry projects. Sticking to the strategic positioning as "a first-class international microcredit bank by providing excellent services with unique characteristics", and keeping up with the national macro-policy direction in supporting the development of middle and small-sized enterprises, the Bank adopted more favorable policies for private enterprise, rationally allocated credit resource and adjusted asset structure accordingly. As at 31 December 2018, the total corporate loan of the Bank amounted to RMB138,344.3 million, representing an increase of 16.8% as compared to the beginning of the year and accounting for 54.5% of total loans. Being conscious of observing the risk baseline, the Bank kept the overall quality of its loan assets under control. As at 31 December 2018, the balance of NPLs was RMB1,501.6 million, and the NPL ratio was 1.09%.

Intermediary services

During the Reporting Period, the Bank continued to strengthen its management on intermediate business by continuously enhancing business products and service innovation, promoted the research and development progress of bill pool system and supply chain financial system, perfected the ancillary system functions and successfully brought it online, and facilitated the enrichment of corporate business settlement tools, which provided effective support for debt and asset business growth and created new sources of business growth, thus comprehensively enhancing the Bank's market competitiveness and profitability.

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During the Reporting Period, the corporate finance business of the Bank recorded non-interest income of RMB357.8 million, representing a year-on-year decrease of 35.5%.

(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 conducted business in compliance with new trends of regulations with a focus 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.

For business qualification, the Company is a Class A settlement member of the national interbank bond market in China, a primary dealer in the PBOC's open market, a participant in the time deposit of commercial banks for central treasury, a member of the underwriting syndicate of financial bonds of China Development Bank and Agricultural Development Bank of China, a member of the underwriting syndicate of electronic savings bonds of the Ministry of Finance, a member of the underwriting syndicates of local government bonds of Heilongjiang Province, Sichuan Province, Liaoning Province, Tianjin and Dalian, a quoting bank of China Bond Valuation, a member of the SHIBOR quoting syndicate of National Interbank Funding Center, a deposit cooperative bank of the National Council for Social Security Fund, a member of the council for the National Debt Association of China and a member of the underwriting syndicate of debt financing instruments of non-financial enterprises. The Bank is qualified for mid-term facilities, standing facilities and derivative transactions, and has multiple business qualifications including as a Rouble market maker.

For product innovation, during the Reporting Period, the Company was engaged in, among other things, bond lending, mutual fund investment, interbank market interest rate swaps and repurchase from the stock exchange, to replenish its product line in the financial market and set up a more diverse and operable product system for the financial market.

During the Reporting Period, financial institutions businesses of the Bank recorded an operating income of RMB6,421.0 million with a year-on-year increase of 26.7%, accounting for 44.8% of the 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. Under the operating environment of an overall higher cost of capital and higher pressure on capital adequacy for 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 2018, 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 RMB32,107.6 million, representing an increase of RMB6,705.8 million or 26.4% from the end of last year. As at 31 December 2018, the balance of our due to and placement from banks and balance of financial assets sold under repurchase agreements was RMB45,686.4 million, representing an increase of RMB4,676.2 million or 11.4% from the end of last year.

Investments in securities and other financial assets

During the Reporting Period, the Company closely monitored the changes in economic environment and market. Based on the judgment of the market interest rate trend, the Company adjusted the 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. Return on bond assets was 4.55%, representing an increase of 75 basis points over the last year.

In 2018, the Bank was ranked the 24th in the interbank market and the 9th among city commercial banks with interbank market bond transaction turnover of RMB6.38 trillion, representing a year-on-year increase of RMB0.55 trillion, and won the awards for 2018 Excellent China Bond Proprietary Dealer, Active Trader in the Interbank Borrowing Centre of China and Innovation in Trading Mechanism.

Investment banking business

According to its new three-year transformation development strategy and annual innovation planning, the Bank conducted research and development on the products in key areas and business innovation and optimisation projects, established a brand new product catalogue system, and optimised key and cutting-edge products including debt financing plan on Beijing Financial Assets Exchange, wealth management direct financing instruments and pledge of NEEQ-listed shares, in order to better stay relevant to market demand, satisfy various financing needs of customers, and enrich and improve the comprehensive service and product system of the Bank to the medium and large customer groups.

During the Reporting Period, the Company closely monitored the changes in the economic environment and the market, increased its investment in standardised products and made reasonable arrangements for capturing the investment timing. As at 31 December 2018, the total amount of the Bank's debt instruments issued by financial institutions amounted to RMB158,026.6 million, representing an increase of RMB12,078.2 million or 8.3% as compared to the end of 2017.

In 2018, the investment banking business of the Bank gained market recognition for its remarkable performance, winning the "Junding Prize for Investment Banking of City Commercial Banks in China in 2018" ("2018中國區城商行投行君鼎獎") in the "2018 Excellent Investment Bank Junding Prize in China" ("2018年中國區優秀投行君鼎獎") hosted by Securities Times.

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Wealth management business

During the Reporting Period, the Bank issued 377 wealth management products, raising funds amounting to RMB174,811 million. As at the end of the Reporting Period, the balance of wealth management products was RMB80,824 million, of which non-principal protected wealth management products amounted to RMB67,348 million and principal protected wealth management products amounted to RMB13,476 million. The Bank recorded strong growth in the number of wealth management customers, which reached 584.3 thousand as at the end of the Reporting Period, representing an increase of 21.73% as compared to the end of last year. The Bank further innovated and diversified its wealth management product lines. The debut of "T+1" and "T+7", the first two non-principal protected wealth management products for cash management of the Bank, filled in the gap of non-principal protected wealth management products for cash management of the Bank.

During the Reporting Period, the Bank made active response to the New Asset Management Regulation and the requirements under the supporting regulatory policies, and delivered a number of results. In respect of improving its product system, the Bank adjusted the term and return of expected yield products to mitigate the mismatch of maturity and extend the debt duration so as to strengthen liquidity control and prevent liquidity risk while downscaling the existing debt in accordance with the rectification plan. As at the end of the Reporting Period, the size of principal protected wealth management products reduced by 86.14%. The existing non-principal protected products remained stable in terms of size in the process of transformation.

As for adapting net-value product, the Bank introduced two closed-end net-value wealth management products in compliance with the New Asset Management Regulation in June 2018, and accelerated the development of open-end cyclical net-value and cash management net-value wealth management products thereon.

In terms of strengthening investment and research capabilities, by intensifying efforts in the forward-looking forecast of macro-economic environment, monetary policy, economic cycle and industry development, the Bank seized the opportunity from asset rotation, enhanced major asset allocation, strengthened competitiveness of investment and research in professional sectors, reinforced the construction of the credit evaluation system, and improved the identification and monitoring of market risks.

As for system construction, the Bank revised the asset management business system, prepared system construction plan and arranged for its implementation.

As for improvement in the business structure, the Company adjusted and improved the existing organisational structure of the Asset Management Department in accordance with the requirements of the asset management business upon transformation, strengthened internal control and compliance management, adhered to the principles of measurable cost, controllable risk and full information disclosure and strictly observed the investor suitability management requirements, in order to protect the legitimate rights and interests of investors.

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(IV) Key Featured Businesses

1. *Microcredit business*

In 2018, based on the work theme of "governance improvement", while guided by the microcredit strategy and the "customer-oriented" principle, the Bank continuously promoted the microcredit development strategy and fully enhanced the business transformation, risk prevention and control and management innovation, with a focus on the innovation and research and development of the microcredit technology, striving to meet the strategic objective of becoming "a first-class international microcredit bank by providing excellent services with unique characteristics" as soon as possible. As at 31 December 2018, the balance of the Bank's microcredit loans reached RMB180,715.1 million, representing a decrease of RMB10,710.5 million from the end of last year and accounting for 71.2% of the Bank's total 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 2018		As at 31 December 2017	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Loans to small enterprises	**65,327.3**	**36.1%**	73,049.8	38.2%
Personal loans	**115,387.8**	**63.9%**	118,375.8	61.8%
Total balance of microcredit loans	**180,715.1**	**100.0%**	191,425.6	100.0%

Small and micro enterprise finance business

During the Reporting Period, based on the work theme of "governance improvement", while guided by the microcredit strategy and the "customer-oriented" principle, the Bank fully enhanced the business transformation, risk prevention and control and management innovation for its small and micro enterprise finance business, thus promoting the transformation and development of its small and micro enterprise finance business.

During the Reporting Period, the Bank actively carried out national policies and ceaselessly satisfied customers' demand. On the basis of providing standardised products and with fund inflow, outflow, precipitation and replenishment as starting points, the Bank provided customised services to customers and continued to enhance its small and micro financial customer service capability.

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During the Reporting Period, the Bank closely followed the economic trend and established a long-term risk monitoring mechanism. At the same time, after conducting a comprehensive risk investigation, the Bank proactively adjusted its credit structure, strengthened the overdue loans risk monitoring and enhanced product quality management. In addition, the Bank implemented the whole-process risk management, refined default and early warning characteristic indicators, and continued to improve the active risk management mechanism for small and micro businesses by way of, white list screening, internal assessment system optimisation, whole-process internal control layout and early warning screening.

During the Reporting Period, the Bank smoothly proceeded with the establishment of small and micro financial business operation service system with customer orientation and intensity, professionalism and high efficiency at its core. The Bank formed an "iron triangle" team service model with cooperation among marketing manager, risk manager and product manager, effectively enhancing operation quality and efficiency. In addition, the Bank promoted the construction of a talent team for small and micro enterprises, established a "value-oriented" incentive promotion mechanism, enhanced training and management for line personnel and built a professional small and micro finance team.

As at 31 December 2018, the Bank's loans to small enterprises amounted to RMB65,327.3 million, representing a decrease of 10.6% as compared to the end of last year. The balance of NPLs for the small enterprises was RMB1,164.0 million and the NPL ratio was 1.78%.

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 adhered to the principle of innovative development to expand the platform for quality business cooperation, enrich product lines and improve customer experience. By further accelerating the integration of big data technology of Internet and traditional financial services, the Company integrated online and offline and expanded the inclusiveness of consumer finance services so as to improve the coverage of consumer finance scenarios and customers. With its connection to external quality channels and data, the Company further optimised its existing risk management model and approaches in order to improve the overall risk management of its consumer finance business and control the overall business risk. During the Reporting Period, the Bank actively explored online consumer financial services, and expedited the process of offline businesses going online, thus further demonstrating the characteristics of consumer finance of modelling, digitisation and information sharing.

As at 31 December 2018, the Bank had launched consumer finance business in several cities across China with the balance of personal consumption loans amounting to RMB69,615.2 million, representing a decrease of RMB5,816.7 million from the end of last year.

2. Sino-Russia financial services

During the Reporting Period, the Bank continued to claim the Sino-Russia financial services as one of the Bank's strategies by leveraging the advantages in financial resources of the Sino-Russia financial service, and the Company thus maintained its leading position in Sino-Russia financial services among its domestic peers. In 2018, the Bank's financial services to Russia achieved operating income of RMB136.4 million; and operating profit of RMB74 million. The Bank's balance of on-balance sheet and off-balance sheet asset businesses to Russia was RMB6,141 million, representing a decrease of 46.6% as compared to last year, mainly attributable to the decrease of demand from the counter party after the transaction period, and the stringent assessment standard implemented by the Bank which tightened the loan granting after certain transactions for the assurance of asset quality. The Bank handled Rouble foreign exchange of RUB58,758 million and cross-border transactions in Rouble cash of RUB60 million and in RMB cash of RMB40 million in 2018.

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, 2 Chinese or Russian institutions had become new members, and the number of members grew to 70 from the 35 founding members.

During the Reporting Period, Chinese members of the council participated in the "22nd St. Petersburg International Economic Forum", during which Mr. Guo Zhiwen, the Chinese joint president for the Council and the Chairman of the Board of the Company, became one of the few Chinese representatives to be invited to the meet-and-greet of President of Russia, Putin, with members of the committee of experts of the Russian Direct Investment Fund and international investors, as well as the meetings held by Sberbank of Russia with the theme of the new economic agenda under the forum. The Fourth General Meeting of the Sino-Russia Financial Council was successfully convened with the attendance of over one hundred members of the Sino-Russia Financial Council and corporate representatives, during which attendees engaged into in-depth discussions on practical matters related to Sino-Russia financial cooperation and its development potential and multiple cooperation agreements were signed between the members. The Bank was invited to exhibit at the Fifth China-Russia Expo with the theme of "New Starting Point, New Opportunities and New Future" held in Yekaterinburg City, Russia, where the Bank made contact with fellow financial institutions including the Savings Bank of the Russian Federation, Russian Agricultural Bank and Far East Development Fund of Russia, achieving multiple initial intentions of cooperation.

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 second withdrawal, pragmatically promoting the cooperation in domestic currency settlement and financing projects between financial institutions of China and Russia. The Bank also participated in the dual-currency international syndicate inter-bank loan project, where Credit Bank of Moscow, the third largest private bank in Russia, was the borrower, and the maximum line of credit was USD400 million, which deepened the multilateral cooperation between the Bank and large private banks in the Russian Federation and international leading banks.

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As of 31 December 2018, inter-bank credit granted by the Bank to Russian banks amounted to approximately RMB7 billion, with our domestic and foreign currency settlement network covering the entirety of the Russian Federation.

During the Reporting Period, based on its outstanding performance in offering financial services for Russia, the Company was granted the "Best Trade Finance City Commercial Bank" award under the "Excellence in Trade Finance in China Award" selected by the Professional Trade Financing Committee of the China Banking Association, becoming the only city commercial bank winning this award during the year.

Cross-border E-commerce payment and settlement

The cross-border E-commerce financial business of the Bank has maintained its rapid growth, and payment channel and system functions received constant enrichment and improvement, supporting simultaneously MASTERCARD, VISA, JCB International Credit Card and Russian specialised local payment channels, thus realizing a rising impact of its cross-border e-commerce brand and a greater market share in China's interbank market. During the Reporting Period, platform transaction amount reached RMB4.97 billion, representing an increase of 24.25% as compared to the same period of last year, income generated from the intermediary business amounted to RMB66.06 million, representing an increase of 61.02% as compared to the same period of last year, while its market share in the national interbank market continued to rise to more than 15%, reaching a ranking of second in the industry. As at 31 December 2018, the Company had 2,186 stock cross-border e-commerce customers based in multiple regions with developed e-commerce such as the Yangtze River Delta and Pearl River Delta,representing an increase of 526 as compared to the beginning of the year, In 2018, the 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 received the "Best Risk Control Performance of the Year Award" and the "Outstanding Results of the Year Award" granted by MasterCard International, as well as the "Most Promising Foreign Card Acquirer Award" granted by JCB International Credit Card.

3. *Modern agriculture finance business*

During the Reporting Period, the Bank comprehensively implemented the national strategic direction of "Rural Revitalisation", grasped the strategic opportunities arising from the modernised agricultural development and adhered to the financial service philosophy of "Benefiting Agriculture, Rural Areas and Farmers with Integrity". The Bank continued increase its financial support for the intensive operation of rural regions and agriculture modernisation in the reclaimable areas based on the principle of "differentiated policies in light of local conditions and making the best out of situations". As at 31 December 2018, the balance of the agricultural loan of the Bank amounted to RMB42.507 billion, of which loans to farmers amounted to RMB12.9074 billion, representing an increase of 27.8% as compared to the end of last year, and the range of business service covered the majority of rural and reclaimable areas of 15 cities across China, making solid progress to the financial services related to "Agriculture, Rural Areas and Farmers".

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During the Reporting Period, the Bank was dedicated to the expansion of customer groups engaged in new-type agricultural businesses, agricultural chain and industrial cluster projects, thus gradually shifting from serving small farmers to serving large-scale and high-end farmers. While adhering to the "customer-oriented" approach, the Bank launched the innovative Agricultural Revitalisation Loan (農興貸) with new-type agricultural business entities as the customer group, which effectively supports new agricultural entities and assists in the large-scale and intensive development of modern agriculture. It also optimised and upgraded the products of "Golden Autumn Loan (金秋貸)" and "Rainbow Loan (彩虹貸)", expanded the two-rights mortgage loans and comprehensively supported diversified farmers, while continuing to promote the Agricultural Support Loan (助農貸), so as to provide comprehensive support for small credit loans for farmers, effectively reduce the financing costs of small farmers, and fully satisfy the multi-dimensional financing needs for modernised agricultural economy ranging from production and operation to living consumption, and from traditional small credit to high-end large credit.

During the Reporting Period, the Bank fully integrated the resources of agricultural ecosystem and broke through to new-type agricultural loan channels including the agricultural institutions and organisations, agricultural chained clusters and agricultural big data platforms, thus achieving precise batch customer access for the farmer benefiting loan business it advanced in the innovation of "FinTech + special services", including launching agricultural loan online services on mobile devices, building a "three-in-one" financial service channel of the pad, mobile banking and WeChat banking, which achieved whole-process online handling from application, acceptance, granting and repayment. The Bank also implemented the benefiting agriculture, rural areas and farmers loan differentiated pricing mechanism which precisely matched the online risk pricing model, effectively achieving intelligent differentiated pricing for the businesses which benefited agriculture, rural areas and farmers, providing agriculture customers a new experience of agricultural loan service featuring "zero distance and mobilisation".

(V) Information on Controlling Subsidiaries

1. *Village and township banks*

As at 31 December 2018, the Company had a controlling interest in 32 village and township banks and 36 village and township sub-branches, which were mainly located in the eastern, central and western regions of China. As at 31 December 2018, the total assets of the 32 village and township banks amounted to RMB21,029 million, of which the total amount of loans amounted to RMB12,610 million, representing a year-on-year decrease of 4.55% and the balance of deposit amounted to RMB15,095 million, representing a year-on-year decrease of 24.60%. Our 32 village and township banks realised a net profit of RMB64 million in 2018 in aggregate, representing a year-on-year decrease of 79.35%, mainly attributed to the increase of credit risk and its provision level resulting from the downward trend of macroeconomic condition.

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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, service culture construction and innovative business development at different development stages of the village and township banks with different management evaluation models, gradually formulated an unique culture, philosophy, management mode and working procedures, which effectively enhanced the core competitiveness and made significant contributions to the overall development of the Bank.

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 2018, total assets of HB Leasing amounted to RMB23,373 million. During the year, the accumulated investments of the leasing business amounted to RMB12,927 million, and the net profit was RMB174 million, representing a year-on-year increase of 51.3%.

HB Leasing always strives to serve the "Agriculture, Rural Areas and Farmers" and remains steadfast in its agricultural strategies. With "strategic focus, returning to the basics, outstanding characteristics and elevating values" as objective and "pragmatic and efficient, innovative development, and inclusive and win-win" as business philosophy, HB Leasing strives to build a first-class domestic financial leasing company with distinct business features, scientific corporate governance, outstanding regional advantages, sophisticated product system, tightened risk prevention and control and leading management technology. By adhering to the characteristic and differentiated development path with a focus on maintaining operation efficiency through 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 leasing of special products and innovation in businesses, HB Leasing follows the path of becoming a leasing company engaging in real leasing business.

3. *HBCF*

HBCF is the 19th licensed consumer financial company in China, with the Company as its major founder and registered capital of RMB1.05 billion. Capitalising on the extensive experience in product, customer and technology that the Group has accumulated across over a decade of in-depth operation in micro credit business, and leveraging the Group's resource advantages in big data, internet finance and diverse business scenarios, HBCF delves deep into the consumption scenarios, targets potential groups such as credit card users with a revolving characteristics and the middle class, the emerging white-collar and the youth with stable income, and focuses its efforts on building a powerful consumer financial service platform.

HBCF actively creates a domestic first-class and industry leading consumer financial product, channel, marketing and risk control system. By adhering to the philosophy of customer-orientation and with efficient service as its objective. HBCF is dedicated to creating a domestic first-class consumer financial platform flagship driven by financial technology with outstanding core strength, sustainable profitability and healthily growing scale and an "open and cooperative" asset creation and outbound consumption financial platform with scientific and data support, while continues to build an efficient, intelligent, warm and trustworthy consumer financial brand.

In 2018, 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 compliance. Meanwhile, HBCF continued to improve its risk management and technology systems, consolidate its development foundation and elevate its management skill to ensure good operating results. As at the end of 2018, HBCF had total assets of RMB7,164 million, with accumulated granting of loans of RMB29,098 million and balance of loans of RMB7,034 million, realised a net profit of RMB50 million.

(VI) Distribution Channels

1. *Physical Network*

As at 31 December 2018, the Company had a total of 368 branch outlets, including 17 branches, 281 sub-branches, 1 branch-level financial service centre for small enterprises and 1 headquarters business department. The Company had controlling interest in 32 village and township banks and 36 village and township sub-branches.

2. *Electronic banking*

The Bank has gradually built up an electronic service system combining online means such as mobile phone banking, online banking, WeChat banking, direct banking, phone banking and offline self-service terminals. E-channels have become the main business channels of the Bank. As at 31 December 2018, the replacement rate of business transactions through the Bank's electronic banking reached 91%, and that of mobile banking reached 51%, representing an 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 made scientific arrangement and assignment of the use of self-service terminals of customers, thus enhancing the management efficiency of all self-service terminals of the Bank. As at 31 December 2018, the Bank had 1,058 self-service terminals, including 475 BCDMs, 342 ATMs, 134 smart cabinets, 94 multi-media inquiry machines and 13 card issuance machines.

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(2) *Online banking*

The Bank continues to expand the functions of online banking. Currently, personal online banking provides customers with account services, transfer and remittance, membership management, loan management, investment and wealth management, credit card and other functions, while corporate online banking provides customers with account management, transfer and remittance, issuing and paying for others, investment and wealth management, cash management, electronic commercial drafts, bill pools and other functions. As at 31 December 2018, a total of 2,302.0 thousand customers maintained their online banking accounts with the Bank, representing an increase of 26.39% as compared to the same period of last year; and transaction amount reached RMB985,733 million, representing an increase of 22.64% as compared to the same period of last year.

(3) *Phone banking*

The Bank provides 24-hour telephone banking services to customers through the unified national customer service hotline 95537, which includes account inquiries, bill payment, credit card business, verbal report of card loss, operator inquiry and outgoing calls. In 2018, the telephone banking customer service centre recorded a total of 2,787.9 thousand business calls (excluding those relating to credit cards), representing an increase of 52.27% as compared to the same period of last year.

The Bank provides services including credit card consultancy, complaint and advice, reporting for loss and instalment through the unified national customer service hotline for credit card 4006695537. In 2018, the credit card customer service centre recorded a total of 1,726 thousand business calls, representing an increase of 32.57% as compared to the same period of last year.

(4) *Mobile phone banking*

The Bank accelerated the business development of mobile phone banking. It offered various transaction functions for its customers, including account management, investment and wealth management, transfers and remittance, auto-payments, credit cards, loans and social security service. Moreover, the Bank also provided unique services such as gesture and fingerprint log-in, face and fingerprint recognition, QR code (掃一掃) cardless withdrawal, Shake It (搖一搖) balance inquiry, mobile payment, salary manager (薪管家) and client pass (貴客通). As at 31 December 2018, the Bank had 1,172.2 thousand mobile banking users, representing an increase of 55.26% as compared to the end of last year; and transaction amount reached RMB208,464 million, representing an increase of 57.73% as compared to the same period of last year.

(5) WeChat banking

The WeChat banking has stretched banking services from traditional offline channels to finger tips of customers, which opens featured functions such as account change notifications, micro finance area, palm wealth management, credit card inquiry, loan application, branch inquiry, client pass (貴客通), social security inquiry and supplementary payment and provides diverse value added daily-life services such as charging and bill payment services. As at 31 December 2018, WeChat banking had over 2,224.4 thousand followers, representing an increase of 38.68% as compared to the same period of last year. The sales of wealth management products on Wechat banking amounted to RMB46 billion.

(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 mobile client and WeChat client terminals, and offers different functions for customers including opening accounts, investment and wealth management, daily-life payment, credit card repayment, exercises and medical insurance enquiry.

(VII) Information Technology

In 2018, the Bank made strides in the integration of technology and business, and supported and promoted the implementation of its business strategies through the establishment of scientific and effective information technology planning. During the Reporting Period, various key information technology systems operated smoothly. The Bank made steady progresses with technological management, data management and information security, achieving satisfying results.

1. Remarkable results achieved in infrastructure construction

On 17 July 2018, the new data centre of the Bank went into operation and the construction of off-site disaster recovery centres was completed in October, signifying a more solid foundation of the Bank for elevating system security and stability. The off-site disaster recovery centres received the 2018 Outstanding Data Centre Technological Achievements Award from CDCC.

2. New generation of core businesses into operation

On 19 August 2018, the new generation of core business system of the Bank completed its system switching and was successfully launched. New core business system were capable of responding to the innovation and development needs of the financial business in a more efficient, expedient and secure manner.

3. Steady system operation with continuous enhancement in management capability

During the Reporting Period, the major information systems of the Bank operated steadily without the occurrence of any material information security incident. Major systems had a stable operation rate of 99.98%, and the other core systems had a stable operation rate of 99.95%. The technology department of the Bank promoted the engineer culture featuring "concentration, refinement, cooperation and innovation", with continuously more refined management and more enhanced safeguarding capability.

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4. *Continuously strengthening technology management*

During the Reporting Period, the Bank comprehensively streamlined the working process of information technology and made revision to several technical systems, with the technology management prowess gradually stepping up.

5. *Technology projects proceeding orderly*

In accordance with technology planning, the technology department of the Bank promoted project construction, ensuring the smooth initiation and operation of multiple major projects, including the new generation of core system, electronic signature system, retail performance assessment management system, new data centre dynamic environment monitoring system and peripheral reconstruction of the bills pool system.

6. *Continuously promoting data management*

During the Reporting Period, the Bank continued to promote data management related work with the construction of the new generation of core systems as the starting point, achieving deepened data management by implementing the data standard, which effectively improved data quality.

7. *Constantly enhancing data security capability*

During the Reporting Period, the Bank strengthened its information security technology, thereby boosting its defence against information technology risks. Based on the foundation laid the previous year, the Bank put into production the information technology risk management platform and terminal antivirus system, effectively enhancing its abilities to identify system risks, which can defend against viral attacks to the various self-service equipment and terminals, and safeguard the security of customers' capital transaction.

IX. Risk Exposure and Management

In 2018, faced with uncertainties of the external economic situation and the strict financial regulatory environment, the Bank firmly adhered to the core concepts of "create value from risk management", strictly abided by the bottom line of risks, and strictly investigated and controlled all kinds of risks. Continuing to adhere to the "customer-oriented" risk management strategy, it enhanced customer value contribution by further promoting precise management of risks while deepening the application of customer segmentation. The Bank continuously improved risk management methods and tools, and comprehensively refined the standard of delicacy management of various risks, to ensure steady development of businesses of the Bank with overall risks under control.

(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, persevered with the core concepts of "create value from risk management". The Bank was committed to adopting the principles of "customer-oriented", rigid control and independent checks and balances throughout the credit risk management, and implemented full-scale credit risk management and control. It improved the risk management system structure, enhanced the professionalism and independence of risk management, improved the transmission of risk management policies, risk assessment and performance appraisal on risk preference, extended the coverage to various types of credit risk business units, and promoted continuous optimisation of asset structureThe Bank implemented differentiated risk management and control strategies on new and existing customers to support the sustainable development of the business, applied rigorous loan granting threshold to new customers, enhanced the rigid system control, accurately segmented existing customers with differentiated management policies and standards, so as to optimise the asset structure.

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. It continuously improved the efficiency and flexibility of the iteration of the retail internal assessment model, strengthened the differentiated rules and strategy allocation, improved the matching of non-retail internal assessment model and businesses, optimised and increased the rating models, increased the special case adjustments and level limits to risks, and further raised the level of distinction and accuracy between models. The Bank established the expected loss provisioning model under IFRS9 to further enhance the practicability and accuracy of the Bank's risk management quantitative tools. 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, and realised the target of controlling risks under the conditions of sustainable business development.

During the Reporting Period, the Bank strengthened the continuous risk monitoring and control over asset quality, gave full play to the independent monitoring role of the two defensive lines for risks and enhanced the risk management and control capabilities. By establishing risk control mechanisms including dynamic authorisation, trading suspension and risk limit, and the joint application of the accountability system for compliance, the Bank imposed control on its assets quality. It formulated an independent risk investigation mechanism for customers with large loans, by which it can get notified about the information regarding risks in a timely basis, produced a list of problem customers to specify control and treatment measures on each account, and improved the ability of managing problem customers. The Bank also launched analysis of big data risk detection, introduced credit data, regulatory data and third party data to enrich 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.

During the Reporting Period, by applying management tools such as the fund transfer pricing, management operation cost sharing, and measurement under the internal rating for credit risks, the Bank coordinated its long-term development strategies and short-term business objectives and has already established a risk pricing mechanism to deal with interest rate marketisation and realised the launching of system and rigid control. The applying of the pricing mechanism is conducted through the combination of capital costs and risk costs, which implemented rigid control of high pricing for high risk, applied rigorous loan granting threshold and curbed the net NPL formation from high-risk industries and high-risk areas. The Bank will improve its credit risk management and level of control more practicably and effectively in order to maximise the risk-adjusted return on capital.

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 achieved full automation on the valuation of residential properties, and completed the re-assessment of all commercial and residential property collateral. On the basis of updating data on buildings and business districts by proactively collecting external data, the Bank, through on-site and first-line visits and researches at areas where commercial property collateral was put in a centralised way, conducted on-site investigations and basic data collection for commercial indicators, thus forming commercial subdivision rules and a defined core commercial distribution map. The Bank achieved the automatic segmentation of all properties, internal valuation of commercial properties and synchronised management by segments of all properties through online systems, and maintained a leading position among industry peers. It completed the rigid risk control over the internal valuation system for collateral, promoted percentage management of quality collateral, launched the parameter configuration function of collateral and pledge rate parameter of branches, realised the discretionary portfolio management of branches, types of businesses, area, types of collateral, segmentation results and loan-to-value ratio in support of the realisation of eliminating adverse properties, differentiated pricing and differentiated authorisation. Meanwhile, 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 collateral in high-risk and hard-to-realise areas after modifications to the management methods of credit risk mitigation.

(II) Liquidity Risk

Liquidity risk refers to the risk of commercial banks failing to acquire sufficient funds at reasonable cost in time in order to pay the due debt, fulfil other payment obligations and meet other 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.

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 strengthened daily fund management, improved the standard of delicacy management of net position, actively adjusted the structure of assets and liabilities, continuously reduced the risk of liquidity mismatch, actively increased the reserve of high-quality liquid assets, and improved the pressure resistance ability of the Bank's liquidity risk. The Bank set up and perfected the pressure 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.

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

	As at 31 December 2018								
	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	10,252.4	44,344.7	52,416.1	22,325.0	107,795.2	205,661.1	122,070.3	39,197.9	604,062.7
Total financial liabilities	–	133,491.2	24,764.4	77,316.2	250,530.0	71,549.4	8,990.1	–	566,641.3
Net position	10,252.4	(89,146.5)	27,651.7	(54,991.2)	(142,734.8)	134,111.7	113,080.2	39,197.9	37,421.4

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

	31 December 2018	31 December 2017
	(In RMB million, except percentages)	
Qualified quality liquid assets	**88,965.9**	70,502.1
Net cash outflow in the following 30 days	**33,498.1**	54,661.7
Liquidity coverage ratio	**265.58%**	128.98%

As at 31 December 2018, our liquidity coverage ratio was 265.58%, 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, and continued to put greater efforts on market risk control. 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. 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, effectively keeping the market risks of the Bank and its overall interest rate level within the acceptable scope.

The following table sets out the results of our gap analysis as of 31 December 2018, 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 2018					
	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	293,925.3	78,583.2	156,381.9	56,153.3	19,018.9	604,062.7
Total financial liabilities	231,721.8	246,934.9	69,010.3	8,890.6	10,083.7	566,641.3
Interest rate sensitivity gap	62,203.5	(168,351.7)	87,371.6	47,262.7	N/A	N/A

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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.

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.

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The following table sets out our financial assets and liabilities by currency as at 31 December 2018.

	As at 31 December 2018				
	RMB	USD equivalent to RMB	RUB equivalent to RMB	Other Currencies equivalent to RMB	Total (RMB equivalent)
					(In RMB million)
Total financial assets	601,717.4	2,006.0	56.5	282.8	604,062.7
Total financial liabilities	566,262.2	236.9	14.2	128.0	566,641.3
Net position of financial assets and liabilities	35,455.2	1,769.1	42.3	154.8	37,421.4
Credit commitments	98,247.1	1,067.9	–	4.8	99,319.8

(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 information 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 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 raised the quantitative standards for the analysis of the implications of its operations, comprehensively rationalised the significant operations and channels of the Bank, and conducted self-assessments regarding the management of business continuity 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.

(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.

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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 strove to realise the foundation of compliance management, actively optimised the compliance system and mechanism construction, and strictly prevented and effectively resolved 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; intensively performed inspection and self-inspection on internal control compliance for the comprehensive implementation of supervision on the work requirements of ensuring a successful substantial risk prevention and resolution effort in a determined manner, and strengthened the rectification and accountability for the problems identified during inspection, 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 domestic and overseas bills, regulatory policies and laws and regulations, and provided a comprehensive and 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 strictly following the more stringent regulatory requirements for management, the Bank, with an aim to fully fulfill its legal obligations in respect of anti-money laundering, vigorously strengthened the construction of the anti-money laundering system, constantly improved its anti-money laundering internal control policy system, continuously optimised the coordination mechanism for anti-money laundering work, explored the establishment of the Bank's unified blacklist monitoring system, and realised the real-time monitoring and retrospective monitoring of specific personnel whose names were on the list. 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 several kinds of interest of investors and strove 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 2017 annual results and 2018 interim results were held in Hong Kong during March and August 2018 respectively, with a total of over 90 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 2018 respectively, and met over 50 overseas institutional investors; (3) In September 2018, the Company invited domestic and overseas institutional investors and investment banks as well as analysts from securities firms to conduct reverse roadshows, so as to demonstrate the conditions of the unique operations of the Company, such as microcredit and agricultural loans; (4) In 2018, the Company welcomed overseas institutional investors and investment banks in Hong Kong, the US and Japan etc. as well as analysts from investment banks and securities 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; and (5) In 2018, the Bank timely responded to the questions and recommendations provided by investors through various channels, including answering over 90 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.

The Bank 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 Bank places emphasis on communication with customers, and provides timely feedback to customers. The Bank, through its national customer service hotline 95537, provides 24-hour telephone banking services, and, through its credit card customer service hotline 400-66-95537, provides services including service enquiries, complaint and advice, reporting for loss and repayments by instalments. During the Reporting Period, the customer service centre of the Bank handled a total of over 2.79 million transactions, and its credit card centre handled a total of over 1.73 million transactions for the year. Better communication with customers provided a good customer base for the Bank.

Report of the Board of Directors

XI. Corporate Social Responsibility

The year 2018 was the year of "New Journey and Re-starting" of the Bank after twenty years of development, and was also the starting year of the execution of "New Three-Year" strategic development planning. Adhered to its original objectives, the Bank followed the concept of "Inclusive Finance, Harmonious Co-enrichment" and stayed focusing on microcredit strategy, thus continuing to promote the development of inclusive finance business in China, and fully supported "agriculture, rural areas and farmers" to relieve financing difficulties of small and medium private enterprises for development, thus performing its corporate social responsibility with practical action and contribution to society. While committing to building a "first-class international microcredit bank by providing excellent services with unique characteristics", we strive to become a bank with strong cultural foundation, outstanding charity brand and good reputation.

In 2018, the Bank continued to rely upon the corporate responsibility framework of "Financial Responsibility, Environmental Responsibility and Social Responsibility", and continued to integrate the brand philosophy of "trust, warmth, connection and commitment" into different aspects of corporate social responsibility practices including poverty alleviation, support for education development and promotion of cross-sector integration of finance culture and public sports development, facilitation of the construction of harmonious community relationship and enhancement of public financial knowledge. The Bank fully promoted coordination and balanced development of environment, society and governance. In 2018, the total expenditure on social charitable business of the Bank amounted to RMB15.176 million, of which RMB1.5 million was used in charitable investment for poverty alleviation.

Report of the Board of Directors

In 2018, the Bank cared about public well-being as always and helped achieve poverty alleviation. It contributed to the society with practical action, thus further promoting the responsible charitable corporate brand image. In 2018, the Bank increased its charitable investment in targeted poverty alleviation. In particular, in Heilongjiang Province, after the dispatch of on-site poverty alleviation teams to Shuanglong Village, Liutuan Town, Yanshou County, Heilongjiang Province, a targeted village for poverty alleviation, in 2017, the Shuanglong Village Poverty Alleviation key projects in which we invested RMB600,000 in 2018 successfully achieved the set targets with significant results. Local industry assistance projects undertaken by, among other branches, Shuangyashan Branch and Suihua Branch were ran smoothly. In southwest China, Chengdu Branch donated RMB225,000 to Rangtang County, Aba Prefecture, Sichuan Province, a targeted county for poverty alleviation, and entered into the Liangshan Prefecture "Purchase in lieu of Donation" Targeted Poverty Alleviation 2018-2020 Collective Subscription Agreement with Liangshan Prefecture People's Government (and the subscription has not yet taken place to date), thus starting new exploration of sustainable development of poverty alleviation. In 2018, the Bank continued to support the development of education. It donated RMB2 million to Heilongjiang Youth Development Foundation to sponsor the "Harbin Bank Lilac Blossom – Dream Achieving Hope Project" to help 900 poor university students finish their studies with financial assistance over a span of five years. It made donation to Harbin Institute of Technology Education Development Foundation for nine consecutive years for supporting, among other things, school development and construction and giving love and hope. The Bank sponsored the Harbin International Marathon for the third consecutive year and sponsored Chengdu International Marathon for the first time. Leveraging the opportunity arising from the "Harbin Bank Night of Marathon" and the launch of Marathon theme bank cards in China for the first time, the Bank further optimised the relationship between the enterprise and interested parties and built the bridge between financial culture and urban new culture. After the success of the "Happy Community Programme" jointly initiated by the Bank and the United Charity Foundation as pilot venture philanthropy in 2017, the "Happy Community Programme" had greater coverage in 2018. Apart from the cities such as Harbin and Daqing of Heilongjiang Province, the programme was successfully launched in, among other cities, Shenyang and Chongqing. There were nearly 600 events and the number of people served reached 25,000, effectively enhancing construction of harmonious and stable community relationship in a new era.

The Bank vigorously advocated the concept of green finance and strictly implemented the national financial policies regarding green credit and strove to explore the credit business models for related areas such as green economy, circular economy and low-carbon economy. At the same time, the Bank integrated energy-saving and emission reduction into various aspects of daily operation management and promoted energy saving and consumption reduction, reducing the impact of our own operation on the environment, and making efforts in comprehensive construction of "green bank". As at 31 December 2018, the green credit balance of the Company amounted to RMB1,889 million.

With the Bank's pursuit and innovative practice in the field of corporate social responsibility, the Bank won the "2018 Iron-horse Bank Award: Most Socially Responsible Bank" awarded by the "iron-horse" judging panel of Modern Bankers. In the future, the Bank will uphold its original aspiration and actively respond to the call of the Party Central Committee by taking practical action in response to social concerns, thus fully promoting the comprehensive, coordinated and sustainable development of society, environment and economy.

Report of the Board of Directors

XII. Dividend

As approved at the meeting of the Board held on 21 March 2019, it is proposed to not distribute final dividend for 2018 to all shareholders. Such recommendation will be proposed at the 2018 annual general meeting for consideration.

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

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 2018, 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 2018, the distributable reserve of the Company and its subsidiaries under the China Accounting Standards for Business Enterprises was RMB16,720 million and the distributable reserve of the Company was RMB15,423 million.

(V) Debentures

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

On 8 April 2018, the 13th Meeting of the second session of the board of directors of HB Leasing considered and approved "the Proposal on the Issuance of the Second Tranche of Financial Bonds" to agree to issue the second tranche of financial bonds, and submitted the proposal to the shareholders' general meeting for consideration. On 23 April 2018, the Company, Dongninglizhi Decoration Engineering Co., Ltd. and Harbin Express Auto Sales Co., Ltd., as the shareholders of HB Leasing, reviewed and approved the "Proposal on the Issuance of the Second Tranche of Financial Bonds" unanimously on the 2018 first extraordinary general meeting.

HB Leasing obtained the consent and permission from the CBRC and the PBOC for the issuance of the 2018 first tranche of financial bonds on 2 May 2018. The issuance size was RMB1.0 billion with a term of 3 years, a coupon rate of 5.48% accrued annually on a fixed rate and a short name as "18 HB Leasing Bond 01" (bond code: 1822011).

(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 2018 to the date of this report.

(VII) Pre-emptive Rights

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

(VIII) Public Float

As at the date of this report, the total issued shares of the Company are 10,995,599,553 shares, among which, the H Shares held by the public amount to 3,023,570,000 shares based on publicly available information, representing 27.50% of the total issued shares of the Company, thus the Company is in compliance with the public float requirement of the Hong Kong Listing Rules.

(IX) Management Contracts

There were no management or 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 customers of the Bank did not exceed 30% of total interest income. The Directors of the Bank and their close associates and shareholders holding more than 5% of the issued shares of the Bank did not have any interest in these five largest customers.

(XI) Donations

The Bank made charitable and other donations in an aggregate sum of approximately RMB15.176 million for the year ended 31 December 2018.

Report of the Board of Directors

(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 the Hong Kong Listing Rules, as these transactions were entered into on normal commercial terms in the ordinary and usual course of 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 46 to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction that should be disclosed under the Hong Kong Listing Rules.

(XIII) Directors and Supervisors

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

During the Reporting Period, the Company has completed the re-election and appointment of Directors of the seventh session of the Board at the 2017 annual general meeting held on 18 May 2018. Mr. Guo Zhiwen as an executive Director, Mr. Zhang Taoxuan, Mr. Ma Pao-Lin, Mr. Peng Xiaodong and Mr. Chen Danyang as non-executive Directors, and Mr. Wan Kam To and Mr. Kong Siu Chee as independent non-executive Directors were re-elected. Mr. Lyu Tianjun and Ms. Sun Feixia as executive Directors, and Mr. Ma Yongqiang, Mr. Zhang Zheng and Mr. Sun Yan as independent non-executive Directors were newly appointed. Mr. Liu Zhuo, an executive Director, Mr. Cui Luanyi, a non-executive Director, and Mr. Zhang Shengping, Mr. He Ping and Mr. Du Qingchun, independent non-executive Directors, retired. The qualifications of Mr. Lyu Tianjun, Ms. Sun Feixia, Mr. Ma Yongqiang, Mr. Zhang Zheng and Mr. Sun Yan as Directors have been approved by the Heilongjiang Regulatory Bureau of the CBRC, with effect from 6 July 2018.

During the Reporting Period, the Company has completed the re-election and appointment of Supervisors of the seventh session of the Board of Supervisors at the 2017 annual general meeting and the employee representatives' general meeting held on 18 May 2018. Ms. Meng Rongfang and Ms. Bai Fan as external Supervisors were re-elected. Mr. Liu Mo as a shareholder representative Supervisor, Mr. Li Dong as an external Supervisor, and Mr. Deng Xinquan, Mr. Luo Zhonglin and Mr. Fang Shang as employee representative Supervisors were newly appointed. Ms. Lu Yujuan, a shareholder representative Supervisor, Mr. Wang Jiheng, an external Supervisor, and Ms. Gao Shuzhen, Mr. Yang Dazhi and Ms. Wang Ying, employee representative Supervisors, retired.

(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).

(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 2018, 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	4.75
Sun Feixia	Executive Director	Beneficial owner	Domestic Shares	378,907	0.003
Deng Xinquan	Supervisor	Beneficial owner	Domestic Shares	1,205	0.00001

Notes：

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 95 of this report for details of such interest.

Report of the Board of Directors

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 2018, the Company 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 Company or not) or any directors of associated companies of the Company (if entered into by the Company).

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

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

For the year ended 31 December 2018, 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.

Report of the Board of Directors

XIV. Prospects

In the 2019, the international situation becomes more complicated with slowdown in the growth of the major economies in the world. There will be greater downward pressure on China's economy and changes and worries amid stability in the economic operation. However, at the same time, we should see that China remains in an important period of strategic opportunities for its development to be lasted for a long time. There are more favourable factors for the commercial banks which return to the basics of business to serve the real economy: firstly, upon the convening of the Central Economic Work Conference and the National Financial Work Conference, the policies on reduction in taxes and fees have been gradually launched, the capacity clearance of the industries suffering from overcapacity speeds up, and the new industrial clusters are cultivated and development, which is favourable to the capacity improvement of the financial system to serve the real economy; secondly, against the backdrop of the 40th anniversary of China's reform and opening up, various economic reform measures continue to be introduced in the new cycle of economic development. There will be great potential for the development on new urbanisation, services, high-end manufacturing and consumer upgrading; thirdly, a sound and moderately tight monetary policy maintains reasonable and abundant liquidity, and continues to increase the support for private enterprises, and small and micro enterprises; fourthly, the infrastructure construction of inclusive finance at a national level continues to be strengthened, as well as with the acceleration of improvement in the internet financial supervision system, which is favourable to commercial banks standardising and orderly promoting digital inclusive finance; fifthly, the northeast revitalisation has entered a new era of comprehensive and all-round revitalisation, and General Secretary Xi Jinping's six requirements at the Northeast Revitalisation Symposium and the deployment of the provincial economic work conference have helped the Bank continue to capitalise on its regional advantage with further and greater development.

In the future, the Bank will adhere to its microcredit strategy, the essential requirement of returning to the basics of business, further establish the business philosophy of quality and efficiency first, earnestly implement the work of "overall enhancement", comprehensively promote the implementation of development strategy, further consolidate the advantages of business development, accelerate the enhancement of the comprehensive financial service capabilities for strategic customers such as micro, small and medium-sized enterprises, comprehensively improve the level of group governance, and ensure to achieve its own strategic transformation and improvement with high quality and efficiency.

By order of the Board
Guo Zhiwen
Chairman

Harbin, PRC
21 March 2019

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 at 31 December 2018, the Company has a registered capital of RMB10,995,599,553.

II. Statement of Changes in Shares

Unit: Shares

	1 January 2018		Increase/decrease during the Reporting Period (+/-)					**31 December 2018**	
	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%	–	–	–	4,300,000	4,300,000	**2,199,089,800**	**20.00%**
(2) Shares held by private enterprises	5,713,749,378	51.96%	–	–	–	-4,300,000	-4,300,000	**5,709,449,378**	**51.92%**
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 32 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 Holders of Non Overseas-listed Shares as at the Date of this Report

	Name of shareholder	Nature of shareholder	Number of shares held (Shares)	Shareholding percentage (%)[1]	Number of shares pledged[2]	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%	–	Non overseas-Listed shares
5	Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	Private enterprise	572,253,048	5.20%	–	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	377,620,219	3.43%	–	Non overseas-Listed shares
8	Harbin Jubang Investment Co., Ltd.	Private enterprise	301,170,095	2.74%	–	Non overseas-Listed shares
9	Beijing Xinrun Investment Co., Ltd.	Private enterprise	255,418,587	2.32%	–	Non overseas-Listed shares
10	Dongninglizhi Decoration Engineering Co., Ltd.	Private enterprise	199,010,054	1.81%	194,982,174	Non overseas-Listed shares

Notes:

1. The above shareholding percentage of non overseas-listed shares as at the date of this report is calculated based on the total share capital of the Company, being 10,995,599,553 shares.

2. 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 2018, according to the disclosure of interest information as shown on the website of the Hong Kong Stock Exchange, the interests and short positions of the following persons (excluding the Directors, Supervisors and the chief executive of the Company) 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. Harbin Economic Development was established on 22 August 1992 with registered capital of RMB2,287,522,009, and Mr. Zhang Taoxuan being the legal representative. The business scope of Harbin Economic Development is to make financial investments in areas like fixed-assets to municipally owned enterprises and to receive dividends in return (business subject to approval by law shall be conducted upon approval by competent authorities).

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 in turn 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. Harbin Kechuang Xingye Investment Company Limited was established on 31 August 2004 with registered capital of RMB1,060.5 million, and Mr. Liu Linan(劉李男) being the legal representative. The business scope of Harbin Kechuang Xingye Investment Company Limited is to provide corporate investment and consultation services such as management, acquisition and merger, asset restructuring, asset custody and finance leasing.

Changes in Share Capital and Information on Shareholders

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. Heilongjiang Keruan Software Technologies Company Limited was establish on 22 September 2000 with registered capital of RMB1.08 billion and Mr. Liang Yifeng being the legal representative. The business scope of Heilongjiang Keruan Software Technologies Company Limited is to provide services in relation to computer software and hardware technology development, consultation, transfer, support and training, marketing of developed products, sale of computer software and hardware and external equipment, communication equipment (excluding radio transmission equipment), integration of computer system, development of multimedia technology and repairment of computer.

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. Heilongjiang Xinyongsheng Trading Company Limited was established on 26 September 2000 with registered capital of RMB1 billion and Mr. Liu Kun being the legal representative. The business scope of Heilongjiang Xinyongsheng Trading Company Limited is sale of electronic products and communication equipment (excluding radio transmission equipment), construction materials, eco-friendly equipment, computer software and hardware and external equipment and biochemical products (excluding dangerous goods and regulated chemicals).

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. Heilongjiang Tiandi Yuanyuan Network Technology Company Limited was established on 11 July 2000 with registered capital of RMB970 million and Mr. Wu Degang(吳德剛) being the legal representative. The business scope of Heilongjiang Tiandi Yuanyuan Network Technology Company Limited is provision of networking technology development, training and support, sale of developed relevant products, electronic products and communication equipment (excluding radio transmission equipment), construction materials, eco-friendly equipment, computer software and hardware and external equipment, undertaking of computer network system integration services and multimedia content development.

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 Jieshengtiancheng 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 non-executive Director of the Company, namely Chen Danyang (陳丹陽) as a natural person. 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. Heilongjiang Tuokai Economic and Trading Company Limited was established on 21 September 2000 with registered capital of RMB1 billion and Mr. Chen Zhonghua (陳中華) being the legal representative. The business scope of Heilongjiang Tuokai Economic and Trading Company Limited is sale of electronic products, computer software and hardware and external equipment, eco-friendly equipment, daily groceries, office utensils, office automation machines, knitwear, hardware and electrical appliances, handcrafts (excluding gold and silver jewelry), communication equipment (excluding radio transmission equipment), biochemical products (excluding dangerous goods and regulated chemicals) and instruments and gauges.

Changes in Share Capital and Information on Shareholders

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 100% owned corporation, Fubon Life Insurance Company Limited. Fubon Life Insurance Company Limited was established in March 2007 with registered capital of TWD82,969,690,000 and Mr. Ming-Hsing (Richard) Tsai being the legal representative. The business scope of Fubon Life Insurance Company Limited is provision of life insurance. The application of the qualification of Fubon Life Insurance Company Limited as a shareholder of the Company has been submitted to the CBIRC for approval in accordance with the Interim Measures for the Administration of Equity Management of Commercial Banks, and is still under review.
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 2018.

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

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

As at 31 December 2018, 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 (Unified Social Credit Code: 91230100424004064C(1-1)) issued by the 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.

Changes in Share Capital and Information on Shareholders

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

As at 31 December 2018, 54,817,278 shares held by a shareholder, Heilongjiang Tiandi Yuanyuan Network Technology Company Limited, with shareholding of 5% or more of the Company were pledged, and none of the shares held by any shareholder with shareholding of 5% or more of the Company was judicially frozen.

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 2018.

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 issued shares of the Company gave any undertakings.

IX. Purchase, Sale or Redemption of Listed Securities of the Company

During the period from 1 January 2018 to the date of publication of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company.

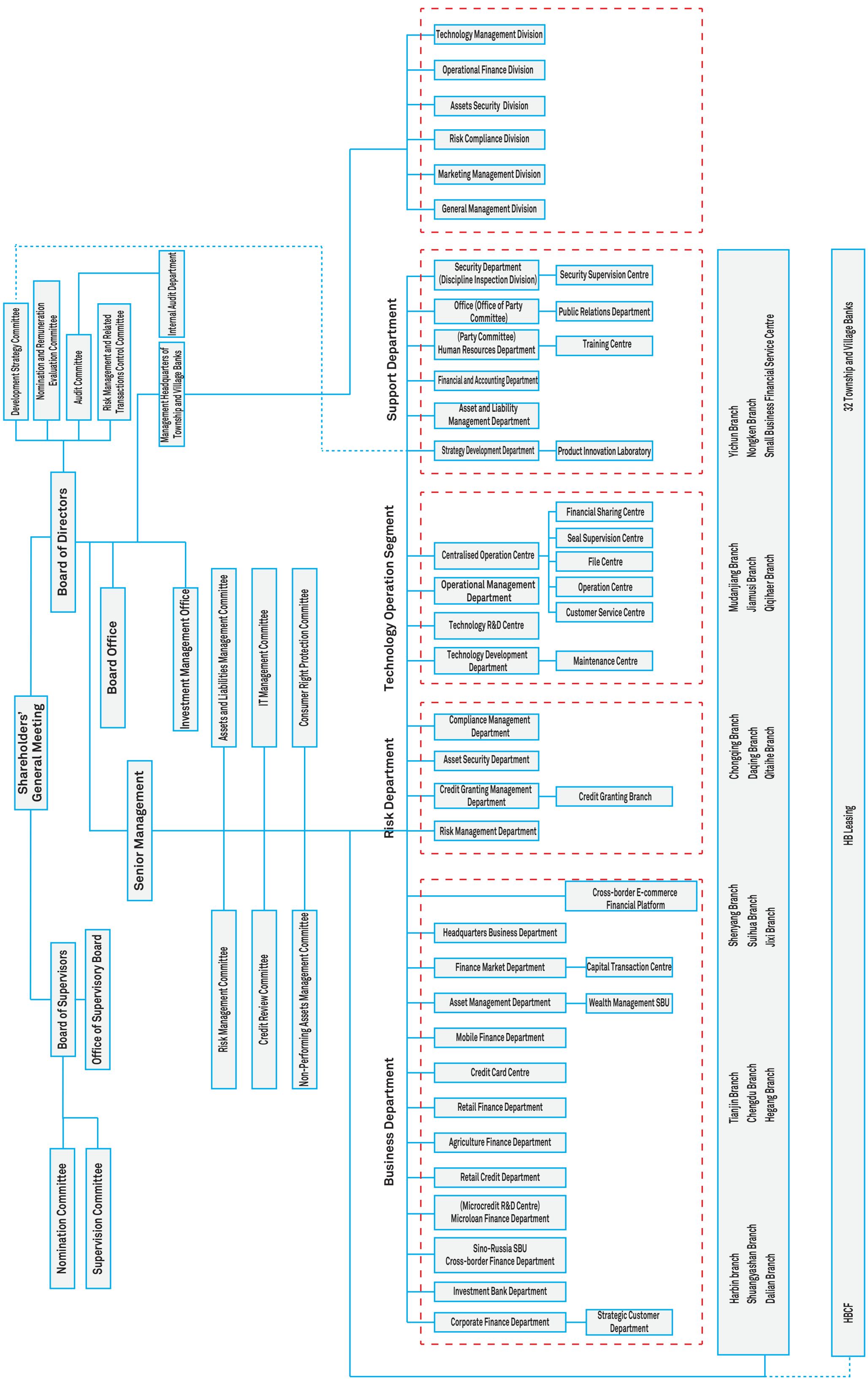
X. Directors and Supervisors Nominated by the Shareholders of the Company

Name of shareholders	Director nominated by the shareholders	Supervisor nominated by the shareholders
Harbin Economic Development and Investment Company	Zhang Taoxuan	–
Fubon Life Insurance Company Limited	Ma Pao-Lin	–
Heilongjiang Tuokai Economic and Trading Company Limited	Chen Danyang	–
Huaxia Life Insurance Co., Ltd.	Peng Xiaodong	–
CITIC Capital Holdings Limited	–	Liu Mo

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 2018, the Company strictly complied with relevant overseas listing regulatory requirements, and strived to improve the Bank's corporate governance mechanism, as well as enhance and improve the Bank's corporate governance. The Bank has adopted the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, has met the requirements of the PRC commercial bank administrative measures and corporate governance requirements and has 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 2018 to 31 December 2018, the Company had complied with the requirements of the provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules.

In 2018, the shareholders' general meetings of the Company passed the following resolutions relating to corporate governance of the Company:

At the 2017 annual general meeting convened by the Company on 18 May 2018, proposals namely the Proposal on the 2017 Work Report of the Board of Directors, the Proposal on the 2017 Work Report of the Board of Supervisors, the Proposal on the 2017 Final Account Report, the Proposal on the 2018 Financial Budgets, the Proposal on the 2017 Profit Distribution Plan, the Proposal on the 2017 Annual Report, the Proposal on the Appointment of Ernst & Young and Ernst & Young Hua Ming LLP as the Auditors for 2018, the Proposal on the Appointment of Directors of the Seventh Session of the Board of Directors, the Proposal on the Appointment of External Supervisors and Shareholder Representative Supervisors of the Seventh Session of the Board of Supervisors, the Proposal on the Amendments to the Articles of Association, the Proposal on Granting the Board a General Mandate to Issue Additional H Shares, the Proposal on Issuance of Not More Than RMB10 Billion Non-capital Financial Bonds, the Proposal on Issuance of Not More Than RMB15 Billion Capital Supplemental Bonds, the Proposal on the Authorisation of the Board and the Persons Authorised by the Board to Deal With All Matters Relating to the Issuance of Capital Supplemental Bonds and the Proposal on the Extension of the Validity Period of 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.

Corporate Governance Report

At the 2018 first domestic shareholders' class meeting convened by the Company on 18 May 2018, the Proposal on the Extension of the Validity Period of 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 2018 first H shareholders' class meeting convened by the Company on 18 May 2018, the Proposal on the Extension of the Validity Period of 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.

In 2018, the Company organised and held 66 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 3 general meetings and class meetings of shareholders in total, 8 meetings of the Board, 33 meetings of the special committees of the Board, 9 meetings of the Board of Supervisors and 13 meetings of the special committees of the Board of Supervisors. At the meetings, the Company considered and approved 249 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 Budgets, the Final 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 Management Report, the amendments to the Articles of Association, the institutional development plan, etc.

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 on the performance 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 provides 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 with the cost paid by 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 meetings and the meetings of the Board 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.

Corporate Governance Report

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 party 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; appointing or removing 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.

Corporate Governance Report

The Board of our Company consisted of 12 Directors, including 3 executive Directors (Mr. Guo Zhiwen, Mr. Lyu Tianjun and Ms. Sun Feixia), 4 non-executive Directors (Mr. Zhang Taoxuan, Mr. Ma Pao-Lin, Mr. Peng Xiaodong and Mr. Chen Danyang), and 5 independent non-executive Directors (Mr. Wan Kam To, Mr. Kong Siu Chee, Mr. Ma Yongqiang, Mr. Zhang Zheng, and Mr. Sun Yan). The 3 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 4 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 terms of office of the members of the Board, please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Organisations" in this report.

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

During the Reporting Period, the Company has completed the re-election and appointment of Directors of the seventh session of the Board at the 2017 annual general meeting held on 18 May 2018. Mr. Guo Zhiwen as an executive Director, Mr. Zhang Taoxuan, Mr. Ma Pao-Lin, Mr. Peng Xiaodong and Mr. Chen Danyang as non-executive Directors, and Mr. Wan Kam To and Mr. Kong Siu Chee as independent non-executive Directors were re-elected. Mr. Lyu Tianjun and Ms. Sun Feixia as executive Directors, and Mr. Ma Yongqiang, Mr. Zhang Zheng and Mr. Sun Yan as independent non-executive Directors were newly appointed. Mr. Liu Zhuo, an executive Director, Mr. Cui Luanyi, a non-executive Director, and Mr. Zhang Shengping, Mr. He Ping and Mr. Du Qingchun, independent non-executive Directors, retired. The qualifications of Mr. Lyu Tianjun, Ms. Sun Feixia, Mr. Ma Yongqiang, Mr. Zhang Zheng and Mr. Sun Yan as Directors have been approved by the Heilongjiang Regulatory Bureau of the CBRC, with effect from 6 July 2018.

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 recommendation 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, 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.

Mr. Lyu Tianjun was appointed as 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.

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 attendance of all 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. While preparing for the financial statements for the year ended 31 December 2018, 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 164 of this report.

VIII. Board Meetings and the Directors' Attendance

During the Reporting Period, the Company held eight Board meetings to consider and approve major proposals on development strategies, operation plans, financial policies, rule amendments and other matters, including 81 important proposals and reports such as the working report of the Board, the working report of the President, the financial budgets, the final account report, the profit distribution plan, the performance evaluation index of senior management, the comprehensive operation plan, the management and implementation of related party transactions.

Meeting	Meeting date	Meeting mode
The 20th meeting of the sixth session of the Board	12 March 2018	Telecommunication
The 21st meeting of the sixth session of the Board	16 March 2018	Telecommunication
The 22nd meeting of the sixth session of the Board	28 March 2018	On-site
The 1st meeting of the seventh session of the Board	18 May 2018	On-site
The 2nd meeting of the seventh session of the Board	28 August 2018	On-site
The 3rd meeting of the seventh session of the Board	8 October 2018	Telecommunication
The 4th meeting of the seventh session of the Board	9 November 2018	On-site
The 5th meeting of the seventh session of the Board	18 December 2018	On-site

Corporate Governance Report

The attendance of each Director in Board meetings and Shareholders' general meetings/class meetings in 2018 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 (re-elected on 18 May 2018)	8	8	0	100%	3/3
Liu Zhuo (retired on 18 May 2018)	3	3	0	100%	0/3
Lyu Tianjun (newly appointed on 6 July 2018)	5	5	0	100%	0/0
Sun Feixia (newly appointed on 6 July 2018)	5	5	0	100%	0/0
Zhang Taoxuan (re-elected on 18 May 2018)	8	8	0	100%	0/3
Ma Pao-Lin (re-elected on 18 May 2018)	8	8	0	100%	3/3
Peng Xiaodong (re-elected on 18 May 2018)	8	8	0	100%	3/3
Cui Luanyi (retired on 18 May 2018)	3	3	0	100%	0/3
Chen Danyang (re-elected on 18 May 2018)	8	8	0	100%	0/3
Zhang Shengping (retired on 18 May 2018)	3	3	0	100%	3/3
He Ping (retired on 18 May 2018)	3	3	0	100%	3/3
Du Qingchun (retired on 18 May 2018)	3	3	0	100%	3/3
Wan Kam To (re-elected on 18 May 2018)	8	8	0	100%	3/3
Kong Siu Chee (re-elected on 18 May 2018)	8	8	0	100%	3/3
Ma Yongqiang (newly appointed on 6 July 2018)	5	5	0	100%	0/0
Zhang Zheng (newly appointed on 6 July 2018)	5	5	0	100%	0/0
Sun Yan (newly appointed on 6 July 2018)	5	5	0	100%	0/0

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

IX. Duty Performance of Independent Non-Executive Directors

In the Board of the Company, there are five independent non-executive Directors, the appointment of whom 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, the independent non-executive Directors maintained communications with the Bank through meetings with the chairman of the Board, on-site visits, special researches, trainings, department interviews and other approaches. They actively expressed independent and professional opinions at the Board meetings and the meetings of the special committees under the Board, 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, based on which, the Company is of the view that all the independent non-executive Directors have been independent from 1 January 2018 to the date of this 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, thus further strengthens the supervision on the Company by independent non-executive Directors.

In 2018, 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 33 meetings, at which 127 major 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 were 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 2018 are as follows:

(I) Audit Committee

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

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

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

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

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

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

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

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

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

In 2018, the Audit Committee held 6 meetings, at which 20 proposals and reports were considered and approved, including the Proposal on the 2017 Annual Results Announcement and Annual Report, the Proposal on 2017 Profit Distribution Plan, the Proposal on the 2018 Financial Budgets, the Proposal on the Appointment of Auditors for 2018, the Proposal on the 2017 Internal Control Evaluation Report of Harbin Bank Co., Ltd., the Proposal on Approval of 2018 Unaudited Interim Financial Statements prepared according to the International Financial Reporting Standards, and the Proposal on Consideration of 2018 Interim Results Announcement and Interim Report. In 2018, 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 2017 annual report and 2018 interim report according to the disclosure requirements on the annual report of regulatory authorities and the disclosure plan of the Audit Committee. During the Reporting Period, the Audit Committee held several meetings with the external auditors, which, in part, were held in the absence of executive Directors and the senior management. On 20 March 2019, the Audit Committee reviewed the audited consolidated financial statements for the year ended 31 December 2018 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 2018 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	6	6	0	100%
Zhang Shengping (retired on 18 May 2018)	3	3	0	100%
Kong Siu Chee	6	6	0	100%
Peng Xiaodong	6	6	0	100%
Ma Yongqiang (newly appointed on 6 July 2018)	3	3	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. The members include independent non-executive Directors, namely Mr. Sun Yan (chairman of the committee), Mr. Zhang Zheng and Mr. Wan Kam To, and a non-executive Director, namely 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.

Corporate Governance Report

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 assessment 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 policy.

In 2018, the Nomination and Remuneration Evaluation Committee held 10 meetings. All members strictly performed the obligations listed in the 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 2018 annual performance assessment index of the senior management. Meanwhile, 30 proposals and reports including the Proposal on 2017 Directors' Performance Report, the Proposal on 2017 Annual Performance Assessment Index for Senior Management, the Proposal on Nomination of the Seventh Session of the Board of Directors, and the Proposal on Adjustment to 2018 KPI for Senior Management were reviewed and approved. The attendance of each member in the meetings of the Nomination and Remuneration Evaluation Committee in 2018 is 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 (retired on 18 May 2018)	5	5	0	100%
He Ping (retired on 18 May 2018)	5	5	0	100%
Wan Kam To	10	10	0	100%
Chen Danyang	10	10	0	100%
Sun Yan (newly appointed on 6 July 2018)	5	5	0	100%
Zhang Zheng (newly appointed on 6 July 2018)	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 consists of independent non-executive Directors. The members include independent non-executive Directors, namely Mr. Ma Yongqiang (chairman of the committee), Mr. Sun Yan and Mr. Zhang Zheng, and an executive Director, namely Ms. Sun Feixia.

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 2018, the Risk Management and Related Transactions Control Committee held 10 meetings, at which 49 proposals and reports were considered and approved, including the Proposal on the Risk Management Policy of Harbin Bank in 2018, the Proposal on Risk Appetite Statement of Harbin Bank in 2018 and the Proposal on the Risk Management Report in 2017. The attendance of each member in the meetings of Risk Management and Related Transactions Control Committee in 2018 is as follows:

Corporate Governance Report

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 (retired on 18 May 2018)	3	3	0	100%
He Ping (retired on 18 May 2018)	3	3	0	100%
Du Qingchun (retired on 18 May 2018)	3	3	0	100%
Liu Zhuo (retired on 18 May 2018)	3	3	0	100%
Cui Luanyi (retired on 18 May 2018)	3	3	0	100%
Ma Yongqiang (newly appointed on 6 July 2018)	7	7	0	100%
Sun Feixia (newly appointed on 6 July 2018)	7	7	0	100%
Sun Yan (newly appointed on 6 July 2018)	7	7	0	100%
Zhang Zheng (newly appointed on 6 July 2018)	7	7	0	100%

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

(IV) Development Strategy Committee

The Development Strategy Committee consists of executive Directors, independent non-executive Directors and non-executive Directors. The members include executive Directors, namely Mr. Guo Zhiwen (chairman of the committee) and Mr. Lyu Tianjun, an independent non-executive Director, namely Mr. Kong Siu Chee, and non-executive Directors, namely 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 subject to the approval of 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 2018, the Development Strategy Committee held 7 meetings, at which 28 proposals and reports such as the Proposal on the Commencement of Mid-Term Evaluation and Adjustment on 2016-2020 Strategic Planning of Harbin Bank, the Proposal on the Details of and Self-evaluation Report on Harbin Bank's Consumer Right Protection in 2017, the Proposal on 2019 Outbound Investment Plan, the Proposal on Capital Replenishment Plan in 2019, and the Proposal on the Capital Management Measures of Harbin Bank were considered and approved. The attendance of each member in the meetings of Development Strategy Committee in 2018 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	7	7	0	100%
Lyu Tianjun (newly appointed on 6 July 2018)	3	3	0	100%
Kong Siu Chee	7	7	0	100%
Zhang Taoxuan	7	7	0	100%
Ma Pao-Lin	7	7	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 consists of 7 Supervisors, including 3 external Supervisors, 3 employee representative Supervisors and 1 shareholder representative Supervisor. The number and personnel composition of the Board of Supervisors of the Company are in compliance with the provisions of relevant laws and regulations. During the Reporting Period, the Board of Supervisors held 9 meetings, at which 20 proposals and reports such as the Work Report of the Board of Supervisors, performance evaluation reports, the annual report, profit distribution plan, the mid-term strategy evaluation report and the nomination of Supervisors were considered and approved. The attendance of each Supervisor in the meetings of the Board of Supervisors in 2018 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)
Deng Xinquan (newly appointed on 18 May 2018)	6	6	0	100%
Gao Shuzhen (retired on 18 May 2018)	3	3	0	100%
Wang Jiheng (retired on 18 May 2018)	3	3	0	100%
Li Dong (newly appointed on 18 May 2018)	6	6	0	100%
Meng Rongfang (re-elected on 18 May 2018)	9	9	0	100%
Bai Fan (re-elected on 18 May 2018)	9	9	0	100%
Lu Yujuan (retired on 18 May 2018)	3	3	0	100%
Wang Ying (retired on 18 May 2018)	3	2	0	67%
Yang Dazhi (retired on 18 May 2018)	3	3	0	100%
Liu Mo (newly appointed on 18 May 2018)	6	6	0	100%
Luo Zhonglin (newly appointed on 18 May 2018)	6	6	0	100%
Fang Shang (newly appointed on 18 May 2018)	6	6	0	100%

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

During the Reporting Period, the Board of Supervisors of the Company had two special committees, namely the Nomination Committee and the Supervision Committee. The structure and composition of each special committee are in compliance with the requirements of the regulatory authorities and the Articles of Association. The chairman of each committee is an external Supervisor. Both special committees work in accordance with the requirements of laws and regulations, the Articles of Association, the Rules of Procedure for the Board of Supervisors and the terms of reference for the committees under the Board of Supervisors.

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. Thirteen meetings were held throughout the year at which 21 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 and an employee representative Supervisors. As at the end of the Reporting Period, the members include external Supervisors, namely Mr. Li Dong (chairman of the committee) and Ms. Bai Fan, and an employee representative Supervisor, namely Mr. Luo Zhonglin.

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 Company's operational and management status, total asset size and shareholding structure.

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

8. Other matters authorised by the Board of Supervisors.

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During the Reporting Period, the Nomination Committee held two meetings, at which a total of 6 proposals and reports were considered and approved, namely the Proposal on the Evaluation Report on the Performance of the Board and the Directors in 2017 Issued by the Board of Supervisors, the Proposal on the Evaluation Report on the Performance of the Board of Supervisors and the Supervisors in 2017, the Proposal on the Evaluation Report on the Performance of Senior Management in 2017 Issued by the Board of Supervisors, the Proposal on the Nomination of the Supervisors of the Seventh Session of the Board of Supervisors, the Supervisors' Mutual Evaluation for 2018, and the Proposal on the Implementation Rules for the Evaluation of the Performance of Supervisors of Harbin Bank Co., Ltd.. The attendance of each Supervisor in the meetings of the Nomination Committee in 2018 is as follows:

Committee member	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy	Attendance rate (Note)
Wang Jiheng (retired on 18 May 2018)	1	1	0	100%
Bai Fan	2	2	0	100%
Wang Ying (retired on 18 May 2018)	1	1	0	100%
Li Dong (newly appointed on 18 May 2018)	1	1	0	100%
Luo Zhonglin (newly appointed on 18 May 2018)	1	1	0	100%

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

(II) Supervision Committee

The Supervision Committee consists of an external Supervisor, a shareholder representative Supervisor and an employee representative Supervisor. As at the end of the Reporting Period, the members include an external Supervisor, namely Ms. Meng Rongfang (chairman of the committee), a shareholder representative Supervisor, namely Mr. Liu Mo, and an employee representative Supervisor, namely Mr. Fang Shang.

The major terms of reference are as follows:

1. Drafting the off-office auditing programme on senior management personnel of the Company 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 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 11 meetings, at which more than 15 proposals and reports were considered and approved, namely the Proposal on 2017 Profit Distribution Plan, the Proposal on 2017 Annual Report, the Proposal on Audit Report on the Economic Responsibility of Zhang Qiguang in respect of his Resignation, the Proposal on Conducting Audit on Economic Responsibility of Lyu Tianjun, Sun Feixia, Wang Ying and others, the Proposal on Audit Report on the Economic Responsibility of Lyu Tianjun, the Proposal on Audit Report on the Economic Responsibility of Sun Feixia, the Proposal on Audit Report on the Economic Responsibility of Wang Ying, the Proposal on Conducting Audit on Lu Weidong and others in respect of their Resignation, the Proposal on Audit Report on the Economic Responsibility of Liu Yang in respect of his Resignation, the Proposal on Audit Report on the Economic Responsibility of Li Jian in respect of his Resignation, the Proposal on the 2018 Interim Report, the Proposal on Harbin Bank (at the Group Level) 2016-2020 Strategic Mid-term Evaluation Report, and the Proposal on the Amendment to Harbin Bank (at the Group Level) 2016-2020 Strategic Development Plan. The attendance of each Supervisor in the meetings of the Supervision Committee in 2018 is as follows:

Committee member	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy	Attendance rate (Note)
Meng Rongfang	11	11	0	100%
Lu Yujuan (retired on 18 May 2018)	5	5	0	100%
Yang Dazhi (retired on 18 May 2018)	5	5	0	100%
Liu Mo (newly appointed on 18 May 2018)	6	6	0	100%
Fang Shang (newly appointed on 18 May 2018)	6	6	0	100%

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

Corporate Governance Report

XII. 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.

XIII. Securities Transactions by Directors and Supervisors

The Company has adopted a code of conduct regarding securities transactions by Directors and Supervisors 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.

XIV. 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 non-executive Directors for two times, during which they went to Beijing and Shenzhen and other regions to conduct on-site visits on HBCF, HB Leasing and Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.. Through interviews and on-site visits, the independent non-executive Directors of the Company listened to the reporting on the operations, business characteristics, corporate governance, risk management, the prevailing problems and difficulties in the development and other aspects of subsidiaries. Drawing on their own expertise and practical experience, the independent non-executive Directors gave a number of valuable opinions and advices to subsidiaries, which gave full play to their functions of providing constructive recommendations and expressing independent and objective opinions, specified the development direction for subsidiaries, and laid a sound foundation for the Bank to improve its group management and decision making.

During the Reporting Period, the Bank organised a centralized training session for Supervisors and sent some Supervisors to participate in an external training session, i.e. "Practical Training for Supervision and Inspection of the Board of Supervisors", to strengthen the sense of responsibility and improve the capability of performance.

During the Reporting Period, the Board of Supervisors of the Bank conducted interviews with HB Leasing, HBCF, 8 branches, 9 village and township banks and 2 sub-branches, focusing on understanding the operation and management, risks, internal control, the implementation of regulatory opinions and the relevant rectification measures adopted and the existing difficulties and problems of various institutions, and provided suggestions for rectification; conducted interviews with the Human Resources Department and the Board Office to supervise the scientificity and rationality of the remuneration management system, policies within the Group and the remuneration plan of senior management.

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The attendance of each Director in training sessions on specific topics and on-site business visits in 2018 is as follows:

Name of Directors	Number of training sessions on specific topics attended	Number of on-site business visits
Guo Zhiwen (re-elected on 18 May 2018)	2	5
Liu Zhuo (retired on 18 May 2018)	0	0
Lyu Tianjun (newly appointed on 6 July 2018)	1	5
Sun Feixia (newly appointed on 6 July 2018)	1	4
Zhang Taoxuan (re-elected on 18 May 2018)	1	0
Ma Pao-Lin (re-elected on 18 May 2018)	2	0
Peng Xiaodong (re-elected on 18 May 2018)	2	0
Cui Luanyi (retired on 18 May 2018)	0	0
Chen Danyang (re-elected on 18 May 2018)	1	0
Zhang Shengping (retired on 18 May 2018)	1	1
He Ping (retired on 18 May 2018)	1	2
Du Qingchun (retired on 18 May 2018)	1	1
Wan Kam To (re-elected on 18 May 2018)	1	0
Kong Siu Chee (re-elected on 18 May 2018)	2	0
Ma Yongqiang (newly appointed on 6 July 2018)	1	3
Zhang Zheng (newly appointed on 6 July 2018)	1	3
Sun Yan (newly appointed on 6 July 2018)	3	3

The attendance of each Supervisor in training sessions on specific topics and on-site business visits in 2018 is as follows:

Name of Supervisors	Number of training sessions on specific topics attended	Number of on-site business visits
Gao Shuzhen (retired on 18 May 2018)	0	0
Deng Xinquan (newly appointed on 18 May 2018)	3	21
Luo Zhonglin (newly appointed on 18 May 2018)	1	2
Fang Shang (newly appointed on 18 May 2018)	1	2
Wang Ying (retired on 18 May 2018)	0	0
Yang Dazhi (retired on 18 May 2018)	0	0
Lu Yujuan (retired on 18 May 2018)	0	0
Wang Jiheng (retired on 18 May 2018)	0	0
Li Dong (newly appointed on 18 May 2018)	2	3
Meng Rongfang (re-elected on 18 May 2018)	1	0
Bai Fan (re-elected on 18 May 2018)	1	2
Liu Mo (newly appointed on 18 May 2018)	1	1

XV. 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 resolved on 27 October 2017 to make amendments to the Articles of Association then in effect and the Articles of Association which will come into effect after the issuance of offshore preference shares. In addition, pursuant to the provisions as set out in the regulatory documents including the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) and the Guidelines on Issuing Green Credit (《綠色信貸指引》) issued by the CBRC and other regulatory requirements, the Board resolved on 28 March 2018 to make further amendments to the Articles of Association then in effect and the Articles of Association which will come into effect after the issuance of the offshore preference shares. The relevant proposal in relation to the amendments to the Articles of Association was considered and approved at the 2017 annual general meeting held on 18 May 2018, and the amendments to the Articles of Association became effective on 7 September 2018 after obtaining the approval of the Heilongjiang Regulatory Bureau of CBRC.

XVI. Company Secretary under the Hong Kong Listing Rules

Ms. Sun Feixia has acted as the company secretary of the Bank independently since 19 May 2017. Please refer to "Directors, Supervisors, Senior Management and Employees" – "Information on Directors" 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 during the Reporting Period.

XVII. 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 present 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 2017 annual results and 2018 interim results were held in Hong Kong in March 2018 and August 2018 respectively, with a total of over 90 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 2018 and August 2018 respectively, and met over 50 overseas institutional investors; (3) In September 2018, the Bank invited domestic and overseas institutional investors, analysts from investment banks and security firms to conduct reverse roadshows to showcase the special business of the Bank, including the development of microcredit and agricultural loans; (4) In 2018, 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; (5) In 2018, the Bank timely responded to the questions and recommendations provided by investors through various channels, including answering over 90 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: 150010
Tel: 86-451-86779933
Fax: 86-451-86779829
E-mail: ir@hrbb.com.cn

XIII. Rights of Shareholders

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

According to the provisions of the Articles of Association and the 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.

XIX. Profit and Dividend Distribution Policy

Following is the profit and dividend distribution policy of the Company according to the requirements of the Articles of Association:

(I) Pursuant to Article 288 of the Articles of Association, the profits after income tax paid by the Company shall be distributed in the following order:

(1) To make up the losses of the previous years;

(2) To extract ten percent (10%) of the statutory accumulation fund;

(3) To extract fund for general (risk) preparation;

(4) To extract the any accumulation fund by the resolutions of shareholders' general meeting; and

(5) To distribute profits to shareholders.

To distribute the profits in light of the proportions of shares held by shareholders, unless it is instructed by the Articles of Association to not distribute profits according to the proportions of shares held by shareholders.

If the shareholder' meeting distributes the profits by violating the provisions of the preceding paragraph before the Item (1) to (4), the profits distributed must be refunded to the Company.

No profit may be distributed for the Company's shares held by the Company.

(II) Pursuant to Article 291 of the Articles of Association, dividends shall be distributed by the Company in the form of cash or shares. The Company shall pay cash dividends and other amounts to holders of domestic shares in Renminbi. The Company shall calculate and declare cash dividends and other payments which are payable to holders of H shares in Renminbi, and shall pay such amounts in Hong Kong dollar.

The Company shall pay cash dividends and other amounts to holders of overseas listed foreign shares in foreign currency in accordance with the relevant foreign exchange control regulations of the State. Dividends distributed in shares shall be upon resolutions of the shareholders' general meeting and reported to the banking regulatory authority for approval.

(III) Pursuant to Article 291 of the Articles of Association, the profit distribution of the Company attaches the emphasis on the reasonable return on the investment of investors. The Company's profit distribution policy should maintain a certain continuity and stability, and the Company shall distribute dividends in the profitable year. The profits distributed by the Company in the form of cash shall not be less than ten percent (10%) of the achieved profits available for distribution in each year.

(IV) Pursuant to Article 103(2) of the Articles of Association, the profit distribution plan and loss make-up plan proposed by the Board of Directors shall be passed by ordinary resolution by the shareholders' 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 2018 annual financial report of the Bank prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards. The Bank did not change its auditors during the past three years.

For the year ended 31 December 2018, the Bank paid RMB7.65 million to such external auditors for 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.

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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 2018 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 2018 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.

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(III) Procedures for Prevention and 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 Bank 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; and

- 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 Bank 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 Company formulated and improved a scientific internal control system while establishing and maintaining a business environment which is under proper control and takes into account risk conditions by borrowing advanced ideas from foreign countries. The Company has a clear internal management framework: as the decision-making body of the Company, 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 Company implemented a series of works on improving and optimising internal control, primarily including the following:

Corporate Governance Report

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 as at the end of the Reporting Period, 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 Company 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 departments, 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 Company 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 Company also specified responsible departments, relevant processes and document circulation mechanisms to ensure compliance thereof and timely circulation of external documents.

Fourthly, the Company 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 Company has 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 relevant 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 of the Company highly focused on the works in respect of internal control studying and training, and strengthening of incident prevention and control, consumer rights 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 in 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 Company 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 organisation 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 2018, the Board of Supervisors of the Company held 9 meetings, at which 20 proposals were considered and approved, namely the Proposal on Audit Report on the Economic Responsibility of Wang Ying, the 2017 Work Report of Board of Supervisors of Harbin Bank Co., Ltd., the Proposal on 2017 Profit Distribution Plan, the Proposal on 2017 Annual Report, the Proposal on the Evaluation Report on the Performance of the Board and the Directors in 2017 Issued by the Board of Supervisors, the Proposal on the Evaluation Report on the Performance of the Board of Supervisors and the Supervisors in 2017, the Proposal on the Evaluation Report on the Performance of Senior Management in 2017 Issued by the Board of Supervisors, the Proposal on Nomination of Supervisors of the Seventh Session of the Board of Supervisors, the Proposal on Audit Report on the Economic Responsibility of Zhang Qiguang in relation to his Resignation, the Proposal on the Election of the Chairman of the Board of Supervisors, the Proposal on the Composition of the Committees under the Seventh Session of the Board of Supervisors, the Proposal on Audit Report on the Economic Responsibility of Lyu Tianjun, the Proposal on Audit Report on the Economic Responsibility of Sun Feixia, the Proposal on Audit Report on the Economic Responsibility of Liu Yang in respect of his Resignation, the Proposal on Audit Report on the Economic Responsibility of Li Jian in relation his Resignation, the Proposal on 2018 Interim Report, the Proposal on the Implementation Rules for the Evaluation of the Performance of Supervisors of Harbin Bank Co., Ltd., the Proposal on Harbin Bank (at the Group Level) 2016-2020 Strategic Mid-term Evaluation Report, and the Proposal on the Amendment to Harbin Bank (at the Group Level) 2016-2020 Strategic Development Plan.

II. Major Work of the Board of Supervisors

(I) System Establishment

During the Reporting Period, in order to further improve the evaluation system of Supervisors and regulate the performance of Supervisors, the Board of Supervisors organised and formulated the Implementation Rules for the Evaluation of the Performance of Supervisors of Harbin Bank Co., Ltd. in accordance with the Articles of Association and the Measures for the Evaluation of the Performance of Supervisors.

(II) Strategic Assessment

During the Reporting Period, in accordance with the requirements of the Guidelines on Corporate Governance of Commercial Banks, and the related requirements of the Articles of Association and the Rules of Procedure for the Board of Supervisors' of the Company, the Board of Supervisors, the Development Strategy Committee of the Board and the Strategy Development Department jointly implemented the 2016-2020 strategic mid-term evaluation in 2018, evaluated the scientificity, rationality and effectiveness of the development strategies formulated by the Board and produced an evaluation report in this respect.

(III) Supervision, Inspection and Investigation

During the Reporting Period, the Board of Supervisors, pursuant to its responsibilities, focused on overseeing the performance of the Board of Directors and senior management, financial activities, as well as risk management and internal control of the Company, and organised relevant activities.

During the Reporting Period, the Board of Supervisors interviewed and conducted research on some provincial and external branches, some sub-branches, the Human Resources Department of the Head Office and the Board Office, focusing on monitoring and understanding the strategy implementation, risk control and compliance management of various institutions, and the implementation of regulatory opinions and relevant rectification measures adopted by these institutions, as well as the scientificity, rationality and effectiveness of the remuneration management system and policy and the remuneration package of the senior management within the Group.

During the reporting period, the Board of Supervisors also conducted interviews with the Company's investment institutions including HB Leasing, HBCF and some village and township banks to understand the operation and management status of the subsidiaries, with a focus on the construction of the comprehensive risk management system and the improvement of risk management and control capacity of the subsidiaries.

During the Reporting Period, the Board of Supervisors implemented the organisation performance appraisal work of the departments in the Head Office, inspecting the operation effectiveness, development transformation, risk management, compliance operation, social responsibility and so on.

(IV) Performance Supervision

During the Reporting Period, the Board of Supervisors continued to supervise the performance of the Board and the senior management in accordance with the Articles of Association and the relevant rules in relation to the performance evaluation conducted by the Board of Supervisors. The Board of Supervisors monitored the performance of the Board and the senior management by means of considering resolutions, attending the meetings of the Board and the senior management, conducting interviews and so on. The Board of Supervisors evaluated the performance of the Board and the senior management based on the supervision results on their performance during the year, prepared reports in this respect, which will be submitted to the shareholders' general meeting and relevant regulatory authorities.

Report of the Board of Supervisors

(V) Putting Forward Management Suggestions

During the Reporting Period, the Board of Supervisors consistently paid attention to various kinds of risk management status and control measures adopted by the Company, and provided comments and suggestions on strategic positioning, risk management and control, performance assessment, reputation risk, technology protection and anti-corruption construction of branches and subsidiaries during the interviews, investigation and supervision process, and reported to the Board and the senior management as a reference for operation decision-making. It also provided a reminder to prevent the risks including market risk, reputation risk and morality risks, and continue its supervision in the aspects of finance, overall risk management and internal control.

(VI) Self-enrichment

Firstly, the Board of Supervisors established a new team successfully through a strict organisation for the re-election of the Board of Supervisors. In accordance with the Articles of Association and related processes, the Board of Supervisors promptly communicated and coordinated with the Board and the labor union to elect the members of the seventh session of the Board of Supervisors, the new chairman of the Board of Supervisors and the chairman and members of the special committees of the Board of Supervisors during the process of nomination, qualification approval and election. The composition of the new session of the Board of Supervisors met the relevant and is more reasonable, providing support for improving supervision capability. Secondly, by organising special research for external Supervisors, the Board of Supervisors further grasped the actual situation of business management, thus ensure the effectiveness of supervision while contributing to the development of the Group. Thirdly, the Board of Supervisors organised Supervisors to study the regulatory requirements, relevant laws and regulations, understand the spirit of supervision and their responsibilities, and arranged the Practical Training for Supervision and Inspection of the Board of Supervisor for the Supervisors in order to enrich their thinking and improve their theoretical skills. Fourthly, the Board of Supervisors strengthened the requirements for the performance of the Supervisors, and carried out a detailed assessment of the attendance of Supervisors, the status of comments provided and so on, to fully evaluate the performance of Supervisors in accordance with the Measures for The Evaluation of Performance of Supervisors of Harbin Bank Co., Ltd..

By Order of the Board of Supervisors
Deng Xinquan
Chairman of the Board of Supervisors

Harbin, PRC
21 March 2019

Important Events

I. Issuance of Debt Securities

(I) Bond Issuance during the Reporting Period

On 8 April 2018, the 13th Meeting of the second session of the board of directors of HB Leasing considered and approved the Proposal on the Issuance of the Second Tranche of Financial Bonds to agree to issue the second tranche of financial bonds, and submitted the proposal to the Shareholders' general meeting for consideration. On 23 April 2018, the Company, Dongninglizhi Decoration Engineering Co., Ltd. and Harbin Express Auto Sales Co., Ltd., all being the shareholders of HB Leasing, reviewed and approved the Proposal on the Issuance of the Second Tranche of Financial Bonds unanimously on the 2018 second extraordinary general meeting of shareholders.

HB Leasing obtained the consent and permission from the CBRC and the PBOC for the issuance of the 2018 first tranche of financial bonds on 2 May 2018. The issuance size was RMB1.0 billion with a term of 3 years, a coupon rate of 5.48% accrued annually on a fixed rate and a short name as "18 HB Leasing Bond 01" (bond code: 1822011).

(II) Previous Financial Bonds and Credit Asset-backed Securities Issuance

1. Financial bonds in 2015

According to the resolutions of the 14th meeting of the fifth session of the Board on 10 September 2013 and the 2013 second extraordinary general meeting of the 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 (Banking Market License [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 the term of three years. The coupon rate was 4.20% and the interest was calculated annually at a fixed rate. The short name of the bonds is "15 Harbin Bank 01" (bond code: 1520022), and its principal and interests were due for payment by 28 May 2018.

2. *2016 credit loan asset-backed securities*

According to the resolutions of the 15th meeting of the fifth session of the Board on 1 November 2013 and the 7th meeting of the sixth session of the Board on 22 January 2016, the Board approved the issuance of the credit loan asset-backed securities of not more than RMB3.0 billion for the purpose of providing liquidity to the Bank's stock assets, 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 (Banking Market License [2016] No. 36) issued by the PBOC on 25 February 2016, the issuance of credit loan asset-backed securities of not more than RMB2.258 billion by the 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

3. *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 Regulatory 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 Regulatory Bureau of the CBRC on 18 March 2016 and the Administrative Approval Decision of the People's Bank of China (Banking Market License [2016] No. 89) issued by the PBOC on 2 June 2016, the issuance of tier-2 capital bonds of not more than RMB8.0 billion by the Company in the interbank bond market was approved. The Company obtained the consent and approval from the Heilongjiang Regulatory 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).

4. *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, approving the public issuance of financial bonds of not more than RMB2.0 billion by HB Leasing in the interbank bond market in 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 Regulatory Bureau of the China Banking Regulatory Commission for Issuance of Financial Bonds by Harbin Bank Financial Leasing Co., Ltd. issued by the Heilongjiang Regulatory Bureau of the CBRC (Hei Yin Jian Fu [2015] No. 357) on 26 November 2015 and the Administrative Approval Decision of the People's Bank of China (Banking Market License [2016] No. 86) issued by the PBOC on 30 May 2016, the public issuance of financial bonds of not more than RMB2.0 billion by HB Leasing in the national 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 (RMB1.0 billion) on 27 July 2016, which has been successfully issued.

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 its short name was "16 HB Leasing Bond 01" (bond code: 1622010).

5. 2017 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 annual general meeting of the Company held on 19 May 2016, the Board and the shareholders' general meeting of the Company approved the issuance of green financial bonds of not more than RMB5.0 billion.

According to the Approval of Heilongjiang Regulatory Bureau of the CBRC for Harbin Bank to Issue Green Financial Bonds (Hei Yin Jian Fu [2016] No. 211) issued by the Heilongjiang Regulatory Bureau of the CBRC on 2 November 2016 and the Administrative Approval Decision of the People's Bank of China (Banking Market License [2017] No. 5) issued by the PBOC on 18 January 2017, the public 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 both the CBRC and the PBOC for the issuance of the 2017 first tranche of green financial bonds issued on 6 April 2017 as well as the 2017 second tranche of green financial bonds (Category I) and the 2017 second tranche of green financial bonds (Category II), both issued 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. Its 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. Its 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. Its short name is "17 Harbin Bank Green Finance 03" (bond code: 1720022).

Important Events

(III) Proposed Issuance of Financial Bonds

1. According to the resolutions of the 15th meeting of the sixth session of the Board held on 29 March 2017 and the 2016 annual general meeting of the Company held 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 issue scale and before the planning of issuance, the actual proportion and size of various types of bonds would be finalised according to the Company's actual demand, market conditions or investors' 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 of the Company.

2. According to the resolutions of the 22nd meeting of the sixth session of the Board held on 28 March 2018 and the 2017 annual general meeting of the Company held on 18 May 2018, the Board and the general meeting of the Company approved the Proposal on the Issuance of not more than RMB10 Billion 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 was approved. The bond types include but not limited to non-capital financial bonds such as ordinary financial bonds, special financial bonds for small and micro enterprises, special financial bonds for "agriculture, rural area and farmer" and green financial bonds. Each bond will have a term of no longer than 10 years. In the planning of issue scale and before the planning of issuance, the actual proportion and size of various types of bonds would be finalised according to the Company's actual demand, market conditions or investors' subscription. Relevant matters in respect of the proposed issuance of non-capital financial bonds by the Company were disclosed in the circular dated 6 April 2018 and the announcement dated 18 May 2018 of the Company.

3. According to the resolutions of the 22nd meeting of the sixth session of the Board held on 28 March 2018 and the 2017 annual general meeting of the Company held on 18 May 2018, the Board and the general meeting of the Company approved the Proposal on the Issuance of not more than RMB15 Billion Capital Supplemental Bonds, pursuant to which the Company was approved to issue capital supplemental bonds by way of public or non-public issuance to onshore or offshore investors, and the capital supplemental bonds not exceeding RMB15.0 billion (inclusive) shall, after being approved by regulatory authorities, be issued in a single or multiple series in accordance with the relevant procedures. The actual issue size of the capital supplemental bonds is to be determined by the Board or its delegates within the abovementioned scope, in accordance with the capital needs of the Company and the market condition at the time of the issuance. The capital supplemental bonds are to be issued at the par value. All target investors shall subscribe the capital supplemental bonds in cash. The initial term of the capital supplemental bonds shall not be less than 5 years. There will be no fixed expiry date prior to the exercise of redemption right by the Company. Interests on the capital supplemental bonds shall be payable in cash. The interest bearing principal amount of the capital supplemental bonds shall be the aggregate value of the relevant series of the capital bonds without a fixed term then issued and outstanding. After receiving the interests at the prescribed interest rate, the holders of the capital supplemental bonds shall not be entitled to any distribution of residual profits of the Company together with the ordinary shareholders. Relevant matters in respect of the proposed issuance of the capital supplemental bonds by the Company were disclosed in the circular dated 6 April 2018 and the announcement dated 18 May 2018 the Company.

Important Events

II. Proposed Non-Public Issuance of Offshore Preference Shares

According to the resolution of the 12th meeting of the sixth session of the Board passed on 15 December 2016, the Proposal on the Non-Public Issuance of Offshore Preference Shares was considered and approved; and the plan for 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 Company's additional tier 1 capital. Relevant matters in respect of the proposed issuance of preference shares by the Company 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 (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 Regulatory Bureau of the CBRC on 21 April 2017. On 21 April 2017, the Company issued the announcement on the approval from Heilongjiang Regulatory 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 Proposal on the Extension of the Validity Period of 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 was considered and approved at the 2017 annual general meeting, the 2018 first domestic shareholders' class meeting and the 2018 first H shareholders' class meeting held on 18 May 2018 to extend the validity period of the authorisation by the general meeting to the Board and the persons authorised by the Board to deal with all matters relating to the issuance of offshore preference shares. The extended validity period would be 12 months from the date when it was considered and passed by the 2017 annual general meeting, the 2018 first domestic shareholders' class meeting and the 2018 first H shareholders' class meeting (i.e. 18 May 2018). For details of relevant matters regarding the extension of the validity period of 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, please refer to the relevant circular issued by the Company on 6 April 2018.

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

Important Events

III. Initial Public Offering of A Shares

The Proposal on the Initial Public Offering and the Listing of A Shares and relevant proposals were considered and approved at the 2015 first extraordinary general meeting, the 2015 first domestic shareholders' class meeting and the 2015 first H shareholders' class meeting of the 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 and relevant proposals were 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 Company 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 and relevant proposals were 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 Company 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 A Share Offering and listing, please refer to the relevant circulars published by the Company on 14 May 2015, 1 April 2016 and 30 March 2017, respectively.

The Company submitted application materials in respect of the A Share Offering and listing to the CSRC on 31 August 2015, and the CSRC accepted the application. The Company also issued the announcement of the progress of A Shares on 16 November 2015. On 25 March 2016, the Company submitted application materials, including the Supplementary A Shares Prospectus covering the financial information for the 12 months ended 31 December 2015, to the CSRC. On 9 September 2016, the Company submitted application materials, including the Supplementary A Share Prospectus covering the financial information for the 6 months ended 30 June 2016, to the CSRC. On 29 March 2017, the Company 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 Company submitted application materials, including the Supplementary A Share Prospectus covering the financial information for the 6 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 of 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 and will resume the application for the listing of the A Shares after the completion of changes in the shareholding structure of the Domestic Shares. The Company has published the Announcement on Withdrawal of A Shares Listing Application on 16 March 2018, and will disclose further information and progress of the A Share Offering in due course (if any).

IV. Material Connected Transaction

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

Important Events

V. 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 RMB30 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.

VII. Material Contracts and Their Performance

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

VIII. Audit Review

The Bank's consolidated financial statements for the year ended 31 December 2018 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 2018 had been reviewed by the Audit Committee of the Board and the Board of Directors.

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

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

X. Profit Distribution during the Reporting Period

The 2017 profit distribution plan of the Company was considered and approved at the 2017 annual general meeting of the Company held on 18 May 2018. The Company distributed final dividend for 2017 of RMB0.05 per share (tax inclusive) to all Shareholders and the payment of dividends was completed on 18 July 2018. The Company did not distribute any interim dividend for the six months ended 30 June 2018.

XI. 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 2018 was considered and approved at the 2017 annual general meeting of the Bank held on 18 May 2018.

XII. 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 Organisations

I. Incumbent Directors, Supervisors and Senior Management

Directors

Name	Gender	Age	Position	Term of office
Guo Zhiwen	Male	51	Executive Director and Chairman of the Board	2018.5.18-the conclusion of the 2020 annual general meeting
Lyu Tianjun	Male	52	Executive Director and President	2018.7.6-the conclusion of the 2020 annual general meeting
Sun Feixia	Female	48	Executive Director and Vice Chairman of the Board	2018.7.6-the conclusion of the 2020 annual general meeting
Zhang Taoxuan	Male	57	Non-Executive Director	2018.5.18-the conclusion of the 2020 annual general meeting
Ma Pao-Lin	Male	56	Non-Executive Director	2018.5.18-the conclusion of the 2020 annual general meeting
Peng Xiaodong	Male	48	Non-Executive Director	2018.5.18-the conclusion of the 2020 annual general meeting
Chen Danyang	Male	45	Non-Executive Director	2018.5.18-the conclusion of the 2020 annual general meeting
Wan Kam To	Male	66	Independent Non-Executive Director	2018.5.18-the conclusion of the 2020 annual general meeting
Kong Siu Chee	Male	72	Independent Non-Executive Director	2018.5.18-the conclusion of the 2020 annual general meeting
Ma Yongqiang	Male	43	Independent Non-Executive Director	2018.7.6-the conclusion of the 2020 annual general meeting
Zhang Zheng	Male	46	Independent Non-Executive Director	2018.7.6-the conclusion of the 2020 annual general meeting
Sun Yan	Male	50	Independent Non-Executive Director	2018.7.6-the conclusion of the 2020 annual general meeting

Directors, Supervisors, Senior Management, Employees and Organisations

Supervisors

Name	Gender	Age	Position	Term of office
Deng Xinquan	Male	54	Employee Representative Supervisor and Chairman of the Board of Supervisors	2018.5.18-the conclusion of the 2020 annual general meeting
Luo Zhonglin	Male	53	Employee Representative Supervisor	2018.5.18-the conclusion of the 2020 annual general meeting
Fang Shang	Male	47	Employee Representative Supervisor	2018.5.18-the conclusion of the 2020 annual general meeting
Liu Mo	Male	40	Shareholder Representative Supervisor	2018.5.18-the conclusion of the 2020 annual general meeting
Li Dong	Male	60	External Supervisor	2018.5.18-the conclusion of the 2020 annual general meeting
Bai Fan	Female	44	External Supervisor	2018.5.18-the conclusion of the 2020 annual general meeting
Meng Rongfang	Female	53	External Supervisor	2018.5.18-the conclusion of the 2020 annual general meeting

Senior Management

Name	Gender	Age	Position	Term of office
Lyu Tianjun	Male	52	Executive Director and President	2018.7-the conclusion of the 2020 annual general meeting
Sun Feixia	Female	48	Executive Director, Vice Chairman of the Board, Secretary of the Board and Company Secretary	2018.7-the conclusion of the 2020 annual general meeting
Wang Haibin	Male	49	Executive Vice President	2018.5-the conclusion of the 2020 annual general meeting
Wang Tao	Male	43	Assistant to the President	2018.7-the conclusion of the 2020 annual general meeting
Yang Dazhi	Male	41	Assistant to the President	2018.7-the conclusion of the 2020 annual general meeting
Zhou Jie	Female	43	Assistant to the President	2018.7-the conclusion of the 2020 annual general meeting
He Dongbo	Male	39	Assistant to the President	2018.7-the conclusion of the 2020 annual general meeting
Wang Ying	Female	47	Chief Audit Officer	2018.7-the conclusion of the 2020 annual general meeting
Gong Tiemin	Male	43	Chief Risk Officer	2018.8-the conclusion of the 2020 annual general meeting
Qi Yilei	Male	47	Chief Credit Approval Officer	2018.7-the conclusion of the 2020 annual general meeting
Liang Yong	Male	46	Chief Information Officer	2018.10-the conclusion of the 2020 annual general meeting

II. Information on Remuneration Paid to Directors, Supervisors and Senior Management for 2018

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 2018 is set out below:

Remuneration band	Number of individuals
RMB1,000,000 and below	1
RMB1,000,001 to 1,500,000	4
RMB1,500,001 to 2,000,000	1
RMB2,000,001 to 2,500,000	2
RMB2,500,001 to 3,000,000	2
RMB3,000,001 and above	1

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.

Directors, Supervisors, Senior Management, Employees and Organisations

Mr. Lyu Tianjun (吕天君), has been the president and an executive Director of the Company since July 2018. From June 2001 to July 2018, Mr. Lyu held a number of positions in the Company, including general manager of the Human Resources Department, general manager of the Risk Management Department, deputy secretary of the Discipline Committee, chief risk officer, vice president and acting president of the Company. Prior to joining the Company, from January 1999 to June 2001, Mr. Lyu 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. Lyu 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. Lyu 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.

Ms. Sun Feixia (孫飛霞), has been the vice chairman of the Board and an executive Director of the Company since July 2018. Ms. Sun has been the secretary of the Board since January 2015, the company secretary of the Company since January 2014, 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 Company'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.

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 and Investment Company, and 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 of 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, and 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 Tonghe Sub-branch of Songhuajiang 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 Ministry of Finance.

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 Company Limited, a wholly-owned subsidiary of Fubon Financial Holding Co., Ltd. (listed on Taiwan Stock Exchange, stock code: 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, a director of Fubon Financial Holding Venture Capital Corp. since October 2009, 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, a supervisor of Fubon Securities Investment Trust Co., Ltd. since August 2018, a director of Long Time Tech. Co., Ltd. since October 2018, the chairman of Fubon Financial Holding Venture Capital Corp. since December 2018, a director of Diamond BioFund Inc. since January 2013 and a director of Diamond Capital Inc. since January 2013. 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 received 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 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 in Management from Beijing Institute of Business (currently known as Beijing Technology and Business University) in January 1999 and is an economist as accredited by the Ministry of Personnel.

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 Ministry of Finance.

Directors, Supervisors, Senior Management, Employees and Organisations

Independent Non-executive Directors

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 Haitong International Securities Group Limited (listed on Hong Kong Stock Exchange, stock code: 00665) since June 2018, and 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 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, and 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 an 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, an independent non-executive director of KFM Kingdom Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 03816) since September 2012, an independent non-executive director of Huaneng Renewables Corporation Limited (listed on Hong Kong Stock Exchange, stock code: 00958) since August 2010, an independent non-executive director of Fairwood Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 00052) since September 2009, and an 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 was 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, an independent non-executive director of GreaterChina Professional Services Limited (listed on Hong Kong Stock Exchange, stock code: 08193) from May 2011 to November 2013, an independent director of RDA Microelectronics, Inc. (listed on NASDAQ, stock code: RDA) from November 2010 to July 2014, and an 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 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 an 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 served as 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, he was a senior administrative member of Standard Chartered Bank. 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.

Mr. Ma Yongqiang (馬永強), had been an independent non-executive Director of the Company during the period from June 2012 to December 2015 and has taken the role again since July 2018. Mr. Ma has been the dean of the School of Accounting of Southwestern University of Finance and Economics since July 2013, and professor and Ph.D. tutor of the School of Accounting of Southwestern University of Finance and Economics successively since September 2006. Mr. Ma served as deputy dean of the School of Accounting of Southwestern University of Finance and Economics from July 2010 to July 2013, and conducted postdoctoral research at the postdoctoral workstation at the Shenzhen Stock Exchange and postdoctoral mobile station of Renmin University of China from July 2004 to August 2006. Mr. Ma received a Doctor's degree in Management from the School of Accounting of Southwestern University of Finance and Economics in June 2004.

Mr. Zhang Zheng (張崢), has been an independent non-executive Director of the Company since July 2018. Mr. Zhang has been the deputy director of the School Administration Committee of Guanghua School of Management of Peking University since December 2018, a professor and a Ph.D. tutor of the Finance Department of Guanghua School of Management of Peking University since August 2016, assistant of dean and executive director of the undergraduate and graduate programmes of Guanghua School of Management of Peking University since June 2014, and the deputy department head of the Finance Department of Guanghua School of Management of Peking University since March 2011. He worked as the associate professor and Ph.D. tutor of the Finance Department of Guanghua School of Management of Peking University from August 2009 to July 2016, assistant researcher and assistant professor of the Finance Department of Guanghua School of Management of Peking University from October 2000 to July 2009, and research trainee at the Financial Mathematics and Financial Engineering Research Center of Peking University from July 1998 to October 2000. Mr. Zhang received a Doctor's degree in Economics from the Guanghua School of Management of Peking University in June 2005.

Mr. Sun Yan (孫彥), has been an independent non-executive Director of the Company since July 2018. Mr. Sun has been a lawyer and partner at Beijing Tian Yuan Law Firm since January 2007. He worked as a lawyer and partner of Beijing Dayang Law Firm (北京市大洋律師事務所) from January 2000 to December 2006, vice president of Beijing Chinese Star Digital Technology Limited (北京中文之星數碼科技有限公司) from January 2000 to June 2004, director of president office and concurrently general legal counsel of Beijing Lianbang Software Limited (北京連邦軟體有限公司) from January 1997 to December 1999, deputy secretary-general of Intelligence Property Right Protection Branch of China Software Industry Association (中國軟件行業協會知識產權保護分會) from April 1995 to December 1996, manager of legal department of Beijing Kelihua Computer Limited (北京科利華電腦有限公司) from March 1994 to March 1995, the sales manager of Dalian Dexin Electronics Engineering Limited (大連德欣電子工程有限公司) from April 1993 to February 1994, and an officer of corporate governance department of the Dalian Ocean Fishery Group Corporation (大連海洋漁業總公司) from July 1992 to April 1993. Mr. Sun obtained a Master's degree from the Law School of Huazhong University of Science and Technology in July 2011 and a Doctor's degree in Law from Peking University in July 2018.

Directors, Supervisors, Senior Management, Employees and Organisations

(II) Information on Supervisors

Mr. Deng Xinquan (鄧新權), joined the Company in May 2018 and has been the chairman of the Board of Supervisors and employee representative Supervisor of the Company since May 2018. From November 2007 to May 2018, Mr. Deng was a member of the Party Committee and deputy director of Heilongjiang Regulatory Bureau of the CBRC. From August 2006 to November 2007, he was the director of the office (office of the Party Committee) of Heilongjiang Regulatory Bureau. From December 2003 to August 2006, he was the head of the preparatory team, secretary to the Party Committee and director of Daqing Regulatory Branch of the CBRC. From June 1997 to December 2003, he was a deputy head of the rural cooperative financial management division of Heilongjiang Provincial Branch of the PBOC, deputy head and head of the second bank supervision division and head of the joint-stock commercial bank supervision division of Shenyang Branch of the PBOC and secretary to the Party Committee and president of Daqing City Center Sub-branch of the PBOC. From August 1984 to June 1997, he was an officer and deputy chief officer of the commercial credit division and chief officer and deputy head of the credit cooperation division of Heilongjiang Provincial Branch of the Agricultural Bank of China. Mr. Deng received a Master's degree in Business Administration of Senior Management from Harbin Institute of Technology in July 2010. He is a senior economist as accredited by the Evaluation Committee of Senior Professional Qualification in Economics of the PBOC.

Mr. Luo Zhonglin (羅忠林), has been an employee representative Supervisor of the Company since May 2018. Mr. Luo has been the chairman of the Labour Union of the Company since December 2016. Mr. Luo joined the Company in August 2004. From August 2004 to December 2016, he was previously a deputy manager and manager of the office, deputy secretary to the Discipline Committee of the Company and vice chairman of the Labour Union of the Bank. From April 1997 to August 2004, he was a deputy head of the secretariat of Harbin Municipal Government Offices Administration, deputy head and head of the secretariat of Harbin Municipal People's Government and concurrently deputy head of the general office of Harbin Municipal Administrative Approval Center. From March 1993 to April 1997, he was the director of the office of Xinghe Hotel (星河賓館) of Heilongjiang Agricultural Supply Company (黑龍江省農資公司). From March 1989 to March 1993, he worked in the personnel division, statistics division, import and export division of Heilongjiang Local Product Company (黑龍江省土產公司). From August 1988 to March 1989, he worked in the division of cadres of Heilongjiang Provincial Supply and Marketing Cooperative. From July 1986 to August 1988, he worked in the cadres training department of Heilongjiang Supply and Marketing School (黑龍江省供銷學校). Mr. Luo graduated from the Correspondence School of Party School of the Central Committee of the Communist Party of China with a major of politics and law in December 2000. He is an economist as accredited by the Personnel Department of Heilongjiang Province.

Mr. Fang Shang (房尚) (former name: Fang Minghui (房明輝)), has been an employee representative Supervisor of the Company since May 2018. Mr. Fang has been the general manager of the Compliance Management Department of the Company since November 2013. Mr. Fang joined the Company in February 1997. From February 1997 to November 2013, he held various positions including a clerk in the Financial and Accounting Department, a clerk, assistant to the general manager and deputy general manager of the Human Resources Department, deputy general manager of the Asset Recovery Center, deputy general manager of the Asset Management Department, the vice president (in charge of work) and president of Longjiang Branch (governing branch), general manager of the Risk Asset Management Department and general manager of the Financial Planning Department. From July 1993 to February 1997, he worked in Harbin Urban Credit United Cooperative (哈爾濱市城市信用聯社). Mr. Fang received a Master's degree in Business Administration of Senior Management from Harbin Institute of Technology in April 2011. He is a senior economist as accredited by the Personnel Department of Heilongjiang Province.

Directors, Supervisors, Senior Management, Employees and Organisations

Mr. Liu Mo (劉墨), has been a shareholder representative Supervisor of the Company since May 2018. Mr. Liu has worked in CITIC Capital Holdings Limited since May 2010 as a deputy manager, manager, senior manager and associate director of the finance division, and is currently a director of the finance division. Mr. Liu was an auditor, senior auditor and deputy manager of the finance division of Shenzhen branch of Ernst & Young Hua Ming LLP from September 2002 to May 2009, specialising in the bank auditing. Mr. Liu also worked at Shenzhen Xinhua Bookstore in charge of marketing from July 2001 to September 2002. Mr. Liu graduated from the Renmin University of China with a Bachelor's degree in Economics in July 2001.

Mr. Li Dong (李東), has been an external Supervisor of the Company since May 2018. Mr. Li has been a professor at the School of Management of the Harbin Institute of Technology since July 2000, and was a professor of the Faculty of Social Science of the Harbin University of Civil Engineering and Architecture from July 1996 to June 2000, an associate professor at the Harbin Administrative Cadre Institute of Economics from October 1989 to June 1996 and a teacher at the Harbin Forestry Machinery Factory Workers College from July 1982 to July 1986. Mr. Li graduated from the Renmin University of China (part-time) with a Doctor's degree in Politics and Economics in June 2005.

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, certified public 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. She is a senior accountant as accredited by Shanghai Human Resources and Social Security Bureau.

(III) Information on Senior Management

Please refer to the section headed "Information on Directors" for introduction on Mr. Lyu Tianjun (呂天君).

Please refer to the section headed "Information on Directors" for introduction on Ms. Sun Feixia (孫飛霞).

Mr. Wang Haibin (王海濱), has been the executive vice president of the Company since May 2018. Mr. Wang has been the 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.

Mr. Wang Tao (汪濤), has been an assistant to the president of the Company since July 2018. Mr. Wang has been the general manager of the Corporate Finance Department of the Company since January 2018. From August 2016 to January 2018, Mr. Wang was the vice president of the Finance Headquarter and the general manager of the Corporate Finance Department of the Company. Prior to joining the Company, Mr. Wang worked at the Beijing branch of Jiaxing Jiayuan Jiuding Investment Management Limited (嘉興嘉源九鼎投資管理有限公司) from January 2016 to August 2016 and was engaged in establishing financial sector. From April 2002 to January 2016, he worked at China CITIC Bank Corporation Limited and held several positions such as assistant to general manager and deputy general manager of the business division of Hangzhou Branch, vice president of the Hangzhou Qiantang sub-branch, general manager of the marketing division of Small Business Financial Center (小企業金融中心) and general manager of internet personal loan division of China CITIC Bank Corporation Limited. From July 1997 to April 2002, he worked at the Zhejiang Branch of Industrial and Commercial Bank of China Limited. Mr. Wang received a Master's degree in Business Administration from Zhejiang University in March 2005. He is an intermediate economist as accredited by the Ministry of Personnel.

Mr. Yang Dazhi (楊大治), has been an assistant to the president of the Company since July 2018. Mr. Yang joined the Company in April 2015 as the deputy general manager of the Financial and Accounting Department of the Company. He also worked as the general manager of the Asset and Liability Management Department of the Company since September 2015. From June 2015 to May 2018, he worked as an employee representative supervisor of the Company. Prior to joining the Company, from July 1999 to April 2015, he worked at the headquarter of Industrial and Commercial Bank of China Limited 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 received a Master's degree in Business Administration from the University of Hong Kong in August 2014. He is an assistant accountant as accredited by Industrial and Commercial Bank of China Limited.

Directors, Supervisors, Senior Management, Employees and Organisations

Ms. Zhou Jie (周杰), has been an assistant to the president of the Company since July 2018. She has been the general manager of the Retail Finance Department and the Cross-border Finance Department since January 2018, the president of Sino-Russia SBU since August 2015 and the Chinese secretary-general in the Sino-Russia Financial Council (Harbin) since October 2015. From March 2008 to January 2018, Ms. Zhou held a number of positions, including the assistant to general manager of the International Business Department of the Company, deputy general manager of the Corporate Finance Department of Harbin Branch of the Company, general manager of the Small Business Financial Service Centre of Harbin Branch of the Company and president of Xiaman Sub-branch of Harbin Branch and deputy general manager of the International Business Department of the Company. From July 1995 to March 2008, Ms. Zhou worked at Nangang Sub-branch and the International Business Department of Harbin Commercial Bank Co., Ltd. (哈爾濱市商業銀行股份有限公司). Ms. Zhou received a Master's degree in Business Administration from Heilongjiang University in March 2011. She is a senior economist as accredited by the Human Resources and Social Security Department of Heilongjiang Province.

Mr. He Dongbo (何東博), has been an assistant to the president of the Company since July 2018. He has been the deputy secretary of the Party Committee and executive deputy president of the Harbin Branch of the Company since January 2018. From August 2008 to January 2018, Mr. He held a number of positions in the Company, including deputy president of the Lida Sub-branch, assistant to the general manager of the Small Business Financial Service Centre of the Harbin Management Division, assistant to office manager and general manager of the Business Support Department of the Harbin Management Division, deputy office manager and general manager of the Business Support Department of the Harbin Branch, and a member of the Party Committee, secretary of the Discipline Committee, vice president and president of the Chengdu Branch of the Company. From July 2002 to August 2008, Mr. He worked at the Ouya Sub-branch and office of Harbin Commercial Bank Co., Ltd.. Mr. He received a Master's degree in Business Administration from Harbin Engineering University in March 2011. He is an intermediate economist as accredited by the Competent Reformation Work Leading Group of the Harbin Municipality (哈爾濱市職稱改革工作領導小組).

Ms. Wang Ying (王穎), has been the chief audit officer of the Company since July 2018. Ms. Wang has been the general manager of the Internal Audit Department of the Company since September 2012 and was an employee representative Supervisor of the Company from June 2007 to May 2018. From July 1997 to September 2012, Ms. Wang held a number of positions in the Company, including assistant to office manager of the Board of Supervisors, deputy general manager of the Internal Audit Department and assistant to general manager. Prior to joining the Company, Ms. Wang worked as cashier and accountant at the Harbin Urban Credit Union from August 1992 to July 1997. Ms. Wang received a Master's degree in Law from the China University of Political Science and Law in 2010. She is currently a senior accountant and senior auditor as accredited by the Human Resources and Social Security Department of Heilongjiang Province.

Directors, Supervisors, Senior Management, Employees and Organisations

Mr. Gong Tiemin (龔鐵敏), has been the chief risk officer of the Company since August 2018. Mr. Gong joined the Bank in July 2012 as the deputy general manager of the Risk Management Department, and worked as the deputy general manager (in charge of work) of the Risk Management Department since April 2013 and the general manager of the Risk Management Department since August 2015. Prior to joining the Company, Mr. Gong worked at the Global Management Consulting Department of the International Business Machines Corporation (IBM) from November 2010 to July 2012, the Global Financial Service Department of the Deloitte Management Consulting Limited from September 2009 to November 2010 and the Financial Service Department of the Atos Information Technology (China) Co., Ltd. from September 2007 to September 2009. From April 2005 to September 2007, Mr. Gong participated in major projects of BearingPoint Consulting Co., Ltd. as a freelancer. He worked at Beijing Info Science & Tech Co., Ltd. from July 2004 to April 2005 and Sinopec Lubricant Company Limited (中國石化潤滑油總公司) from August 1999 to September 2001. Mr. Gong received a Master's degree in Industrial Economics from University of International Business and Economics in July 2004.

Mr. Qi Yilei (齊亦雷), has been the chief credit approval officer of the Company since July 2018 and the general manager of the Credit Granting Management Department of the Company since January 2018. From February 2004 to January 2018, Mr. Qi held a number of positions in the Company, including assistant to general manager of the Capital Operation Department and assistant to manager of the Beijing Representative Office, deputy manager of the Beijing Office, deputy general manager of the Investment Banking Department, deputy general manager of the Risk Management Department and general manger of the Risk Control Center of Investment Banking Business (投行業務風險控制中心), and general manager of the Interbank Business Review Department. Prior to joining the Company, Mr. Qi worked at Harbin Finance University from July 1994 to February 2004. Mr. Qi received a Master's degree in Business Administration from Harbin Engineering University in March 2009. He is an intermediate economist as accredited by the Ministry of Personnel.

Mr. Liang Yong (梁勇), has been the chief information officer of the Company since October 2018. Prior to joining the Company, Mr. Liang worked as chief information officer of Beijing Zhongguancun Bank Co., Ltd. (北京中關村銀行股份有限公司) from June 2017 to August 2018. From April 1999 to December 2016, he worked at the headquarter of Agricultural Bank of China Limited and held a number of positions, including officer and deputy manager officer of the Science Department, manager officer and deputy director of the Technology Development Division I of the Software Development Center, director of the Application Development Division II, general manager of the Technology Supervision Office, and a member of the Party Committee of and deputy general manager of the Software Development Center. Mr. Qi majored in Aeronautics and Astronautics Manufacturing in Beihang University, and graduated with a Master's degree in Engineering in March 1999. He is a senior engineer under the computer engineering senior engineer system as recognised by the Agricultural Bank of China Limited.

(IV) Information on Company Secretary

For the biography of Ms. Sun Feixia (孫飛霞), the executive Director, secretary of the Board and company secretary of the Company, please see "Information on Directors".

Directors, Supervisors, Senior Management, Employees and Organisations

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

In accordance with the Methods of Evaluation of Duty Performance of Directors, the Methods of Evaluation of Duty Performance of Supervisors and the Methods of Evaluation by the Board of Supervisors on Duty Performance of Directors, the Company has completed the evaluation on Directors through self-evaluation, mutual evaluation, evaluation by the Board and evaluation by the Board of Supervisors; and evaluation on Supervisors through evaluation by the 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 the Directors' Subsidies Management Measures and the Supervisors' Subsidies Management Measures, and provides remuneration for executive Directors and employee representative Supervisors and senior management in accordance with provisions of the Remuneration Management Measures. Remuneration for senior management should be in strict compliance with requirements of the Guidelines on Supervising the Stable Payment of Commercial Banks released by the 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.

Directors, Supervisors, Senior Management, Employees and Organisations

VII. Employees

(I) Personnel Composition

As at 31 December 2018, the Company (excluding subsidiaries) had 6,728 employees, among which 953 were headquarters staff, accounting for 14.16% of the total, and 2,364 were Harbin Branch staff, accounting for 35.14% of the total. Regarding the age composition, the average age of employees of the Company is 35.68. 1,897 are between 26 and 30 years old, accounting for 28.2% of the total. Regarding the educational background composition, there are 5,843 employees with a bachelor's degree or above in the Company, accounting for 86.85% of the total. Regarding the number of years of services, the Company had 1,762 employees with 10 years of banking experiences, accounting for 26.19% of the total. Staff turnover rate of the Company (excluding subsidiaries) was 5.21%. Key talents' turnover rate of the Bank was 3.72%.

Subsidiaries had 1,503 employees in total.

(II) Staff training Programmes

During the Reporting Period, the Bank, focusing on the work theme of "governance enhancement" and the needs of the Group's future and current development, made good use of its internal and external resources. Through both online and offline channels, the Bank strengthened the comprehensive analysis of personnel training needs, the overall planning and design of training, the implementation of supervision of training projects, the feedback evaluation of training effectiveness and other work. Through classification and stratification, focusing on demands, targeted and precise teaching, the Bank paid attention to the transformation of training results and emphasised the creation of training value, constantly stimulating the internal impetus of human resources training and development, thus providing strong protection for the growth and success of the staff and the long-term development of the Group.

During the Reporting Period, according to the 2018 Staff Training Plan, the Bank focused on the training needs of staff from different levels, lines and systems with respect to job competency, key skill improvement, political ideology building and other aspects by arranging its middle management, assistant trainees and professional managers to participate in special training programs for multi-dimensional capacity enhancement while perfecting the planning and implementation of training programs for quality training programs, which were implemented among different levels of employees. Both training completion rate and coverage rate were 100%. In 2018, the Company (excluding subsidiaries) implemented 756 training sessions in total, including 529 internal training sessions, and 227 external training sessions for selected staff of the Company. The total training hours amounted to 3,832.

Directors, Supervisors, Senior Management, Employees and Organisations

(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 its 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 explored a new learning model integrating online training camps and offline face-to-face lecturing and actively set up a mechanism of learning under the guidance of corporate coaches by innovating training methods; 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, variable remuneration 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 2018, staff costs of the Bank were RMB2,269 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 Organisations

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	135 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	16 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	13 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	20 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	4 sub-branches
15	Qiqihaer Branch	No. 37, Longsha Road, Jianhua District, Qiqihaer City	6 sub-branches
16	Yichun Branch	South Shop, 1/F China Unicom Building, No. 70 Tonghe Road, Yichun District, Yichun City	
17	Nongken Branch	Crossroads between Shengli Street and Yingbin Road, Heilongjiang Province Nongken Jiansanjiang Administration	5 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 167 to 303, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 Auditing 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 financial investments at amortised cost	
In 2014, IASB released IFRS 9 – Financial Instruments (hereinafter referred to as "IFRS 9"). IFRS 9 was adopted by the Group on 1 January 2018. IFRS 9 requires that the impairment measurement for financial assets be changed from "incurred loss model" to "expected credit loss model". The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • criteria for judging a significant increase in credit risk • definition of credit impaired assets • models and parameters for the measurement of expected credit losses • forward-looking information • individual impairment assessment Since impairment assessment of loans and advances to customers ("loans") and financial investments at amortised cost involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2018, gross loans and financial investments at amortised cost amounted to RMB410,680 million, representing 67% of total assets, and impairment allowance for loans and financial investments at amortised cost amounted to RMB10,587 million), impairment of loans and financial investments at amortised cost is considered a key audit matter. Relevant disclosures are included in Note 4, Note 21, Note 23 and Note 48 to the consolidated financial statements.	We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our review procedure for loans and financial investments at amortised cost. We assessed the debtors' repayment capacity and evaluated the Group's grading for loans and financial investments at amortised cost, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • Assessed the rationality of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and significant increase in credit risk; • Assessed forward-looking information management used to determining expected credit losses, including the forecasts of macroeconomic variables and the assumption of multiple macroeconomic scenarios; • Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers and financial investments at amortised cost (Continued)	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit loss, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; • Evaluated and tested key controls over expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. 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 holds interests in various structured entities, such as bank wealth management products, trust and asset management plans, in conducting financial investments and asset management business. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration power arising from rights, variable returns, and link between power and returns. The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. As at 31 December 2018, the balance of unconsolidated wealth management products managed by the Group was RMB67.35 billion, and the amount of investments in unconsolidated structured entities invested by the Group was RMB158.03 billion. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation assessment of structured entities is considered a key audit matter. Relevant disclosures are included in note 44 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, and the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to structured entities, as well as the fairness of transactions between the Group and structured entities. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.

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 the 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.

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 Ng Chi Keung.

Ernst & Young
Certified Public Accountants

Hong Kong
21 March 2019

Consolidated Statement of Profit or Loss

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December 2018	2017
Interest income	5	**27,631,719**	26,801,710
Interest expense	5	**(17,504,676)**	(15,494,221)
NET INTEREST INCOME	5	**10,127,043**	11,307,489
Fee and commission income	6	**2,586,139**	2,611,905
Fee and commission expense	6	**(194,709)**	(167,256)
NET FEE AND COMMISSION INCOME	6	**2,391,430**	2,444,649
Net trading income	7	**1,432,138**	147,673
Net gain on financial investments	8	**169,783**	237,880
Other operating income/(loss), net	9	**205,014**	(4,113)
OPERATING INCOME		**14,325,408**	14,133,578
Operating expenses	10	**(4,594,310)**	(4,343,526)
Impairment losses on assets	13	**–**	(2,662,039)
Credit impairment losses	13	**(2,425,861)**	–
OPERATING PROFIT		**7,305,237**	**7,128,013**
PROFIT BEFORE TAX		**7,305,237**	7,128,013
Income tax expense	14	**(1,730,829)**	(1,819,128)
PROFIT FOR THE YEAR		**5,574,408**	5,308,885
Attributable to:			
Owners of the parent		**5,548,642**	5,249,106
Non-controlling interests		**25,766**	59,779
		5,574,408	5,308,885
EARNINGS PER SHARE (RMB yuan)			
Basic and diluted	17	**0.50**	0.48

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

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December 2018	2017
Profit for the year		**5,574,408**	5,308,885
Other comprehensive income, net of tax:			
Other comprehensive income attributable to owners of the parent	39	**852,402**	(497,601)
Items that will not be reclassified to profit or loss			
– Net gains on investments in equity instruments designated at fair value through other comprehensive income		**24,170**	–
Items that may be reclassified to profit or loss in subsequent years			
– Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income		**829,069**	–
– Allowance for credit impairment on investments in debt instruments measured at fair value through other comprehensive income		**(837)**	–
– Net fair value losses on available-for-sale financial assets		**–**	(432,741)
– Share of other comprehensive income of an associate		**–**	(64,860)
Subtotal of other comprehensive income for the year, net of tax		**852,402**	(497,601)
Total comprehensive income for the year		**6,426,810**	4,811,284
Total comprehensive income attributable to:			
Owners of the parent		**6,401,044**	4,751,505
Non-controlling interests		**25,766**	59,779
Total		**6,426,810**	4,811,284

Consolidated Statement of Financial Position

As at 31 December 2018
(In RMB thousands, unless otherwise stated)

	Note	As at 31 December 2018	2017
ASSETS			
Cash and balances with the central bank	18	**75,808,679**	69,533,161
Due from banks and other financial institutions	19	**21,333,475**	20,626,087
Reverse repurchase agreements	20	**10,856,196**	4,775,700
Loans and advances to customers	21	**248,571,811**	230,646,535
Derivative financial assets	22	**16,248**	22,841
Financial investments	23	**224,878,613**	204,493,887
– financial assets at fair value through profit or loss	(a)	**38,388,632**	4,540,089
– financial assets at fair value through other comprehensive income	(b)	**34,968,319**	–
– financial assets at amortised cost	(c)	**151,521,662**	–
– available-for-sale financial assets		**–**	29,622,774
– held-to-maturity investments		**–**	27,279,545
– debt instruments classified as receivables		**–**	143,051,479
Finance lease receivables	24	**21,757,875**	15,759,176
Property and equipment	25	**8,852,940**	8,752,106
Deferred income tax assets	26	**2,013,730**	1,996,184
Other assets	27	**1,498,916**	7,649,474
TOTAL ASSETS		**615,588,483**	564,255,151
LIABILITIES			
Due to the central bank		**3,173,554**	521,110
Borrowings from banks and other financial institutions	28	**14,677,842**	12,798,091
Due to banks	29	**28,645,246**	23,622,063
Derivative financial liabilities	22	**14,608**	33,116
Repurchase agreements	30	**2,990,739**	4,590,000
Due to customers	31	**400,280,197**	378,258,398
Income tax payable		**290,973**	727,873
Debt securities issued	32	**112,766,380**	91,333,990
Other liabilities	33	**5,257,427**	9,961,592
TOTAL LIABILITIES		**568,096,966**	521,846,233

Consolidated Statement of Financial Position

As at 31 December 2018
(In RMB thousands, unless otherwise stated)

		As at 31 December	
	Note	**2018**	2017
EQUITY			
Equity attributable to owners of the parent			
Share capital	34	**10,995,600**	10,995,600
Capital reserve	35	**7,638,457**	7,636,867
Other comprehensive income	39	**351,284**	(526,018)
Surplus reserves	36	**3,425,328**	2,896,183
General and regulatory reserves	37	**7,143,548**	6,805,820
Undistributed profits	38	**16,720,480**	13,452,019
		46,274,697	41,260,471
Non-controlling interests		**1,216,820**	1,148,447
TOTAL EQUITY		**47,491,517**	42,408,918
TOTAL EQUITY AND LIABILITIES		**615,588,483**	564,255,151

Guo Zhiwen	**Lyu Tianjun**	**Wang Haibin**	**Chen Liyang**
Chairman	President	Executive Vice President of Finance	General Manager of Finance and Accounting Department

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2018
(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
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**
Changes in accounting policies – Impact of adopting IFRS 9	**–**	**–**	**24,900**	**–**	**–**	**(863,528)**	**(4,703)**	**(843,331)**
Balance as at 1 January 2018	**10,995,600**	**7,636,867**	**(501,118)**	**2,896,183**	**6,805,820**	**12,588,491**	**1,143,744**	**41,565,587**
Movements in this year	**–**	**1,590**	**852,402**	**529,145**	**337,728**	**4,131,989**	**73,076**	**5,925,930**
Total comprehensive income	–	–	852,402	–	–	5,548,642	25,766	6,426,810
Capital contributed by owners	–	–	–	–	–	–	50,000	50,000
Profit distribution	–	–	–	529,145	337,728	(1,416,653)	(1,100)	(550,880)
1. Appropriation to surplus reserves	–	–	–	529,145	–	(529,145)	–	–
2. Appropriation to general and regulatory reserves (i)	–	–	–	–	337,728	(337,728)	–	–
3. Distribution to shareholders	–	–	–	–	–	(549,780)	(1,100)	(550,880)
Others	–	1,590	–	–	–	–	(1,590)	–
Balance as at 31 December 2018	**10,995,600**	**7,638,457**	**351,284**	**3,425,328**	**7,143,548**	**16,720,480**	**1,216,820**	**47,491,517**

(i) Includes the appropriation made by subsidiaries in the amount of RMB119,135 thousand.

	Equity attributable to owners of the parent							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Non-controlling interests	Total
Balance as at 1 January 2017	10,995,600	7,635,709	(28,417)	2,409,731	5,481,049	10,014,136	827,226	37,335,034
Movements in this year	–	1,158	(497,601)	486,452	1,324,771	3,437,883	321,221	5,073,884
Total comprehensive income	–	–	(497,601)	–	–	5,249,106	59,779	4,811,284
Capital contributed by owners	–	–	–	–	–	–	262,600	262,600
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)	–	–
Others	–	1,158	–	–	–	–	(1,158)	–
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.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

		Years ended 31 December	
	Note	**2018**	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**7,305,237**	7,128,013
Adjustments for:			
Depreciation and amortisation	10	**547,374**	543,959
Net trading gain	7	**(1,432,138)**	(147,673)
Dividend income	8	**(1,594)**	(1,158)
Interest income on financial investments		**(10,104,683)**	(10,649,240)
Impairment losses on assets	13	**–**	2,662,039
Credit impairment losses	13	**2,425,861**	–
Unrealised foreign exchange (gain)/loss		**(82,632)**	56,846
Interest expense on issuance of bonds	5	**5,005,181**	3,376,567
Accreted interest on impaired loans	21	**(70,831)**	(79,198)
Net gain on disposal of financial investments	8	**(168,189)**	(236,722)
Net gain on disposal of property and equipment		**(28,970)**	(52)
		3,394,616	2,653,381
Net decrease/(increase) in operating assets:			
Due from the central bank		**8,636,782**	(9,039,030)
Due from banks and other financial institutions		**2,890,361**	9,616,501
Loans and advances to customers		**(8,838,224)**	(38,765,015)
Financial lease receivables		**(6,134,221)**	(769,778)
Other assets		**(310,093)**	(746,387)
		(3,755,395)	(39,703,709)
Net increase/(decrease) in operating liabilities:			
Due to the central bank		**2,632,590**	14,150
Borrowings from banks and other financial institutions		**1,695,251**	415,629
Due to banks		**4,580,995**	(56,891,242)
Repurchase agreements		**(1,600,000)**	(9,104,050)
Due to customers		**17,258,406**	35,107,364
Other liabilities		**1,064,057**	1,249,874
		25,631,299	(29,208,275)
Net cash flows from/(used in) operating activities before tax		**25,270,520**	(66,258,603)
Income tax paid		**(2,188,299)**	(2,354,288)
Net cash flows from/(used in) operating activities		**23,082,221**	(68,612,891)

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other long term assets		**(689,627)**	(607,795)
Proceeds from disposal of property and equipment		**54,395**	2,113
Cash paid for investments		**(1,063,763,007)**	(191,267,052)
Proceeds from sales and redemptions of investments		**1,039,712,048**	183,348,549
Return on investments		**10,585,183**	10,781,498
Net cash flows (used in)/from investing activities		**(14,101,008)**	2,257,313
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		**50,000**	262,600
Proceeds from issue of debt securities		**138,987,146**	170,684,039
Payment for redemption of debt securities		**(119,006,723)**	(122,005,102)
Interest and issue expenses paid on debt securities		**(4,004,262)**	(2,519,192)
Dividends paid on ordinary shares		**(548,631)**	(7,832)
Distribution of dividends to non-controlling shareholders		**(1,100)**	–
Net cash flows from financing activities		**15,476,430**	46,414,513
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**24,457,643**	(19,941,065)
Cash and cash equivalents at beginning of the year		**39,671,469**	59,678,068
Effect of exchange rate changes on cash and cash equivalents		**28,280**	(65,534)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	40	**64,157,392**	39,671,469
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES INCLUDE:			
Interest received		**17,030,408**	15,758,741
Interest paid		**(12,652,035)**	(10,713,893)

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2018
(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 and Insurance Regulatory Commission ("CBIRC"). 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 CBIRC.

The subsidiaries of the Bank as at 31 December 2018 are as follows:

Company name	Note	Date of establishment	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest owned by the Bank/ voting rights	Amount invested by the Bank	Principal activities
Bayan Rongxing Village and Township Bank Co., Ltd.		6 Jan 2009	Bayan, Heilongjiang	50,000	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

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND GROUP STRUCTURE (Continued)

Company name	Note	Date of establishment	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest owned by the Bank/ voting rights	Amount invested by the Bank	Principal activities
Yanshi Rongxing Village and Township Bank Co., Ltd.		19 Apr 2011	Yanshi, Henan	30,000	100.00	30,000	Village and township bank
Leping Rongxing Village and Township Bank Co., Ltd.		25 Apr 2011	Leping, Jiangxi	30,000	100.00	30,000	Village and township bank
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.		9 May 2011	Rudong, Jiangsu	106,000	80.00	80,000	Village and township bank
Honghu Rongxing Village and Township Bank Co., Ltd.		16 May 2011	Honghu, Hubei	30,000	100.00	30,000	Village and township bank
Zhuzhou Rongxing Village and Township Bank Co., Ltd.		4 May 2011	Zhuzhou, Hunan	55,000	80.00	40,000	Village and township bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.		1 June 2011	Wulong, Chongqing	50,000	70.00	35,000	Village and township bank
Xin'an Rongxing Village and Township Bank Co., Ltd.		8 June 2011	Xin'an, Henan	30,000	100.00	30,000	Village and township bank
Anyi Rongxing Village and Township Bank Co., Ltd.		20 June 2011	Anyi, Jiangxi	30,000	100.00	30,000	Village and township bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.		16 June 2011	Yingcheng, Hubei	40,000	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.		25 Jan 2017	Ningan, Heilongjiang	30,000	100.00	30,000	Village and township bank
Huanan Rongxing Village and Township Bank Co., Ltd.		21 Apr 2017	Huanan, Heilongjiang	30,000	100.00	30,000	Village and township bank
Nehe Rongxing Village and Township Bank Co., Ltd.		19 Apr 2017	Nehe, Heilongjiang	50,000	80.00	40,000	Village and township bank
Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd.		19 May 2017	Pingliang, Gansu	50,000	90.00	45,000	Village and township bank

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2018
(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
Tianshui Maiji Rongxing Village and Township Bank Co., Ltd.		2 June 2017	Tianshui, Gansu	50,000	98.00	49,000	Village and township bank
Zhongjiang Rongxing Village and Township Bank Co., Ltd.		13 June 2017	Zhongjiang, Sichuan	50,000	70.00	35,000	Village and township bank
Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd.		5 Sep 2017	Chengdu, Sichuan	100,000	70.00	70,000	Village and township bank
Langzhong Rongxing Village and Township Bank Co., Ltd.		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.	(i)	24 Jan 2017	Harbin, Heilongjiang	1,050,000	75.71	795,000	Consumer finance

During the years ended 31 December 2018 and 2017, the major changes to the structure of the Group are as follows:

(i) On 21 September 2018, the Bank alone with Shanghai Site Fude Property Co., Ltd., jointly made an additional capital injection of RMB550 million into Harbin Bank Consumer Finance Co., Ltd ("Harbin Consumer Finance"). After the injection, the total registered capital has increased to RMB1,050 million. The Bank's equity interest in Harbin Consumer Finance has increased to 75.71%.

2. BASIS OF PRESENTATION AND PRINCIPAL 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 2018, 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 some financial instruments. 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 PRESENTATION AND PRINCIPAL 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 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Bank. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Standards, Amendments and Interpretation Effective In 2018

2.2.1 On 1 January 2018, the Group adopted the following standards, amendments and interpretation.

IAS 40 Amendments	*Transfers of Investment Property*
IFRS 2 Amendments	*Share-based Payment*
IFRS 4 Amendments	*Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15 and Amendments	*Revenue from Contracts with Customers*
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to IFRSs 2014-2016 Cycle (issued in December 2016)	
IAS 28	*Investments in Associates and Joint Ventures*

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

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

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

IFRS 15 and its amendments 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. 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.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Standards, Amendments and Interpretation Effective In 2018 (Continued)

2.2.1 On 1 January 2018, the Group adopted the following standards, amendments and interpretation. (Continued)

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.

Annual Improvements to IFRSs 2014-2016 Cycle was issued in December 2016. The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

Except for IFRS 9, the adoption of the above standards, amendments and interpretation does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

2.2.2 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. IFRS 9 replaces IAS 39 *Financial Instruments* for annual periods on or after 1 January 2018.

In October 2017, the IASB issued amendments to IFRS 9 *Financial Instruments*. The amendments allow 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 amendments are effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The Group adopted IFRS 9 amendments from 1 January 2018.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Standards, Amendments and Interpretation Effective In 2018 (Continued)

2.2.2 IFRS 9 FINANCIAL INSTRUMENTS (Continued)

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018 on these consolidated financial statements. Differences arising from the adoption of IFRS 9 have been recognised directly in shareholders' equity as at 1 January 2018.

Classification and Measurement

In IFRS 9, financial assets 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 financial assets and their contractual cash flow characteristics. In addition, 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. Refer to Note 3.3.

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset to be changed from the "incurred loss model" to the "expected credit loss model" ("ECL model") and this way of measurement applies to financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, and loan commitments and financial guarantee contracts. Refer to Note 48(a).

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Standards, Amendments and Interpretation Effective In 2018 (Continued)

2.2.2 IFRS 9 FINANCIAL INSTRUMENTS (Continued)

2.2.2.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is as follows:

		IAS 39 measurement		Reclassification	Re-measurement		IFRS 9	
	Note	Category	Amount		ECL	Other	Amount	Category
Financial assets								
Cash and balances with the central bank		L&R	69,533,161	-	-	-	69,533,161	AC
Due from banks and other financial institutions		L&R	20,626,087	-	(588)	-	20,625,499	AC
Financial assets at FVPL-Trading financial assets and other financial assets at FVPL		FVPL	4,540,089	10,236,057		(101,946)	14,674,200	FVPL
From: Financial investments – HTM	A			150,000		(5,058)		
From: Financial investments – AFS	B			669,360		(5,793)		
From: Financial investments – L&R	C			9,416,697		(91,095)		
Reverse repurchase agreements		L&R	4,775,700	-	(10)	-	4,775,690	AC
Loans and advances to customers, net		L&R	230,646,535	-	(422,248)	42	230,224,329	AC+ FVOCI
To: Loans and advances to customers at FVOCI	D	L&R		(535,826)				AC
From: Loans and advances to customers at AC	D	L&R		535,826				FVOCI
Derivative financial assets		FVPL	22,841	-	-	-	22,841	FVPL
Financial investments – L&R		L&R	143,051,479	(143,051,479)			N/A	
To: Financial assets at AC	E			(133,634,782)				
To: Financial assets at FVPL	C			(9,416,697)				

Note: L&R Debt instruments classified as receivables
AFS Available-for-sale financial assets
HTM Held-to-maturity investments
AC Amortised cost
FVPL Fair value through profit or loss
FVOCI Fair value through other comprehensive income
ECL Expected credit loss

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Standards, Amendments and Interpretation Effective In 2018 (Continued)

2.2.2 IFRS 9 FINANCIAL INSTRUMENTS (Continued)

2.2.2.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9 (Continued)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is as follows: (Continued)

		IAS 39 measurement		Reclassification	Re-measurement		IFRS 9	
	Note	Category	Amount		ECL	Other	Amount	Category
Financial investments – HTM		HTM	27,279,545	(27,279,545)			N/A	
To: Financial assets at AC	E			(27,129,545)				
To: Financial assets at FVPL	A			(150,000)				
Financial investments – AFS		AFS	29,622,774	(29,622,774)			N/A	
To: Debt instruments at FVOCI	F			(28,900,694)				
To: Equity instruments at FVOCI	G			(52,720)				
To: Financial assets at FVPL	B			(669,360)				
Financial assets at AC			N/A	160,764,327	(475,686)	–	160,288,641	AC
From: Financial investments – HTM	E			27,129,545	(49,050)			
From: Financial investments – L&R	E			133,634,782	(426,636)			
Debt instruments at FVOCI			N/A	28,900,694	–	–	28,900,694	FVOCI
From: Financial investments – AFS (Debt instruments)	F			28,900,694				
Equity instruments at FVOCI			N/A	52,720	–	24,422	77,142	FVOCI
From: Financial investments – AFS (Equity instruments)	G			52,720		24,422		
Finance lease receivables		L&R	15,759,176	–	(66,932)	–	15,692,244	AC
Other financial assets		L&R	7,649,474	–	–	–	7,649,474	AC
Non-financial assets		N/A	10,748,290	–	261,739	19,371	11,029,400	N/A
Including: Deferred tax assets			1,996,184	–	261,739	19,371	2,277,294	
Total assets			564,255,151	–	(703,725)	(58,111)	563,493,315	

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Standards, Amendments and Interpretation Effective In 2018 (Continued)

2.2.2 IFRS 9 FINANCIAL INSTRUMENTS (Continued)

2.2.2.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9 (Continued)

A. As of 1 January 2018, the Group has reclassified a portion of its HTM investments as financial assets measured at FVPL as the payments did not meet the SPPI criterion.

B. As of 1 January 2018, the Group has reclassified a portion of its AFS financial assets as financial assets measured at FVPL as the payments did not meet the SPPI criterion.

C. As of 1 January 2018, the Group has reclassified a portion of its L&R as financial assets measured at FVPL as the payments did not meet the SPPI criterion.

D. As of 1 January 2018, the Group has reclassified its discounted bills from loans and advances to customers measured at AC to loans and advances to customers measured at FVOCI. The Group concluded that these discounted bills are managed with a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Group has classified these discounted bills as loans and advances to customers measured at FVOCI.

E. As of 1 January 2018, the Group has reclassified its HTM investments and L&R which met the SPPI criterion with the intention to collect cash flow as debt instruments at AC.

F. As of 1 January 2018, the Group has reassessed its liquidity portfolio which had previously been classified as AFS debt instruments. The Group concluded that, apart from a small portion, as described in Section B above, these debt instruments are managed with a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Group has classified these investments as debt instruments measured at FVOCI.

G. As of 1 January 2018, the Group has elected the option to irrevocably designate some of its previous AFS equity instruments as equity instruments at FVOCI.

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2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Standards, Amendments and Interpretation Effective In 2018 (Continued)

2.2.2 IFRS 9 FINANCIAL INSTRUMENTS (Continued)

2.2.2.2 The impact of transition to IFRS 9 on provision allowances is as follows:

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 at 31 December 2017 to the ECL allowances under IFRS 9 at 1 January 2018:

Measurement category	Loan loss provision under IAS 39/IAS 37 at 31 December 2017	Re-classification	Re-measurement	ECLs under IFRS 9 at 1 January 2018
L&R investment securities per IAS 39/financial assets at AC under IFRS 9				
Due from banks and other financial institutions	–	–	588	588
Reverse repurchase agreements	–	–	10	10
Finance lease receivables	293,299	–	66,932	360,231
Loans and advances to customers, net	6,751,250	–	422,248	7,173,498
Financial investments	2,315,119	–	426,636	2,741,755
HTM investment securities per IAS 39/financial assets at AC under IFRS 9				
Financial investments	–	–	49,050	49,050
AFS investment securities per IAS 39/financial assets at FVOCI under IFRS 9				
Financial investments	–	–	8,736	8,736
Credit commitments	–	–	81,495	81,495
Total	9,359,668	–	1,055,695	10,415,363

(In RMB thousands, unless otherwise stated)

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretation that are Not Yet Effective and Have Not Been Early Adopted By the Group In 2018

		Effective for annual periods beginning on or after
IFRS 9 Amendments	*Prepayment Features with Negative Compensation*	1 January 2019
IFRS 16	*Leases*	1 January 2019
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*	1 January 2019
IAS 19 Amendments	*Plan amendment, curtailment or settlement*	1 January 2019
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*	1 January 2019
IFRS 3	*Definition of a Business*	1 January 2020
IAS 1 and IAS 8 Amendments	*Definition of Material*	1 January 2020
IFRS 17	*Insurance Contracts*	1 January 2022
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 2015-2017 Cycle		1 January 2019

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 PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretation that are Not Yet Effective and Have Not Been Early Adopted By the Group In 2018 (Continued)

In January 2016 the IASB issued IFRS 16 Leases, which is instead of IAS 17 and IFRIC 4. According to the IFRS 16, the classification of finance lease and operating lease are both replaced, requiring the lessee to recognize all the right-of-use assets and lease liabilities for all leases and recognize the depreciation and interest expense Separately. The short-term leases and leases for which underlying the asset of low value are exempted from the IFRS 16, For the Lessors, the accounting treatment is substantially unchanged from existing principle as in IAS 17.The Group will choose to adopt IFRS 16 and retroactive adjustment exemption of comparative information since 1 January 2019. For the lease contracts which are occurred before the effective day of 1 January 2019, the Group will not do the reassessments, instead, the Group will treat these contracts using the practical expedient. As a leasee, the Group will also use the practical expedient which will not recognize the right-of-use assets and lease liabilities and will recognize profit and loss using straight-line method during the lease term for short-term leases and leases for which the underlying asset is of low value.

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.

IAS 19 Amendments sets out the accounting for a plan amendment, curtailment or settlement during the reporting period and 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.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Standards, Amendments and Interpretation that are Not Yet Effective and Have Not Been Early Adopted By the Group In 2018 (Continued)

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

IFRS 17 *Insurance Contracts* replaces IFRS 4 *Insurance Contracts*. The standard provides a general model for insurance contracts and 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.

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*.

These standards, amendments and interpretation will have no material impact on the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 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.

3.2 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)

3.3 Financial Instruments (Effective from 1 January 2018)

3.3.1 Initial Recognition and Measurement

An entity shall recognise a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument, which is the trade date.

At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, 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. For a financial asset or financial liability at fair value through profit or loss, transaction costs are directly recognised in profit or loss.

The fair value of a financial instrument at initial recognition is normally the transaction price. If an entity determines that the fair value at initial recognition differs from the transaction price, and if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.

3.3.2 Financial Assets

According to the business model for managing the financial assets and characteristics of the contractual cash flows, the Group classifies the financial assets into following three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

Business models

An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is 'other'. The entity's assessment of the business model is performed on a financial asset portfolio basis, and determined on a reasonable expected scenario, taking into account: how to generate cash flows in the past, how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and how managers of the business are compensated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial Instruments (Effective from 1 January 2018) (Continued)

3.3.2 Financial Assets (Continued)

Contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to identity whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

Finanial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group hold mainly include loans and advances to customers, due from banks and other financial institutions and debt securities, and are subsequently measured at amortised cost.

The amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial Instruments (Effective from 1 January 2018) (Continued)

3.3.2 Financial Assets (Continued)

Investments in debt instruments measured at fair value through other comprehensive income

A financial asset shall be classified as investments in debt instruments measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group hold mainly include bills discounted and debt securities, and are subsequently measured at fair value. A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Expected credit losses of such financial assets shall be recognised in other comprehensive income. The impairment gain or loss shall not adjust the carrying amount of such financial asset item and be recognised in profit or loss.

Finanial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income, which includes financial assets held for trading, financial assets designated as at fair value through profit or loss and other financial assets at fair value through profit or loss in accordance with IFRS.

Such financial assets that the Group hold mainly include debt securities and fund investments, and are subsequently measured at fair value. A gain or loss on a financial asset that is measured at fair value shall be recognised in profit or loss unless it is part of a hedging relationship. Qualified dividends generated by such equity instruments, which the Group is entitled to collect, shall be recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial Instruments (Effective from 1 January 2018) (Continued)

3.3.2 Financial Assets (Continued)

Equity instruments

The Group may, at initial recognition, irrevocably designate an equity instrument except trading equity instrument as financial asset measured at fair value through other comprehensive income when it meets the definition of equity instruments under IAS 32 *Financial Instruments*: *Presentation*. When the equity instrument is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from other comprehensive income to undistributed profits under equity. Qualified dividends generated by such equity instruments, which the Group is entitled to collect, shall be recognised in the income statement. Such equity instruments do not recognise impairment losses.

Reclassification of financial assets

Only if the Group changes the business model for financial assets, the Group shall reclassify the affected financial assets. The reclassification shall be effective from the first day of the first reporting period after the change of its business model.

3.3.3 Financial Liabilities

An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss. Such liabilities, including financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

- Financial guarantee contracts and commitments to provide a loan at a below-market interest rate.

Such financial liabilities measured at amortised cost that the Group hold mainly include due to customers, borrowings from banks and other financial institutions, due to banks and bonds issued and are subsequently measured at amortised cost.

An entity shall not reclassify any financial liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial Instruments (Effective from 1 January 2018) (Continued)

3.3.4 Financial Assets and Financial Liabilities Held for Trading

An entity shall classify financial assets or liabilities as financial assets or financial liabilities held for trading if one of the following conditions are met:

- is acquired or incurred principally for the purpose of selling or repurchasing in the near term; or

- on initial recognition 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

- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

3.3.5 Financial Guarantee And Loan Commitment

Financial guarantee contract requires the provider to provide reimbursement guarantee for the contract holder, that is, when the guarantee fails to fulfil the terms of the contract at maturity, to compensate for the loss of the contract holder by the guarantor. Such financial guarantees are provided to banks, financial institutions and other entities to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was provided. On the date of financial report, the subsequent measurement shall be made according to the larger of the amortised value of the contract and the amount of impairment provision determined by the expected credit loss model, any increase in the liability relating to guarantees is recognised in the income statement.

Loan commitment is provided by the Group to the customer to extend loans to the customer within the commitment period on the agreed terms of the contract. The Group normally does not lend at below-market rates or provide customers with loan commitments to be settled in cash or
The Group shows the impairment provision for the financial guarantee contracts and loan commitment in provision on a net basis through the delivery or issuance of other financial instruments. Loan commitment recognises impairment losses according to the expected credit loss model.

The Group shows the impairment provision of the financial guarantee contracts and loan commitment in provision.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial Instruments (Effective from 1 January 2018) (Continued)

3.3.6 Determination of Fair Value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

3.3.7 De-Recognition of Financial Instruments

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the income statement.

Financial liabilities are de-recognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability de-recognised and the consideration paid is recognised in the income statement.

3.3.8 Impairment Losses On Assets

On the financial reporting date, the Group evaluates and confirms the relevant impairment provisions to financial assets measured at amortised cost, investments in debt instruments measured at fair value through other comprehensive income, and loan commitments and financial guarantee contracts on the basis of anticipated credit losses. See Note48.a for specific information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial Instruments (Effective from 1 January 2018) (Continued)

3.3.9 Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.Changes in the fair value of these derivatives are recognised in "Net trading income" in the income statement.

3.3.10 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.

3.4 Financial Instruments (Applicable for The Year Ended 31 December 2017)

3.4.1 Financial Assets

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Applicable for The Year Ended 31 December 2017) (Continued)

3.4.1 Financial Assets (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Applicable for The Year Ended 31 December 2017) (Continued)

3.4.1 Financial Assets (Continued)

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.

Notes to Consolidated Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Applicable for The Year Ended 31 December 2017) (Continued)

3.4.1 Financial Assets (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Applicable for The Year Ended 31 December 2017) (Continued)

3.4.1 Financial Assets (Continued)

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.

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.

3.4.2 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.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Applicable for The Year Ended 31 December 2017) (Continued)

3.4.2 Impairment of Financial Assets (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Applicable for The Year Ended 31 December 2017) (Continued)

3.4.2 Impairment of Financial Assets (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Applicable for The Year Ended 31 December 2017) (Continued)

3.4.3 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 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.

3.6 Repurchase and Reverse Repurchase Transactions

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

3.7 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.

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Property and Equipment (Continued)

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.

3.8 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.

3.9 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.

Notes to Consolidated Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 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.

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.

3.11 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 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.

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.

3.13 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.

3.14 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 on 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Employee Benefits (Continued)

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.

3.15 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Recognition of Income and Expense

The "interest income" and "interest expense" in the Group's income statement are the interest income and expense from financial assets using the effective interest rate method at amortised cost, financial assets at fair value with changes recognised through other comprehensive income and financial liabilities at amortised cost.

Interest income and expense

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

For the financial assets acquired or originated with credit impairment, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate adjusted since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flow of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effect interest rate of the financial assets.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued in accordance with the actual progress. For other services, fee and commission income are recognised when the transactions are completed.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

Net trading income

Net trading income mainly arising from interest income, changes in the fair value and gains and losses on the purchase and sale of financial assets at fair value through profit or loss.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Income Tax (Continued)

Deferred income tax (Continued)

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.

3.18 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Leases (Continued)

(ii) Finance leases

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(3).

3.19 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Related Parties (Continued)

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;

(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.

3.20 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 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.

3.22 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 44 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.

4.1 Classification Of Financial Assets

Business model

The classification of financial assets at initial recognition depends on the Group's business model of financial asset management, when determining business model, the Group considers the way of enterprise performance evaluation and financial asset achievement reporting to the key management, the risk affecting financial asset performance and its management mode and the way of related business management payment, etc. When evaluating whether to take the contract cash flow as the target, the Group needs to analyze and determine the reason, time, frequency and value of the sale of financial asset before the maturity date.

Contractual cash flow characteristics

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of financial assets, the Group needs to determine whether the contractual cash flow only for the principal and the payment of interest on the basis of outstanding principal, including evaluate the correction of time value of money, need to determine whether it has significant difference compared with the benchmark cash flow, to the financial assets including prepayment characteristics, need to determine whether the fair value of the prepayment features is very small, and so on.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

4.2 Impairment Loss on Financial Assets

The Group measures the impairment losses on all financial assets in accordance with IFRS 9, including many estimates and judgements in the process, especially in determining the amount of impairment losses, estimating future contractual cash flows, the value of collateral and judging the significant increase in credit risk. The Group is affected by various factors in the measurement of impairment, which will result in different levels of impairment provision.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs.

The accounting judgements and estimates used in the expected credit loss model include:

- Criteria for judging a significant increase in credit risk
- Definition of credit impaired assets
- Models and parameters for the measurement of expected credit losses
- Forward-looking information
- Individual impairment assessment

4.3 Fair Value of Derivatives and Other Financial Instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible, these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

4.3 Fair Value of Derivatives and Other Financial Instruments (Continued)

With respect to the PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

4.4 Contingent Liabilities

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

4.5 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.

4.6 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)

4.7 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.

4.8 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.

4.9 Impairment of Non-Financial Assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

5. NET INTEREST INCOME

	Year ended 31 December	
	2018	2017
Interest income on:		
Due from the central bank	**746,827**	765,502
Due from banks and other financial institutions	**545,151**	651,377
Reverse repurchase agreements	**312,384**	497,328
Loans and advances to customers	**14,933,031**	13,440,843
– Corporate loans and advances	**7,796,911**	6,126,628
– Personal loans	**7,025,761**	7,286,475
– Discounted bills	**110,359**	27,740
Financial assets at fair value through other comprehensive income	**1,453,853**	–
Financial assets at amortised cost	**8,650,830**	–
Available-for-sale financial assets	**–**	894,812
Held-to-maturity financial investments	**–**	1,152,639
Debt instruments classified as receivables	**–**	8,601,789
Financial lease receivables	**989,643**	797,420
Subtotal	**27,631,719**	26,801,710
Interest expense on:		
Due to the central bank	**(43,641)**	(17,238)
Borrowings from banks and other financial institutions	**(560,563)**	(591,777)
Due to banks	**(1,379,029)**	(2,658,946)
Repurchase agreements	**(273,227)**	(284,366)
Due to customers	**(10,243,035)**	(8,565,327)
Debt securities issued	**(5,005,181)**	(3,376,567)
Subtotal	**(17,504,676)**	(15,494,221)
Net interest income	**10,127,043**	11,307,489
Including: Interest income on impaired loans	**70,831**	79,198

	Year ended 31 December	
	2018	2017
Interest income from:		
Listed debt instruments	**2,681,956**	2,047,451
Unlisted debt instruments	**24,949,763**	24,754,259
Subtotal	**27,631,719**	26,801,710

(In RMB thousands, unless otherwise stated)

6. NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2018	2017
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	**792,286**	935,266
Agency and custodian fees	**885,230**	1,085,504
Including: Non-guaranteed wealth management products	**494,167**	685,243
Bank card fees	**806,352**	398,937
Settlement and clearing fees	**77,073**	112,883
Others	**25,198**	79,315
Subtotal	**2,586,139**	2,611,905
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	**(49,483)**	(57,310)
Agency fees	**(48,569)**	(11,426)
Bank card fees	**(38,542)**	(58,936)
Others	**(58,115)**	(39,584)
Subtotal	**(194,709)**	(167,256)
NET FEE AND COMMISSION INCOME	**2,391,430**	2,444,649

7. NET TRADING INCOME

	Year ended 31 December	
	2018	2017
Debt securities	**1,420,230**	138,331
Others	**11,908**	9,342
Total	**1,432,138**	147,673

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 at fair value through profit or loss and derivative financial instruments.

(In RMB thousands, unless otherwise stated)

8. NET GAIN ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2018	2017
Gain on disposal of financial assets at fair value through other comprehensive income, net	**168,189**	–
Dividends from equity investments at fair value through other comprehensive income	**1,594**	–
Dividends from available-for-sale equity investments	**–**	1,158
Gain on disposal of an associate	**–**	354,740
Loss on disposal of available-for-sale financial assets, net	**–**	(118,018)
Total	**169,783**	237,880

9. OTHER OPERATING INCOME/(LOSS), NET

	Year ended 31 December	
	2018	2017
Net gain on sale of property and equipment	**28,970**	52
Gain/(loss) from foreign exchange, net	**110,912**	(122,380)
Leasing income	**26,657**	23,932
Government grants and subsidies	**29,291**	78,852
Penalty and compensation payments	**60**	138
Others	**9,124**	15,293
Total	**205,014**	(4,113)

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

10. OPERATING EXPENSES

	Year ended 31 December	
	2018	2017
Staff costs:		
Salaries, bonuses and allowances	**1,715,537**	1,643,309
Social insurance	**256,202**	220,219
Housing fund	**114,032**	95,675
Staff benefits	**138,315**	129,835
Labour union expenditure and education costs	**23,424**	19,660
Early retirement benefits	**21,957**	10,199
Subtotal	**2,269,467**	2,118,897
General and administrative expenses	**690,388**	659,259
Tax and surcharges	**170,883**	144,687
Depreciation and amortisation	**547,374**	543,959
Leasing expense	**356,622**	392,406
Auditors' remuneration	**7,650**	6,995
Others	**551,926**	477,323
Total	**4,594,310**	4,343,526

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

		Year ended 31 December 2018						
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	–	775	3,801	–	4,576	1,901	2,675
Lyu Tianjun	Executive Director and President	–	531	2,361	14	2,906	1,181	1,725
Sun Feixia	Executive Director, Vice Chairman, Secretary of the Board and Company Secretary	–	431	1,909	9	2,349	955	1,394
Liu Zhuo (i)	Executive Director and Vice Chairman	132	–	–	–	132	–	132
Zhang Taoxuan	Non-executive Director	–	–	–	–	–	–	–
Ma Baolin	Non-executive Director	147	–	–	–	147	–	147
Chen Danyang	Non-executive Director	147	–	–	–	147	–	147
Peng Xiaodong	Non-executive Director	147	–	–	–	147	–	147
Cui Luanyi (i)	Non-executive Director	60	–	–	–	60	–	60
Wan Kam To	Independent non-executive Director	343	–	–	–	343	–	343
Kong Siu Chee	Independent non-executive Director	321	–	–	–	321	–	321
Ma Yongqiang	Independent non-executive Director	130	–	–	–	130	–	130
Sun Yan	Independent non-executive Director	130	–	–	–	130	–	130
Zhang Zheng	Independent non-executive Director	118	–	–	–	118	–	118
Zhang Shengping (i)	Independent non-executive Director	103	–	–	–	103	–	103
He Ping (i)	Independent non-executive Director	103	–	–	–	103	–	103
Du Qingchun (i)	Independent non-executive Director	110	–	–	–	110	–	110
Deng Xinquan	Chairman of the Board of Supervisors and Employee Supervisor	–	295	–	–	295	–	295
Gao Shuzhen (i)	Chairman of the Board of Supervisors and Employee Supervisor	–	572	433	–	1,005	–	1,005
Luo Zhonglin	Employee Supervisor	–	410	1,904	9	2,323	952	1,371
Fang Shang	Employee Supervisor	–	453	955	14	1,422	131	1,291
Yang Dazhi (i)	Employee Supervisor	–	514	–	–	514	–	514
Wang Ying (i)	Employee Supervisor	–	325	–	–	325	–	325
Liu Mo	Supervisor	35	–	–	–	35	–	35
Lu Yujuan (i)	Supervisor	25	–	–	–	25	–	25
Meng Rongfang	External Supervisor	144	–	–	–	144	–	144
Bai Fan	External Supervisor	120	–	–	–	120	–	120
Li Dong	External Supervisor	84	–	–	–	84	–	84
Wang Jiheng (i)	External Supervisor	60	–	–	–	60	–	60

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 2017 annual general meeting held on 18 May 2018, Mr. Liu Zhuo, Mr. Cui Luanyi, Mr. Zhang Shengping, Mr. He Ping and Mr. Du Qingchun ceased to act as directors, Ms. Gao Shuzhen, Mr. Yang Dazhi, Ms. Wang Ying, Ms. Lu Yujuan and Mr. Wang Jiheng ceased to act as supervisors.

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11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Name	Position	Year ended 31 December 2017 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 (i)	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	Independentnon-executive Director	307	–	–	–	307	–	307
He Ping	Independentnon-executive Director	277	–	–	–	277	–	277
Du Qingchun	Independentnon-executive Director	258	–	–	–	258	–	258
Kong Siu Chee	Independentnon-executive Director	349	–	–	–	349	–	349
Wan Kam To	Independentnon-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 Qiguang ceased to act as an Executive Director, Strategic Development Committee member, President and Chief financial officer of the Bank.

(In RMB thousands, unless otherwise stated)

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

During the year ended 31 December 2018, Zhang Taoxuan, a non-executive Director of the Bank, agreed to waive remuneration before tax of RMB144 thousand (2017: Zhang Taoxuan, a non-executive Director of the Bank, agreed to waive remuneration before tax of RMB144 thousand).

During the year ended 31 December 2018, 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 (2017: 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 2018 and 2017, the five highest paid individuals of the Group comprised three directors, and two directors and one supervisor of the Bank, respectively, whose emoluments are disclosed in notes 11 and 46(b) to the consolidated financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Year ended 31 December	
	2018	2017
Salaries, allowances and discretionary bonuses	**15,842**	17,438
Contribution to defined contribution schemes	**35**	30
Total	**15,877**	17,468

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

	Number of employees Year ended 31 December	
	2018	2017
RMB2,000,001 to RMB2,500,000	**1**	–
RMB3,500,001 to RMB4,000,000	**–**	2
Total	**1**	2

During the year ended 31 December 2018, 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 (2017: Nil).

(In RMB thousands, unless otherwise stated)

13. IMPAIRMENT LOSSES ON ASSETS

(a) Impairment losses on assets (only applicable for year ended 31 December 2017)

	Year ended 31 December	
	2018	2017
Impairment losses on:		
Loans and advances to customers	**–**	2,078,122
Debt instruments classified as receivables	**–**	476,997
Finance lease receivables	**–**	106,920
	–	2,662,039

(b) Credit impairment losses (only applicable for year ended 31 December 2018)

	Year ended 31 December	
	2018	2017
Impairment losses on:		
Loans and advances to customers at amortised cost	**1,632,062**	–
Financial investments at amortised cost	**492,361**	–
Financial lease receivables	**252,013**	–
Others	**49,425**	–
	2,425,861	–

14. INCOME TAX EXPENSE

(a) Income tax

	Year ended 31 December	
	2018	2017
Current income tax	**1,751,399**	2,256,405
Deferred income tax	**(20,570)**	(437,277)
	1,730,829	1,819,128

(In RMB thousands, unless otherwise stated)

14. INCOME TAX EXPENSE (Continued)

(b) Reconciliation between income tax and accounting profit

The income tax of the Group's institutions has been provided at the statutory rate of 25% 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:

	Year ended 31 December	
	2018	2017
Profit before tax	**7,305,237**	7,128,013
Tax at the PRC statutory income tax rate	**1,826,310**	1,782,003
Effect of different tax rates for certain subsidiaries	**3,192**	(8,384)
Items not deductible for tax purposes	**36,272**	86,506
Non-taxable income (i)	**(206,588)**	(97,914)
Adjustment for income tax from prior years	**63,827**	64,704
Tax losses utilised from previous periods	**(2,793)**	–
Unrecognised deductible temporary differences	**10,331**	–
Others	**278**	(7,787)
Tax expense at the Group's effective income tax rate	**1,730,829**	1,819,128

(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.

15. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2018 includes a profit of RMB5,291 million (2017: RMB4,865 million) which has been dealt with in the financial statements of the Bank.

16. DIVIDENDS

	Year ended 31 December	
	2018	2017
Dividends on ordinary shares declared and paid:		
Final dividend for 2017: RMB0.05 per share**		
(2016: did not declare any dividend *)	**549,780**	–
Dividends on ordinary shares proposed for approval		
(not recognised as at 31 December):		
Final dividend for 2018: did not declare any dividend ***		
(2017: RMB0.05 per share **)	**–**	549,780

* 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.

*** The Bank did not distribute any dividend for the year ended 31 December 2018.

17. EARNINGS PER SHARE

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

	Year ended 31 December	
	2018	2017
Earnings:		
Profit attributable to owners of the parent	**5,548,642**	5,249,106
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)	**0.50**	0.48

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 2018 and 2017 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	
	2018	2017
Cash and balances with the central bank:		
Cash	**882,033**	1,009,852
Mandatory reserves with the central bank (i)	**39,090,182**	47,779,822
Surplus reserves with the central bank (ii)	**35,706,110**	20,688,584
Fiscal deposits with the central bank	**107,761**	54,903
Subtotal	**75,786,086**	69,533,161
Accrued interest	**22,593**	–
Total	**75,808,679**	69,533,161

(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 2018 and 2017, 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	
	2018	2017
Nostro accounts:		
Banks operating in Mainland China	**12,223,404**	16,579,304
Banks operating outside Mainland China	**875,929**	2,434,268
Subtotal	**13,099,333**	19,013,572
Accrued interest	**47,107**	–
Less: Allowance for impairment losses	**(2,722)**	–
Subtotal	**13,143,718**	19,013,572
Placements with banks and other financial institutions:		
Banks operating in Mainland China	**7,750,000**	1,427,660
Banks operating outside Mainland China	**410,801**	184,855
Subtotal	**8,160,801**	1,612,515
Accrued interest	**32,926**	–
Less: Allowance for impairment losses	**(3,970)**	–
Subtotal	**8,189,757**	1,612,515
Total	**21,333,475**	20,626,087

As at 31 December 2018, the Group includes all the amounts due from banks and other financial institutions in Stage I, and measured the impairment losses based on ECLs in the next 12 months.

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20. REVERSE REPURCHASE AGREEMENTS

	As at 31 December	
	2018	2017
Reverse repurchase agreements analysed by counterparty:		
Banks	**9,691,444**	4,096,700
Other financial institutions	**1,156,064**	679,000
	10,847,508	4,775,700
Accrued interest	**8,711**	–
Allowance for impairment losses	**(23)**	–
Total	**10,856,196**	4,775,700
Reverse repurchase agreements analysed by collateral:		
Bonds	**10,847,508**	4,775,700
Accrued interest	**8,711**	–
Allowance for impairment losses	**(23)**	–
Total	**10,856,196**	4,775,700

21. LOANS AND ADVANCES TO CUSTOMERS

	As at 31 December	
	2018	2017
Measured at amortised cost		
—Corporate loans and advances	**138,344,261**	118,477,580
—Personal loans	**115,387,827**	118,375,788
—Discounted bills	**–**	544,417
Subtotal	**253,732,088**	237,397,785
Measured at fair value through other comprehensive income		
—Discounted bills	**30,609**	–
Total loans and advances to customers	**253,762,697**	237,397,785
Accrued interest	**2,278,216**	–
Less: Allowance for impairment losses	**(7,469,102)**	(6,751,250)
Loans and advances to customers, net	**248,571,811**	230,646,535

(In RMB thousands, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	As at 31 December 2018			
	Stage I (12-month ECL)	**Stage II (Lifetime ECL)**	**Stage III (Lifetime ECL-impaired)**	**Total**
Total loans and advances at amortised cost	**239,708,501**	**9,627,015**	**4,396,572**	**253,732,088**
Accrued interest	**2,194,420**	**78,819**	**4,977**	**2,278,216**
Allowance for impairment losses at amortised cost	**(2,145,122)**	**(2,175,810)**	**(3,148,170)**	**(7,469,102)**
Loans and advances to customers at amortised cost, net	**239,757,799**	**7,530,024**	**1,253,379**	**248,541,202**

	As at 31 December 2017				
		Identified impaired loans and advances			
	Loans and advances for which allowance is collectively assessed	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total
Total loans and advances	233,360,774	2,321,035	1,715,976	4,037,011	237,397,785
Allowance for impairment losses	(4,258,328)	(1,346,290)	(1,146,632)	(2,492,922)	(6,751,250)
Loans and advances to customers, net	229,102,446	974,745	569,344	1,544,089	230,646,535

(In RMB thousands, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements of allowance for impairment losses during the year are as follows:

Group	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL- impaired)	Total
As at 1 January 2018	2,450,427	1,682,875	3,040,196	7,173,498
Exchange difference	232	–	2,397	2,629
Impairment loss charge for the year	(111,253)	675,324	1,067,991	1,632,062
Stage conversion	(194,284)	(182,389)	376,673	–
Converted to Stage I	158,150	(144,133)	(14,017)	–
Converted to Stage II	(318,190)	322,964	(4,774)	–
Converted to Stage III	(34,244)	(361,220)	395,464	–
Write-offs and transferred	–	–	(1,374,290)	(1,374,290)
Recoveries of loans and advances previously written off	–	–	106,034	106,034
Accreted interest on impaired loans	–	–	(70,831)	(70,831)
As at 31 December 2018	2,145,122	2,175,810	3,148,170	7,469,102

In the year of 2018, the Group adjusted the five-level classification and customer rating of loans and advance to customers, and the loan principal of stage 1 was transferred to stage 2 and stage 3 of RMB7,539 million, and the corresponding impairment provision was increased by RMB2,336 million. The loan principal from stage 2 to stage 3 is RMB1,607 million, with a corresponding increase in impairment provision of RMB676 million. The principal of the loan transferred from stage 2 to stage 1 is RMB654 million, and the corresponding impairment provision should be reduced by RMB120 million. The principal of the loan transferred from stage 3 to stage 1 and stage 2 is not significant.

	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 transfers	(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

(In RMB thousands, unless otherwise stated)

22. 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					
	2018			2017		
	Contractual/ notional amount	**Fair value Assets**	**Fair value Liabilities**	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Interest rate swap	**100,000**	**107**	**–**	–	–	–
FX forward	**1,183,816**	**13,252**	**(14,608)**	999,648	22,841	(33,116)
FX swap	**138,461**	**2,889**	**–**	–	–	–
	1,422,277	**16,248**	**(14,608)**	999,648	22,841	(33,116)

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(In RMB thousands, unless otherwise stated)

23. FINANCIAL INVESTMENTS

(a) Financial assets at fair value through profit or loss

	As at 31 December	
	2018	2017
Government debt securities	**863,013**	827,305
Financial institution debt securities	**1,716,670**	3,653,094
Corporate debt securities	**22,971**	59,690
Funds (i)	**2,433,782**	–
Trust fund plans and asset management plans (ii)	**33,161,374**	–
Subtotal	**38,197,810**	4,540,089
Accrued interest	**190,822**	–
Total	**38,388,632**	4,540,089

(i) The Group's fund investments belong to debt instruments and can't go through SPPI testing, they were classified as financial assets at fair value through profit or loss.

(ii) The Group classified the trust fund plans and asset management plans that can't go through SPPI testing as financial assets at fair value through profit or loss.

(b) Financial assets at fair value through other comprehensive income

	As at 31 December	
	2018	2017
Government debt securities	**9,142,340**	–
Policy bank debt securities	**10,812,006**	–
Financial institution debt securities	**7,202,208**	–
Corporate debt securities	**7,117,882**	–
Subtotal (i)	**34,274,436**	–
Equity investments at cost (ii)	**81,368**	–
Accrued interest	**612,515**	–
Net balance	**34,968,319**	–

(i) As at 31 December 2018, all the debt securities at fair value through other comprehensive income of the Group were in Stage 1. The Group's accumulated allowance for impairment losses on the above debt instruments at fair value through other comprehensive income amounted to RMB7,457 thousand. The Group will no longer accure impairment losses for investments in equity instruments measured at fair value through other comprehensive income mentioned above under IFRS 9.

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23. FINANCIAL INVESTMENTS (Continued)

(b) Financial assets at fair value through other comprehensive income (Continued)

(ii) Equity instruments

	Cost	Accumulated changes of fair value through other comprehensive income	Fair value	Current year dividends	Reasons for equity instruments designated at fair value through other comprehensive income
China Union Pay	24,220	53,218	77,438	1,594	Not holding the equity asssts for the purpose of trading or short-term profit
City Commercial Bank Fund Clearing Center	400	3,430	3,830	–	Not holding the equity asssts for the purpose of trading or short-term profit
Sino Russian Financial Union	100	–	100	–	Not holding the equity asssts for the purpose of trading or short-term profit
Total	24,720	56,648	81,368	1,594	

(c) Financial assets at amortised cost

	As at 31 December	
	2018	2017
Government debt securities	**10,496,748**	–
Policy bank debt securities	**12,598,758**	–
Financial institution debt securities	**1,393,220**	–
Corporate debt securities	**6,531,175**	–
Subtotal	**31,019,901**	–
Trust fund plans and Asset management plans	**122,431,479**	–
Accrued interest	**1,188,075**	–
Allowance for impairment losses (i)	**(3,117,793)**	–
Net balance	**151,521,662**	–

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(In RMB thousands, unless otherwise stated)

23. FINANCIAL INVESTMENTS (Continued)

(c) Financial assets at amortised cost (Continued)

(i) Movements of allowance for impairment losses on financial assets at amortised cost during the year are as follows:

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL- impaired)	Total
As at 1 January 2018	878,697	456,386	1,455,722	2,790,805
Impairment loss charge for the year	(117,589)	(168,868)	778,818	492,361
Stage conversion	48,478	(65,451)	16,973	–
Converted to Stage I	75,145	(75,145)	–	–
Converted to Stage II	(12,312)	12,312	–	–
Converted to Stage III	(14,355)	(44,692)	59,047	–
Write-offs and transferred	–	–	(165,373)	(165,373)
As at 31 December 2018	809,586	179,993	2,128,214	3,117,793

In the year of 2018, the Group adjusted the five-level classification and customer rating of financial investments at amortised cost, and the financial investments at amortised cost principal of stage 1 was transferred to stage 2 and stage 3 of RMB3,772 million, and the corresponding impairment provision was increased by RMB1,061 million. The financial investments at amortised cost principal from stage 2 to stage 3 is RMB213 million, with a corresponding increase in impairment provision of RMB44 million. The principal of the financial investments at amortised cost transferred from stage 2 to stage 1 is RMB257 million, and the corresponding impairment provision should be reduced by RMB74 million. The were no financial investments at amortised cost transferred from stage 3 to stage 1 and stage 2 in 2018.

(d) Held-to-maturity investments

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

	As at 31 December	
	2018	2017
Listed in Mainland China:		
Debt securities	–	27,279,545

(In RMB thousands, unless otherwise stated)

23. FINANCIAL INVESTMENTS (Continued)

(e) 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	
	2018	2017
Certificate treasury bonds	–	100,109
Trust fund plans (i)	–	54,931,375
Asset management plans (ii)	–	90,335,114
Subtotal	–	145,366,598
Less: Allowance for impairment losses	–	(2,315,119)
Net balance	–	143,051,479

(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.

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23. FINANCIAL INVESTMENTS (Continued)

(f) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	As at 31 December	
	2018	2017
Listed in Mainland China:		
Debt securities	–	28,916,214
Unlisted:		
Equity investments at cost (i)	–	24,620
Wealth management products	–	100,000
Trust investments and asset management plans	–	553,840
Funds	–	28,100
Total	–	29,622,774
Market value of listed debt securities	–	28,916,214

(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.

(In RMB thousands, unless otherwise stated)

24. FINANCE LEASE RECEIVABLES

	As at 31 December	
	2018	2017
Finance lease receivables	**24,870,156**	17,564,751
Less: Unearned finance lease income	**(2,683,460)**	(1,512,276)
Finance lease receivables, net	**22,186,696**	16,052,475
Accrued interest	**183,423**	–
Less: Allowance for impairment losses	**(612,244)**	(293,299)
Net balance	**21,757,875**	15,759,176

As of 31 December 2018, the Group divided fianance lease receivables into Stage 1, 2 and 3. The carrying amounts were RMB20,733,936 thousand, RMB1,093,128 thousand, RMB359,632 thousand respectively, and allowances for impairment losses were RMB182,388 thousand, RMB205,847 thousand, RMB224,009 thousand,respectively.

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

	As at 31 December					
	2018			2017		
	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	**9,273,984**	**(1,148,359)**	**8,125,625**	7,267,697	(727,278)	6,540,419
1 year to 2 years	**6,951,711**	**(757,726)**	**6,193,985**	4,947,242	(406,676)	4,540,566
2 years to 3 years	**5,009,902**	**(519,153)**	**4,490,749**	3,053,072	(198,669)	2,854,403
3 years to 5 years	**3,440,541**	**(245,047)**	**3,195,494**	2,136,911	(167,074)	1,969,837
More than 5 years	**194,018**	**(13,175)**	**180,843**	159,829	(12,579)	147,250
	24,870,156	**(2,683,460)**	**22,186,696**	17,564,751	(1,512,276)	16,052,475

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25. 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 2018	6,125,729	2,382,890	497,420	1,769,312	81,340	314,398	11,171,089
Additions	13,118	353,002	61,647	169,738	7,598	–	605,103
Transfers from construction in progress	88,174	(150,632)	–	62,458	–	–	-
Disposals	(21,925)	–	–	(10,733)	(15,119)	–	(47,777)
Other decrease	–	(20,066)	–	–	–	–	(20,066)
At 31 December 2018	6,205,096	2,565,194	559,067	1,990,775	73,819	314,398	11,708,349
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 from construction in progress	405,515	(456,244)	–	50,729	–	–	–
Disposals	(2,814)	–	–	(5,742)	(4,261)	–	(12,817)
Other decrease	–	(21,530)	–	–	–	–	(21,530)
At 31 December 2017	6,125,729	2,382,890	497,420	1,769,312	81,340	314,398	11,171,089
Accumulated depreciation:							
At 1 January 2018	803,116	–	360,271	1,149,536	61,258	44,802	2,418,983
Depreciation charge for the year	178,032	–	61,299	198,754	6,004	14,934	459,023
Disposals	(1,164)	–	–	(9,172)	(12,261)	–	(22,597)
At 31 December 2018	979,984	–	421,570	1,339,118	55,001	59,736	2,855,409
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
Net carrying amount:							
At 31 December 2018	5,225,112	2,565,194	137,497	651,657	18,818	254,662	8,852,940
At 31 December 2017	5,322,613	2,382,890	137,149	619,776	20,082	269,596	8,752,106

(In RMB thousands, unless otherwise stated)

25. 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	
	2018	2017
Held in China		
Over 50 years	**1,707,641**	1,770,516
10 to 50 years	**3,455,726**	3,516,433
Less than 10 years	**61,745**	35,664
	5,225,112	5,322,613

As at 31 December 2018, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,236 million (31 December 2017: RMB2,334 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.

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26. DEFERRED INCOME TAX ASSETS

(a) Analysed by nature

	As at 31 December			
	2018		2017	
	Deductible temporary differences	**Deferred income tax assets/ (liabilities)**	Deductible temporary differences	Deferred income tax assets
Deferred income tax assets:				
Allowance for impairment losses	**8,532,553**	**2,119,603**	6,760,544	1,690,510
Contingent liabilities	**96,351**	**24,088**	–	–
Change in fair value of available-for-sale financial assets	**–**	**–**	701,357	175,339
Changes in fair value of financial assets at fair value through profit or loss	**–**	**–**	101,828	25,457
Change in fair value of derivatives	**–**	**–**	10,275	2,569
Salaries, bonuses, allowances and subsidies payable	**62,226**	**15,556**	52,348	12,720
Early retirement benefits	**33,898**	**8,475**	23,337	5,835
Deferred revenue	**190,460**	**47,615**	335,017	83,754
Subtotal	**8,915,488**	**2,215,337**	7,984,706	1,996,184
Deferred income tax liabilities:				
Changes in fair value of financial assets at fair value through profit or loss	**(344,027)**	**(86,007)**	–	–
Changes in fair value of financial assets at fair value through other comprehensive income	**(460,758)**	**(115,190)**	–	–
Change in fair value of derivatives	**(1,640)**	**(410)**	–	–
Subtotal	**(806,425)**	**(201,607)**	–	–
Total	**8,109,063**	**2,013,730**	7,984,706	1,996,184

(In RMB thousands, unless otherwise stated)

26. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements in deferred income tax

At 31 December 2018

	At 1 December 2018 (i)	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	At 31 December 2018
Deferred income tax assets:				
Allowance for impairment losses	1,931,875	187,728	–	2,119,603
Contingent liabilities	20,374	3,714	–	24,088
Changes in fair value of financial assets at fair value through profit or loss	50,944	(136,951)	–	(86,007)
Changes in fair value of financial assets at fair value through other comprehensive income	169,223	–	(284,413)	(115,190)
Allowance for impairment losses on the financial assets at fair value through other comprehensive income	–	(279)	279	–
Changes in fair value of derivatives	2,569	(2,979)	–	(410)
Salaries, bonuses, allowances and subsidies payable	12,720	2,836	–	15,556
Early retirement benefits	5,835	2,640	–	8,475
Deferred revenue	83,754	(36,139)	–	47,615
Total	2,277,294	20,570	(284,134)	2,013,730

(i) The adoption of IFRS 9 resulted in deferred income tax increased by RMB281,110 thousand at 1 January 2018.

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26. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements in deferred income tax (Continued)

At 31 December 2017

	At 1 January 2017	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2017
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

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(In RMB thousands, unless otherwise stated)

27. OTHER ASSETS

	As at 31 December	
	2018	2017
Interest receivables (a)	**181,281**	3,932,409
Land use rights (b)	**4,817**	5,004
Advance payments	**323,733**	299,418
Settlement and clearing accounts	**462,190**	3,051,718
Intangible assets (c)	**181,279**	166,720
Other receivables	**307,249**	157,087
Input VAT carried forward	**58,584**	32,499
Others	**9,356**	4,624
Subtotal	**1,528,489**	7,649,479
Impairment loss	**(29,573)**	(5)
Total	**1,498,916**	7,649,474

(a) On 31 December 2018, the carrying amounts of the Group's overdue interest receivables in Stage 1, 2 and 3 were RMB78,023 thousand, RMB101,132 thousand and RMB2,126 thousand, respectively. And the impairment losses were RMB7,837 thousand, RMB21,290 thousand and RMB441 thousand, respectively.

(b) Land use rights

	As at 31 December	
	2018	2017
Located in Mainland China		
10 to 50 years	**4,817**	5,004

(c) Intangible assets

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

Notes to Consolidated Financial Statements

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28. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	2017
Unsecured borrowings	**14,212,583**	12,131,614
Pledged borrowings	**280,759**	666,477
Subtotal	**14,493,342**	12,798,091
Interest payable	**184,500**	–
Total	**14,677,842**	12,798,091

As at 31 December 2018 and 31 December 2017, the pledged borrowings of RMB281 million and RMB666 million were secured by the finance lease receivables of RMB338 million and RMB804 million, respectively.

29. DUE TO BANKS

	As at 31 December	
	2018	2017
Deposits:		
Banks operating in Mainland China	**27,482,788**	23,060,543
Banks operating outside Mainland China	**10,068**	11,659
Subtotal	**27,492,856**	23,072,202
Interest payable	**436,399**	–
Subtoal	**27,929,255**	23,072,202
Placements:		
Banks operating in Mainland China	**710,202**	549,861
Subtotal	**710,202**	549,861
Interest payable	**5,789**	–
Subtotal	**715,991**	549,861
Total	**28,645,246**	23,622,063

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

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30. REPURCHASE AGREEMENTS

	As at 31 December	
	2018	2017
Repurchase agreements analysed by counterparty:		
Central Bank	**2,990,000**	4,590,000
Interest payable	**739**	–
Total	**2,990,739**	4,590,000
Repurchase agreements analysed by collateral:		
Bonds	**2,990,000**	4,590,000
Interest payable	**739**	–
Total	**2,990,739**	4,590,000

31. DUE TO CUSTOMERS

	As at 31 December	
	2018	2017
Demand deposits:		
Corporate deposits	**88,853,444**	110,714,291
Personal deposits	**41,152,722**	42,580,802
Subtotal	**130,006,166**	153,295,093
Fixed time deposits:		
Corporate deposits	**164,354,975**	138,792,569
Personal deposits	**101,155,662**	86,170,736
Subtotal	**265,510,637**	224,963,305
Subtotal	**395,516,803**	378,258,398
Interest payable	**4,763,394**	–
Total	**400,280,197**	378,258,398

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32. DEBT SECURITIES ISSUED

	As at 31 December	
	2018	2017
Financial bonds issued	**6,994,628**	9,994,837
Tier 2 capital bonds issued	**7,999,766**	7,998,676
Negotiable certificates of deposit issued	**97,385,295**	73,340,477
Subtotal	**112,379,689**	91,333,990
Interest payable	**386,691**	–
Total	**112,766,380**	91,333,990

As approved by the PBOC and the CBIRC, the Group issued several financial bonds through the open market, and issued the tier 2 capital bonds through the open market in 2017. 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 2018 (2017: Nil). The relevant information on these financial bonds is set out below:

Name	Issue date	Issued price	Coupon rate	Value date	Maturity date	Issue amount
		(RMB)				(RMB)
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
18 Harbin Bank leasing financial bonds 01	2 May 2018	100	5.48%	4 May 2018	4 May 2021	1,000 million

(In RMB thousands, unless otherwise stated)

32. DEBT SECURITIES ISSUED (Continued)

In 2018 and 2017, the Group issued 382 tranches and 261 tranches of interbank negotiable certificates of deposit through domestic interbank bond markets, respectively, at a face value of RMB100 and were sold at discount. As at 31 December 2018 and 31 December 2017, 190 tranches and 137 tranches of negotiable certificates of deposit issued by the Group have not yet expired, the balances of 190 tranches were RMB97.39 billion and the interval of annual interest rate was between 4.05% and 5.23%, the balances of 137 tranches were RMB73.34 billion and the interval of annual interest rate was between 4.2% and 5.55%, both with a time limit of 1 month to 1 year.

33. OTHER LIABILITIES

	As at 31 December	
	2018	2017
Interest payable	**–**	6,014,262
Wealth management products payable	**4,465**	4,758
Settlement and clearing accounts	**964,669**	753,723
Accounts payable from agency services	**1,133,133**	378,851
Salaries, bonuses, allowances and subsidies payable (a)	**556,841**	557,036
Sundry tax payables	**212,501**	225,764
Deferred revenue (b)	**299,001**	449,389
Dividends payable	**29,838**	28,689
Accrued expenses	**71,019**	57,636
Lease guarantee fee	**1,237,441**	950,278
Contingent liabilities	**96,351**	–
Other payables	**652,168**	541,206
	5,257,427	9,961,592

(a) Salaries, bonuses, allowances and subsidies payable

	As at 31 December	
	2018	2017
Salaries, bonuses and allowances	**497,536**	511,845
Social insurance	**10,630**	8,785
Housing fund	**6,365**	4,593
Labour union expenditure and education costs	**8,412**	8,476
Early retirement benefits	**33,898**	23,337
	556,841	557,036

33. OTHER LIABILITIES (Continued)

(b) 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	
	2018	2017
Intermediary services	**299,001**	449,389

34. SHARE CAPITAL

	As at 31 December			
	2018		2017	
	Number of shares (thousands)	**Nominal value**	Number of shares (thousands)	Nominal value
Opening balance	**10,995,600**	**10,995,600**	10,995,600	10,995,600
Shares issued	**–**	**–**	–	–
Closing balance	**10,995,600**	**10,995,600**	10,995,600	10,995,600

35. CAPITAL RESERVE

	Share premium	Other capital reserve	Total
At 1 January 2017	7,624,993	10,716	7,635,709
Increase during the year	–	1,158	1,158
At 31 December 2017	7,624,993	11,874	7,636,867
Increase during the year	–	1,590	1,590
At 31 December 2018	**7,624,993**	**13,464**	**7,638,457**

(In RMB thousands, unless otherwise stated)

36. SURPLUS RESERVES

	Statutory surplus reserve	Discretionary surplus reserve	Total
At 1 January 2017	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
Appropriation during the year	529,145	–	529,145
At 31 December 2018	**3,399,142**	**26,186**	**3,425,328**

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 reserve. The appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital. Subject to the approval of the shareholders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserve 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)

37. GENERAL AND REGULATORY RESERVES

	Year ended 31 December	
	2018	2017
Balance as at the beginning of the year	**6,805,820**	5,481,049
Increase during the year	**337,728**	1,324,771
Balance as at the end of the year	**7,143,548**	6,805,820

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 ("MOF"), the Group is required to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year end balance of its risk assets.

38. UNDISTRIBUTED PROFITS

	Year ended 31 December	
	2018	2017
Balance as at the end of the previous year	**13,452,019**	10,014,136
Impact of adopting IFRS 9	**(863,528)**	–
Balance as at the beginning of the year	**12,588,491**	10,014,136
Profit for the year attributable to owners of the parent	**5,548,642**	5,249,106
Net of:		
Appropriation to surplus reserves	**(529,145)**	(486,452)
Appropriation to general and regulatory reserves	**(337,728)**	(1,324,771)
Dividends	**(549,780)**	–
Balance as at the end of the year	**16,720,480**	13,452,019

An ordinary share dividend of RMB0.05 per share in respect of the profit for the year ended 31 December 2017 was approved by the equity holders of the Group at the Annual General Meeting of 2017 held in May 2018.

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

(In RMB thousands, unless otherwise stated)

39. COMPONENTS OF OTHER COMPREHENSIVE INCOME

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

	Year ended 31 December	
	2018	2017
Items that will not be reclassified to profit or loss		
Changes in fair value of equity instruments designated at fair value through other comprehensive income	**32,227**	–
Items that may be reclassified to profit or loss in subsequent years		
Changes in fair value of debt instruments measured at fair value through other comprehensive income	**739,620**	–
Allowance for impairment losses on the financial assets at fair value through other comprehensive income	**(1,116)**	–
Transfer to the statement of profit or loss arising from disposal	**365,805**	(44,876)
Changes in fair value of available-for-sale financial assets	**–**	(532,112)
Income tax effect	**(284,134)**	144,247
	852,402	(432,741)
Share of other comprehensive income of an associate	**–**	(64,860)
	852,402	(497,601)

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

	1 January 2018	**Changes during the year**	**31 December 2018**
Gains/(losses) on debt instruments at fair value through other comprehensive income	**(519,434)**	**828,232**	**308,798**
Gains/(losses) on equity instruments at fair value through other comprehensive income	**18,316**	**24,170**	**42,486**
	(501,118)	**852,402**	**351,284**

	1 January 2017	Changes during the year	31 December 2017
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)

(In RMB thousands, unless otherwise stated)

40. 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	
	2018	2017
Cash on hand (note 18)	**882,033**	1,009,852
Balances with the central bank (note 18)	**35,706,110**	20,688,584
Due from banks and other financial institutions	**16,721,741**	13,197,333
Reverse repurchase agreements	**10,847,508**	4,775,700
	64,157,392	39,671,469

During the years ended 31 December 2018 and 2017, the Group was not involved in non-cash investing and financing activities.

41. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

The Group had capital commitments as follows:

	As at 31 December	
	2018	2017
Contracted, but not provided for	**714,542**	771,185
	714,542	771,185

(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 are summarised as follows:

	As at 31 December	
	2018	2017
Within one year	**280,068**	282,869
Between one year and five years	**523,132**	675,452
Over five years	**142,886**	170,551
	946,086	1,128,872

(In RMB thousands, unless otherwise stated)

41. 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 acceptances 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	
	2018	2017
Bank bill acceptances	**74,246,821**	58,339,376
Letters of guarantee issued	**3,135,418**	8,778,764
Letters of credit	**7,871,395**	6,722,094
Undrawn credit card limits	**14,066,245**	9,266,766
	99,319,879	83,107,000

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

	As at 31 December	
	2018	2017
Financial guarantees and credit related commitments	**16,359,187**	21,366,262

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 CBIRC 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.

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41. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(d) Legal proceedings

As at 31 December 2018 and 2017, significant legal proceedings exceeding RMB10,000 thousand outstanding against the Group (for itself or as a third party) amounted to RMB30,000 thousand and RMB69,000 thousand, respectively. Management expects that there will be no loss caused by these litigations and no provisions need to be made.

(e) 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 2018, the Bank had underwritten and sold bonds with an accumulated amount of RMB2,645 million (31 December 2017: RM2,740 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.

42. FIDUCIARY ACTIVITIES

	As at 31 December	
	2018	2017
Designated funds	**4,704,794**	6,690,147
Designated loans	**4,704,794**	6,690,147

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.

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43. 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 2018 and 2017, 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 2018, the Group derecognised the transferred credit assets in their entirety in the securitisation transactions. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB385,714 thousand and RMB641,464 thousand as at 31 December 2018 and 2017, respectively, which also approximates to the Group's maximum exposure to loss.

44. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments, asset management and credit asset 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:

44.1 Unconsolidated structured entities managed by the Group

(i) Wealth management products

When conducting the wealth management business, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 31 December 2018, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB67,348 million (31 December 2017: RMB67,308 million). For the year ended 31 December 2018, fee and commission income included commission and custodian fee and management fee income from the wealth management business that amounted to RMB494,167 thousand (2017: RMB685,243 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 2018, the Group did not provide any financing to the unconsolidated wealth management products (2017: Nil).

(ii) 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 Group did not transfer any credit assets into the special purpose entities for the year ended 31 December 2018 (2017: RMB12,715,754 thousand).

44.2 Structured entities sponsored by other financial institutions

The Group invested some structured entities which are out of the consolidation scope, issued and managed by other institutions, and recognised its investment income. These structured entities mainly include financial products, specific asset management plans, investment trust plans, etc. These structured entities' nature and purpose are to earn management fees by managing the investors' assets, and the way of financing is to issue investment products to investors. For the years ended 31 December 2018 and 2017, the Group has not provided liquidity support for those kinds of structured entities.

(In RMB thousands, unless otherwise stated)

44. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

44.2 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 2018			
	Financial assets at fair value through profit or loss	**Financial assets at amortised cost**	**Total**	**Maximum exposure to loss**
Trust investments and asset management plans	**33,161,374**	**122,431,479**	**155,592,853**	**152,526,625**
Funds	**2,433,782**	**–**	**2,433,782**	**2,433,782**

	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

45. 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, time deposit agreements and due to the central bank. As at 31 December 2018, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB19,616 million (31 December 2017: RMB14,485 million).

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46. RELATED PARTY DISCLOSURES

(a) Significant related party disclosures

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

	Share percentage in the Bank	
	As at 31 December	
Name	**2018**	2017
	%	%
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) Key management personnel of the Group and their close family members

(iv) 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)

46. 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	Year ended 31 December 2018	2017
Harbin Economic Development and Investment Company	**16,167**	23,706
Heilongjiang Xin Yongsheng Trading Company Limited	**12**	22
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**10**	95

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

Name	Year ended 31 December 2018	2017
Loan interest income	**1,386**	1,074
Deposit interest expense	**221**	73

(iii) Transactions between the Bank and its subsidiaries

Name	Year ended 31 December 2018	2017
Interest income	**342,306**	38,947
Interest expense	**62,448**	45,226

(In RMB thousands, unless otherwise stated)

46. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

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

(iv) 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

	Year ended 31 December	
Name	**2018**	2017
Dalian Port Company Limited	**1,481**	6,765
Sino Russian Financial Union (Harbin)	**18**	–
Huaxia Life Insurance Company Limited	**–**	45,308

Commission income

	Year ended 31 December	
Name	**2018**	2017
Da Cheng Fund Management Company Limited (i)	**6,673**	3,942

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

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46. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

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

(v) Transactions with other related parties

	Year ended 31 December	
Name	**2018**	2017
Emoluments of key management personnel and their close family members	**38,145**	34,242

In the 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. 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	**2018**	2017
Harbin Economic Development and Investment Company	**4,346,831**	4,024,434
Heilongjiang Xin Yongsheng Trading Company Limited	**89**	2,474
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**168**	186

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

	As at 31 December	
	2018	2017
Loans	**29,826**	27,700
Deposits	**19,130**	13,191

(In RMB thousands, unless otherwise stated)

46. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

2. Balances with related parties (Continued)

(iii) Balances between the Group and its subsidiaries

	As at 31 December	
	2018	2017
Due from banks	**2,585,000**	1,159,000
Due to banks	**3,503,643**	5,594,619
Interest receivable	**150,974**	21,289
Interest payable	**11,167**	7,875
Other assets	**–**	3,008
Deposits	**7,546**	425,762
Placements with banks	**6,200,000**	–

(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	**2018**	2017
Dalian Port Company Limited	**100,042**	100,027
Sino Russian Financial Union (Harbin)	**8,429**	–

As at 31 December 2018, the Group's unconsolidated wealth management products included RMB400,000 thousand of "2014 Huaxia subordinated bond", which was issued by Huaxia Life Insurance Company Limited (31 December 2017: RMB400,000 thousand).

47. SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into four different operating segments as follows according to products and services:

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 money market placements, investments and repurchasing, foreign exchange transactions for the Group's own accounts or on behalf of customers.

Other business

This represents business other than corporate financial business, retail financial business and interbank financial business, whose assets, liabilities, income and expenses are not directly attributable or cannot be allocated to a segment on a reasonable basis.

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)

47. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
Year ended 31 December 2018					
External net interest income	1,389,704	3,674,960	5,062,379	–	10,127,043
Internal net interest income/(expense)	1,933,796	(378,932)	(1,554,864)	–	–
Net fee and commission income	357,773	823,997	1,209,660	–	2,391,430
Other income/(loss), net (i)	–	–	1,703,796	103,139	1,806,935
Operating income	3,681,273	4,120,025	6,420,971	103,139	14,325,408
Operating expenses	(1,367,158)	(1,174,476)	(1,971,710)	(80,966)	(4,594,310)
Credit impairment losses on:					
Loans and advances to customers	(889,303)	(742,759)	–	–	(1,632,062)
Others	(252,013)	–	(541,786)	–	(793,799)
Operating profit	1,172,799	2,202,790	3,907,475	22,173	7,305,237
Profit before tax	1,172,799	2,202,790	3,907,475	22,173	7,305,237
Income tax expense					(1,730,829)
Profit for the year					5,574,408
Other segment information:					
Depreciation and amortisation	161,624	138,845	245,107	1,798	547,374
Capital expenditure	203,627	174,929	308,806	2,265	689,627
As at 31 December 2018					
Segment assets	207,222,312	142,022,358	265,714,580	629,233	615,588,483
Segment liabilities	258,081,746	144,976,977	162,930,911	2,107,332	568,096,966
Other segment information:					
Credit commitments	85,253,634	14,066,245	–	–	99,319,879

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

(In RMB thousands, unless otherwise stated)

47. 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/loss on financial investments and other net operating income/loss.

47. SEGMENT INFORMATION (Continued)

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows:

Heilongjiang region:	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.

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47. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

	Mainland China					
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	Total
Year ended 31 December 2018						
External net interest income	8,402,565	247,281	538,466	524,161	414,570	10,127,043
Internal net interest income/(loss)	(2,349,095)	745,328	1,173,145	400,511	30,111	–
Net fee and commission income	1,712,919	185,555	289,932	191,787	11,237	2,391,430
Other income, net (i)	1,797,910	1,284	5,574	379	1,788	1,806,935
Operating income	9,564,299	1,179,448	2,007,117	1,116,838	457,706	14,325,408
Operating expenses	(3,305,145)	(352,640)	(535,827)	(227,004)	(173,694)	(4,594,310)
Credit impairment losses on:						
Loans and advances to customers	(508,958)	(97,782)	(613,460)	(392,725)	(19,137)	(1,632,062)
Others	(759,256)	(12,744)	(15,443)	(5,709)	(647)	(793,799)
Operating profit	4,990,940	716,282	842,387	491,400	264,228	7,305,237
Profit before tax	4,990,940	716,282	842,387	491,400	264,228	7,305,237
Income tax expense						(1,730,829)
Profit for the year						5,574,408
Other segment information:						
Depreciation and amortisation	402,077	29,953	94,595	9,100	11,649	547,374
Capital expenditure	448,174	52,384	103,489	63,459	22,121	689,627
As at 31 December 2018						
Segment assets	468,728,294	40,955,020	54,157,401	42,007,669	9,740,099	615,588,483
Segment liabilities	385,685,077	59,045,455	67,954,806	47,170,122	8,241,506	568,096,966
Other segment information:						
Credit commitments	29,907,299	25,608,363	31,032,188	11,471,130	1,300,899	99,319,879

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

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47. 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/loss on financial investments and other net operating income/loss.

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48. 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.

48. 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.

Measurement of ECLs

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 initial recognition, the Group calculates the ECL by three stages:

- Stage I: The financial instruments without significant increases in credit risk after initial recognition are included in Stage I to calculate their 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 are included in Stage II, with their impairment allowance 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 financial reporting date are included in Stage III, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the financial reporting 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 allowance of the financial instruments at the financial reporting date of the current period according to the ECL in the next 12 months.

For credit-impaired financial assets that have been purchased or owned, the Group only recognises the the accumulated amount equivalent to the ECL for the lifetime as impairment allowance since the initial recognition at the financial reporting date. The Group recognises the amount of the change to the ECL for the lifetime as impairment loss or gain in profit on each financial reporting date.

48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Measurement of ECLs (Continued)

The Group shall measure the 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; and
- 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 condition.

When measuring the 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 the occurrence a credit loss is very low.

The Group conducts an assessment of ECLs according to forward-looking information and uses complex models and 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, assumptions and estimation techniques in order to measure ECLs according to the requirements of accounting standards such as:

- Criteria for judging a significant increase in credit risk
- Definition of credit impaired assets
- Models and parameters for the measurement of expected credit losses
- Forward-looking information
- Individual impairment assessment

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 financial reporting 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 at the financial reporting 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.

48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Criteria for judging significant increases in credit risk (Continued)

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 backstop criteria have been met:

Quantitative criteria

- At the reporting date, the rating or the PD of the financial instruments reaches a certain extent, compared with the one at initial recognition.

Qualitative criteria

- The operating or financial condition of the debtor which is highly likely to lead to significant adverse effects
- Be classified into the Special Mention category
- The list of pre-warning debtors

Upper limit criteria

- Debtor contract payments (including principal and interest) are overdue for more than 30 days.

Definition of credit-impaired financial asset

The method 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, and takes into account quantitative and qualitative criteria. When the Group assesses whether a credit impairment of a debtor occurs, the following main factors are 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, has 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 restructuring;
- 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.
- Any principal, advances, interest and corporate bond investments held by debtors are overdue for more than 90 days.

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

48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Parameters of ECL measurement

Depending on 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 ECLs of 12 months or the entire lifetime respectively. The key measuring parameters of ECLs include the PD, LGD and EAD. Based on the current New Basel Capital Accord 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 collateral and repayments) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collateral, the LGD varies.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECLs both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECLs of various business types, such as GDP, IVA, CPI, PPI and etc.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. In this process, the Group mainly applies the experts' judgement. According to the experts' judgement, the Group forecasts these economic indicators on a quarterly basis and also 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 Group combines statistical analysis and experts' judgement to determine the weight of other possible scenarios based on the baseline economic scenario. The Group measures the weighted average ECL of 12 months (stage I) or lifetime (stage II and stage III). The weighted average credit loss above is calculated by multiplying the ECLs for each scenario by the weight of the corresponding scenario.

48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Modification of contractual cash flows

The modification or re-negotiation of the contract between the Group and the counterparty does not result in the derecognition of the financial assets, but resulted in a change in the contractual cash flows. Such contract modifications include loan extension, modification of the repayment schedule, and change of the settlement method. When the contract modification does not cause substantial changes and does not result in the derecognition of the original assets, the Group assesses the default risk of the modified assets on the reporting date and compares the default risk with the original contract terms under initial confirmation, also recalculates the book value of financial assets and includes the relevant gain or loss in the current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows that will be re-negotiated or modified based on the discounted to present value at the original effective interest rate.

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 20.

Corporate loans are mainly collateralised by properties or other assets. As at 31 December 2018, the carrying value of corporate loans covered by collateral amounted to RMB76,414 million (31 December 2017: RMB64,858 million).

Personal loans are mainly collateralised by residential properties. As at 31 December 2018, the carrying value of personal loans covered by collateral amounted to RMB65,272 million (31 December 2017: RMB70,182 million).

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 48(a)(iii).

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Collateral (Continued)

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.

(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	
	2018	2017
Balances with the central bank	**74,926,646**	68,523,309
Due from banks and other financial institutions	**21,333,475**	20,626,087
Reverse repurchase agreements	**10,856,196**	4,775,700
Loans and advances to customers	**248,571,811**	230,646,535
Derivative financial assets	**16,248**	22,841
Financial investments		
– Financial assets at fair value through profit or loss	**38,388,632**	4,540,089
– Financial assets at fair value through other comprehensive income	**34,886,951**	–
– Financial assets at amortised cost	**151,521,662**	–
– Available-for-sale financial assets	**–**	29,598,154
– Held-to-maturity investments	**–**	27,279,545
– Debt instruments classified as receivables	**–**	143,051,479
Finance lease receivables	**21,757,875**	15,759,176
Others	**921,147**	7,141,209
	603,180,643	551,964,124
Credit commitments	**99,319,879**	83,287,000
Total maximum credit risk exposure	**702,500,522**	635,251,124

(In RMB thousands, unless otherwise stated)

48. 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 48(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	
	2018	2017
Corporate loans and advances		
Agriculture, forestry, animal husbandry and fishing	**2,135,824**	3,438,945
Mining	**157,576**	324,895
Manufacturing	**11,451,194**	11,612,529
Production and supply of electricity, heating, gas and water	**2,767,379**	3,588,720
Construction	**12,168,208**	6,088,702
Commercial trade	**29,781,675**	33,717,160
Transportation, storage and postal services	**3,801,888**	3,712,895
Lodging and catering	**3,451,540**	3,375,677
Information transmission, software and information technology services	**817,100**	1,093,027
Finance	**734,900**	5,000
Real estate	**21,385,659**	13,726,652
Leasing and commercial services	**37,357,311**	23,418,895
Scientific research and technological services	**384,229**	329,896
Water, environment and public utility management	**9,362,503**	10,477,581
Resident services and other services	**337,989**	490,527
Education	**338,097**	391,673
Health and social affair	**1,143,290**	1,143,360
Culture, sports and entertainment	**345,905**	1,117,950
Public administration, social security and social organisations	**421,994**	423,496
Subtotal	**138,344,261**	118,477,580
Discounted bills	**30,609**	544,417
Personal loans		
Personal business	**32,865,168**	32,841,427
Mortgages	**18,119,564**	19,078,004
Personal consumption	**51,495,667**	56,353,917
Loans to farmers	**12,907,428**	10,102,440
Subtotal	**115,387,827**	118,375,788
Total	**253,762,697**	237,397,785

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Risk concentrations

By geographical distribution

The composition of the Group's gross loans and advances to customers by region:

	As at 31 December	
	2018	2017
Heilongjiang region	**104,044,301**	94,177,181
Northeastern China excluding Heilongjiang	**40,015,670**	44,381,966
Northern China	**41,089,253**	30,702,715
Southwestern China	**50,694,460**	48,349,316
Other regions	**17,919,013**	19,786,607
Total	**253,762,697**	237,397,785

By manners of guarantees

The composition of the Group's gross loans and advances to customers by manners of guarantees:

	As at 31 December	
	2018	2017
Unsecured loans	**39,731,356**	35,683,979
Guaranteed loans	**72,315,349**	64,445,772
Loans secured by mortgages	**125,073,584**	107,534,847
Pledged loans	**16,642,408**	29,733,187
Total	**253,762,697**	237,397,785

(In RMB thousands, unless otherwise stated)

48. 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	
	2018	2017
Corporate loans and advances		
—Neither past due nor impaired	**132,553,307**	113,887,762
—Past due but not impaired	**4,319,965**	3,418,259
—Impaired	**1,501,598**	1,715,976
Subtotal	**138,374,870**	119,021,997
Personal loans		
—Neither past due nor impaired	**110,350,743**	114,169,003
—Past due but not impaired	**2,142,110**	1,885,750
—Impaired	**2,894,974**	2,321,035
Subtotal	**115,387,827**	118,375,788
Total	**253,762,697**	237,397,785

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. The 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.

	As at 31 December 2018		
	Pass	**Special Mention**	**Total**
Corporate loans and advances	**129,063,860**	**3,489,447**	**132,553,307**
Personal loans	**110,249,533**	**101,210**	**110,350,743**
Total	**239,313,393**	**3,590,657**	**242,904,050**

(In RMB thousands, unless otherwise stated)

48. 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 2017		
	Pass	Special Mention	Total
Corporate loans and advances	111,312,713	2,575,049	113,887,762
Personal loans	113,789,275	379,728	114,169,003
Total	225,101,988	2,954,777	228,056,765

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 2018			
Overdue days	**Within 1 month**	**1 – 3 months**	**Over 3 months**	**Total**
Corporate loans and advances	**2,213,567**	**2,106,398**	**–**	**4,319,965**
Personal loans	**1,021,193**	**1,120,917**	**–**	**2,142,110**
Total	**3,234,760**	**3,227,315**	**–**	**6,462,075**

	As at 31 December 2017			
Overdue days	Within 1 month	1 – 3 months	Over 3 months	Total
Corporate loans and advances	1,702,176	1,250,969	465,114	3,418,259
Personal loans	744,060	977,988	163,702	1,885,750
Total	2,446,236	2,228,957	628,816	5,304,009

As at 31 December 2018, the fair values of collateral that the Group holds relating to corporate loans which are past due but not impaired amounted to RMB8,400,114 thousand (31 December 2017: RMB6,204,542 thousand), and the fair values of collateral that the Group holds relating to personal loans which are past due but not impaired amounted to RMB2,672,169 thousand (31 December 2017: RMB1,972,942 thousand).

(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers (Continued)

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	
	2018	2017
Corporate loans and advances	**1,501,598**	1,715,976
Personal loans	**2,894,974**	2,321,035
Total	**4,396,572**	4,037,011

As at 31 December 2018, the fair values of collateral that the Group holds relating to loans individually determined to be impaired amounted to RMB1,537,052 thousand (31 December 2017: RMB2,486,566 thousand). The collateral mainly consists of land, buildings, equipment and others.

	31 December 2018			
	Stage I (12-month ECL)	**Stage II (Lifetime ECL)**	**Stage III (Lifetime ECL- impaired)**	**Total**
Pass	**239,739,110**	**2,652,551**	**–**	**242,391,661**
Special mention	**–**	**6,974,464**	**–**	**6,974,464**
Substandard	**–**	**–**	**1,591,402**	**1,591,402**
Doubtful	**–**	**–**	**1,474,385**	**1,474,385**
Loss	**–**	**–**	**1,330,785**	**1,330,785**
Total	**239,739,110**	**9,627,015**	**4,396,572**	**253,762,697**

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 interest or part of the principal, modification of the repayment method, improvement of collateral, changing the type of guarantee, etc. As at 31 December 2018, the gross value of the loans and advances rescheduled held by the Group amounted to RMB4.24 billion (31 December 2017: RMB3.69 billion).

(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) *Finance lease receivables*

	As at 31 December	
	2018	2017
Finance lease receivables, net		
Neither past due nor impaired	**21,665,982**	14,947,659
Past due but not impaired	**161,082**	718,835
Impaired	**359,632**	385,981
	22,186,696	16,052,475
Less: Allowance for impairment losses	**(612,244)**	(293,299)
Net amount	**21,574,452**	15,759,176

(v) *Debt securities*

The following tables represent an analysis of the carrying value of debt securities by credit or issuer rating and credit risk characteristic:

Financial assets at amortised cost

	As at 31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
AAA	**7,540,720**	**–**	**–**	**7,540,720**
AA- to AA+	**4,560,194**	**–**	**–**	**4,560,194**
Unrated	**135,775,257**	**1,565,795**	**4,009,414**	**141,350,466**
Total	**147,876,171**	**1,565,795**	**4,009,414**	**153,451,380**
Allowance for impairment losses	**(809,586)**	**(179,993)**	**(2,128,214)**	**(3,117,793)**
Net balance	**147,066,585**	**1,385,802**	**1,881,200**	**150,333,587**

(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Debt securities (Continued)

Financial assets at fair value through other comprehensive income

	As at 31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
AAA	**3,920,914**	**–**	**–**	**3,920,914**
AA- to AA+	**4,476,643**	**–**	**–**	**4,476,643**
Unrated	**25,876,879**	**–**	**–**	**25,876,879**
Total	**34,274,436**	**–**	**–**	**34,274,436**

(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)

48. 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 2018

	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	–	36,610,736	–	–	–	–	–	39,197,943	75,808,679
Due from banks and other financial institutions	–	5,184,009	12,960,160	2,022,791	833,103	333,412	–	–	21,333,475
Reverse repurchase agreements	–	–	10,856,196	–	–	–	–	–	10,856,196
Loans and advances to customers	6,265,223	–	21,357,430	15,814,400	56,481,123	70,619,672	78,033,963	–	248,571,811
Derivative financial assets	–	–	–	–	16,248	–	–	–	16,248
Financial investments	3,568,408	2,433,782	6,226,244	3,225,514	44,469,416	121,020,107	43,853,774	–	224,797,245
Finance lease receivables	267,088	–	619,853	1,257,628	5,777,431	13,656,494	179,381	–	21,757,875
Other financial assets	151,713	116,124	396,219	4,675	217,838	31,432	3,146	–	921,147
Total financial assets	10,252,432	44,344,651	52,416,102	22,325,008	107,795,159	205,661,117	122,070,264	39,197,943	604,062,676
Financial liabilities:									
Due to the central bank	–	–	10,503	119,103	3,043,948	–	–	–	3,173,554
Borrowings from banks and other financial institutions	–	–	1,111,779	3,896,666	9,514,825	154,572	–	–	14,677,842
Due to banks	–	28,360	607,423	4,339,377	23,670,086	–	–	–	28,645,246
Derivative financial liabilities	–	–	–	–	14,608	–	–	–	14,608
Repurchase agreements	–	–	2,990,739	–	–	–	–	–	2,990,739
Due to customers	–	131,363,647	19,484,635	32,255,406	153,014,820	63,195,603	966,086	–	400,280,197
Debt securities issued	–	–	519,236	36,612,512	60,640,238	6,994,628	7,999,766	–	112,766,380
Other financial liabilities	–	2,099,212	40,129	93,125	631,465	1,204,590	24,212	–	4,092,733
Total financial liabilities	–	133,491,219	24,764,444	77,316,189	250,529,990	71,549,393	8,990,064	–	566,641,299
Net position	10,252,432	(89,146,568)	27,651,658	(54,991,181)	(142,734,831)	134,111,724	113,080,200	39,197,943	37,421,377

(In RMB thousands, unless otherwise stated)

48. 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 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

(In RMB thousands, unless otherwise stated)

48. 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 2018

	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	36,610,736	–	–	–	–	–	39,197,943	75,808,679
Due from banks and other financial institutions (*)	5,184,009	23,887,851	2,105,525	993,312	345,895	–	–	32,516,592
Loans and advances to customers	–	21,916,322	18,032,171	65,389,700	96,260,732	111,569,718	7,787,066	320,955,709
Financial investments	2,433,782	7,045,900	4,768,824	50,596,124	136,151,427	49,350,023	3,926,850	254,272,930
Finance lease receivables	–	714,539	1,463,849	6,549,847	15,037,705	191,190	300,720	24,257,850
Other financial assets	116,124	396,219	4,675	217,838	31,432	3,146	181,281	950,715
Total financial assets	44,344,651	53,960,831	26,375,044	123,746,821	247,827,191	161,114,077	51,393,860	708,762,475

(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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

31 December 2018

	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	–	18,842	134,331	3,085,469	–	–	–	3,238,642
Borrowings from banks and other financial institutions	–	1,176,348	3,980,310	9,589,208	156,061	–	–	14,901,927
Due to banks (**)	28,360	3,702,613	4,511,423	24,108,992	–	–	–	32,351,388
Due to customers	131,363,647	20,333,028	33,767,496	157,434,063	66,325,315	1,093,683	–	410,317,232
Debt securities issued	–	555,000	36,890,000	62,311,700	8,756,500	8,960,000	–	117,473,200
Other financial liabilities	2,099,212	40,129	93,125	631,862	1,204,675	24,283	–	4,093,286
Total financial liabilities	133,491,219	25,825,960	79,376,685	257,161,294	76,442,551	10,077,966	–	582,375,675
Net position	(89,146,568)	28,134,871	(53,001,641)	(133,414,473)	171,384,640	151,036,111	51,393,860	126,386,800
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	–	1,338,418	–	–	–	1,338,418
Total outflow	–	–	–	1,336,885	–	–	–	1,336,885
Credit commitments	14,166,021	1,851,932	3,942,184	78,652,710	707,032	–	–	99,319,879

(*) Includes reverse repurchase agreements

(**) Includes repurchase agreements

(In RMB thousands, unless otherwise stated)

48. 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
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)

48. 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

48. 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.

(In RMB thousands, unless otherwise stated)

48. 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	**2018**	2017
USD	-1%	**(17,691)**	(20,320)
HKD	-1%	**138**	160
RUB	-1%	**(423)**	(715)

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)

48. 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 2018

	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	75,727,597	66,645	1,071	10,676	2,690	75,808,679
Due from banks and other financial institutions	20,018,577	990,118	22,017	45,832	256,931	21,333,475
Reverse repurchase agreements	10,856,196	–	–	–	–	10,856,196
Loans and advances to customers	247,638,252	933,556	–	–	3	248,571,811
Derivative financial assets	524	15,724	–	–	–	16,248
Financial investments	224,797,245	–	–	–	–	224,797,245
Finance lease receivables	21,757,875	–	–	–	–	21,757,875
Other financial assets	921,147	–	–	–	–	921,147
Total financial assets	601,717,143	2,006,043	23,088	56,508	259,624	604,062,676
Financial liabilities:						
Due to the central bank	3,173,554	–	–	–	–	3,173,554
Borrowings from banks and other institutions	14,677,842	–	–	–	–	14,677,842
Due to banks	28,613,329	11,550	–	10,140	10,227	28,645,246
Derivative financial liabilities	14,386	222	–	–	–	14,608
Repurchase agreements	2,990,739	–	–	–	–	2,990,739
Due to customers	399,968,994	225,110	1,188	4,100	80,805	400,280,197
Debt securities issued	112,766,380	–	–	–	–	112,766,380
Other financial liabilities	4,056,999	33	35,701	–	–	4,092,733
Total financial liabilities	566,262,223	236,915	36,889	14,240	91,032	566,641,299
Net position	35,455,190	1,769,128	(13,801)	42,268	168,592	37,421,377
Credit commitments	98,247,143	1,067,932	–	–	4,804	99,319,879

(In RMB thousands, unless otherwise stated)

48. 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 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

48. 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)

48. 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	
	2018	2017	**2018**	2017
+100 basis points	**35,268**	(370,409)	**(952,411)**	(628,094)
−100 basis points	**(35,268)**	370,409	**1,027,687**	669,755

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)

48. 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 2018

	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	74,926,646	–	–	–	882,033	75,808,679
Due from banks and other financial institutions	20,072,006	683,064	333,411	–	244,994	21,333,475
Reverse repurchase agreements	10,847,485	–	–	–	8,711	10,856,196
Loans and advances to customers	146,492,971	38,768,695	41,209,817	13,601,293	8,499,035	248,571,811
Derivative financial assets	–	–	–	–	16,248	16,248
Financial investments	20,648,253	38,860,970	114,735,505	42,551,986	8,000,531	224,797,245
Finance lease receivables	20,937,965	270,503	103,200	–	446,207	21,757,875
Other financial assets	–	–	–	–	921,147	921,147
Total financial assets	293,925,326	78,583,232	156,381,933	56,153,279	19,018,906	604,062,676
Financial liabilities:						
Due to the central bank	129,550	3,024,150	–	–	19,854	3,173,554
Borrowings from banks and other financial institutions	4,950,000	9,393,342	150,000	–	184,500	14,677,842
Due to banks	4,788,058	23,415,000	–	–	442,188	28,645,246
Derivative financial liabilities	–	–	–	–	14,608	14,608
Repurchase agreements	2,990,000	–	–	–	739	2,990,739
Due to customers	181,732,459	150,848,844	61,865,703	890,838	4,942,353	400,280,197
Debt securities issued	37,131,748	60,253,547	6,994,628	7,999,766	386,691	112,766,380
Other financial liabilities	–	–	–	–	4,092,733	4,092,733
Total financial liabilities	231,721,815	246,934,883	69,010,331	8,890,604	10,083,666	566,641,299
Total interest sensitivity gap	62,203,511	(168,351,651)	87,371,602	47,262,675	N/A	N/A

(In RMB thousands, unless otherwise stated)

48. 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 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

48. 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 CBIRC. The required information is filed with the CBIRC 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 CBIRC, 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 2018
(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

	As at 31 December	
	2018	2017
Core capital		
Qualified part of share capital	**10,995,600**	10,995,600
Qualified part of capital reserve	**7,638,457**	7,636,867
Surplus reserve and general reserves	**10,568,876**	9,702,003
Undistributed profits	**16,720,480**	13,452,019
Qualified part of non-controlling interests	**570,105**	433,950
Other comprehensive income	**351,284**	(526,018)
Core tier 1 capital deductible items:		
Fully deductible items	**(181,279)**	(166,720)
Net core tier 1 capital	**46,663,523**	41,527,701
Net other tier 1 capital	**76,014**	57,860
Net tier 1 capital	**46,739,537**	41,585,561
Net tier 2 capital	**11,477,169**	10,735,959
Net capital	**58,216,706**	52,321,520
Total risk-weighted assets	**479,159,934**	427,058,292
Core tier 1 capital adequacy ratio	**9.74%**	9.72%
Tier 1 capital adequacy ratio	**9.75%**	9.74%
Capital adequacy ratio	**12.15%**	12.25%

(In RMB thousands, unless otherwise stated)

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for the 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 2018

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	–	16,248	–	16,248
Financial assets at fair value through profit or loss				
Debt securities	–	2,602,654	–	2,602,654
Funds	–	2,433,782	–	2,433,782
Trust investments and asset management plans	–	33,161,374	–	33,161,374
	–	38,197,810	–	38,197,810
Financial assets at fair value through other comprehensive income				
Debt securities	–	34,274,436	–	34,274,436
Equity investments	–	81,368	–	81,368
	–	34,355,804	–	34,355,804
Total	–	72,569,862	–	72,569,862
Financial liabilities measured at fair value				
Derivative financial liabilities	–	14,608	–	14,608
Financial assets disclosed at fair value				
Financial assets at amortised cost				
Debt securities	–	31,189,495	–	31,189,495
Trust investments and asset management plans	–	119,365,251	–	119,365,251
Certificate treasury bonds	–	96,685	–	96,685
Total	–	150,651,431	–	150,651,431
Financial liabilities disclosed at fair value				
Financial bonds issued	–	7,085,687	–	7,085,687
Tier 2 capital bonds issued	–	7,899,200	–	7,899,200
Negotiable certificates of deposit issued	–	97,549,185	–	97,549,185
Total	–	112,534,072	–	112,534,072

(In RMB thousands, unless otherwise stated)

49. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

The Group uses the following hierarchy for the determination and disclosure of the fair value of financial instruments: (Continued)

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
Total	–	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
Total	–	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
Total	–	90,037,110	–	90,037,110

Financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income 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)

49. 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 at amortised cost are not quoted in an active market. In the absence of any other relevant observable market, the fair values of debt instruments at amortised cost are estimated on the basis of pricing models or discounted cash flows.

(ii) The fair values of financial assets at amortised cost, 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

50. SUBSEQUENT EVENTS

As approved at the Board of Directors' meeting held on 21 March 2019, the profit distribution plan of 2018 was as follows:

1. 10% of 2018 net profit amounting to RMB529,145 thousand is appropriated to the statutory surplus reserve;

2. RMB280,997 thousand is appropriated to the general reserve;

3. The Bank did not declare any dividend for the year ended 31 December 2018, 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 2018
(In RMB thousands, unless otherwise stated)

51. 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	
	2018	2017
ASSETS		
Cash and balances with the central bank	**73,983,246**	66,014,734
Due from banks and other financial institutions	**27,719,114**	18,094,646
Reverse repurchase agreements	**10,856,196**	4,775,700
Loans and advances to customers	**229,274,911**	217,466,503
Derivative financial assets	**16,248**	22,841
Financial investments	**224,878,613**	204,489,887
— financial assets at fair value through profit or loss	**38,388,632**	4,540,089
— financial assets at fair value through other comprehensive income	**34,968,319**	–
— financial assets at amortised cost	**151,521,662**	–
— available-for-sale financial assets	**–**	29,622,774
— held-to-maturity investments	**–**	27,279,545
— debt instruments classified as receivables	**–**	143,047,479
Investments in subsidiaries	**4,117,420**	3,617,420
Property and equipment	**8,390,333**	8,291,258
Deferred income tax assets	**1,798,207**	1,901,028
Other assets	**809,510**	6,853,137
TOTAL ASSETS	**581,843,798**	531,527,154
LIABILITIES		
Due to the central bank	**2,371,211**	–
Due to banks	**32,159,128**	29,213,048
Derivative financial liabilities	**14,608**	33,116
Repurchase agreements	**2,990,739**	4,590,000
Due to customers	**385,193,251**	358,669,261
Income tax payable	**176,144**	658,142
Debt securities issued	**110,719,231**	90,337,011
Other liabilities	**3,743,827**	8,303,030
TOTAL LIABILITIES	**537,368,139**	491,803,608
EQUITY		
Share capital	**10,995,600**	10,995,600
Capital reserve	**7,639,362**	7,639,362
Other comprehensive income	**351,223**	(526,018)
Surplus reserves	**3,425,328**	2,896,183
General and regulatory reserves	**6,641,573**	6,422,980
Undistributed profits	**15,422,573**	12,295,439
TOTAL EQUITY	**44,475,659**	39,723,546
TOTAL EQUITY AND LIABILITIES	**581,843,798**	531,527,154

Guo Zhiwen	**Lyu Tianjun**	**Wang Haibin**	**Chen Liyang**
Chairman	President	Executive Vice President of Finance	General Manager of Finance and Accounting Department

(In RMB thousands, unless otherwise stated)

51. 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
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**
Impact of IFRS 9	**–**	**–**	**24,839**	**–**	**–**	**(866,798)**	**(841,959)**
Balance as at 1 January 2018	**10,995,600**	**7,639,362**	**(501,179)**	**2,896,183**	**6,422,980**	**11,428,641**	**38,881,587**
Movements in this year	**–**	**–**	**852,402**	**529,145**	**218,593**	**3,993,932**	**5,594,072**
Total comprehensive income	**–**	**–**	**852,402**	**–**	**–**	**5,291,450**	**6,143,852**
Profit distribution	**–**	**–**	**–**	**529,145**	**218,593**	**(1,297,518)**	**(549,780)**
1. Appropriation to surplus reserves	**–**	**–**	**–**	**529,145**	**–**	**(529,145)**	**–**
2. Appropriation to general and regulatory reserves	**–**	**–**	**–**	**–**	**218,593**	**(218,593)**	**–**
3. Distribution to shareholders	**–**	**–**	**–**	**–**	**–**	**(549,780)**	**(549,780)**
Balance as at 31 December 2018	**10,995,600**	**7,639,362**	**351,223**	**3,425,328**	**6,641,573**	**15,422,573**	**44,475,659**
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
Movements in this year	–	–	(497,601)	486,452	1,127,416	3,250,652	4,366,919
Total comprehensive income	–	–	(497,601)	–	–	4,864,520	4,366,919
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)	–
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

52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2019.

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2018
(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	
	2018	2017
RMB current assets to RMB current liabilities	**86.10%**	50.97%
Foreign currency current assets to foreign currency current liabilities	**288.96%**	581.52%

These liquidity ratios are calculated based on relevant regulations provided by the CBIRC and Chinese accounting policies.

(b) CURRENCY CONCENTRATIONS

	USD	HKD	RUB	Others	Total
31 December 2018					
Spot assets	**2,006,043**	**23,088**	**56,508**	**259,624**	**2,345,263**
Spot liabilities	**(236,915)**	**(36,889)**	**(14,240)**	**(91,032)**	**(379,076)**
Forward purchases	**675,866**	**–**	**–**	**–**	**675,866**
Forward sales	**(675,881)**	**–**	**–**	**–**	**(675,881)**
Net long/(short) position	**1,769,113**	**(13,801)**	**42,268**	**168,592**	**1,966,172**
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

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

(c) INTERNATIONAL CLAIMS

The Group discloses international claims according to Banking (Disclosure) Rules (L.N. 160 of 2014). International claims are risk exposures generated from the countries or geographical areas where the counterparties take the ultimate risk while considering the transfer of the risk, exclude local claims on local residents in local currency. Risk transfer is 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 counterparty whose head office is located in another country.

International claims include "Balances with the central bank", "Due from banks and other financial institutions", "Loans and advances to customers" and "Financial investments".

International claims have been disclosed by major countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers.

	Banks	Others	Total
31 December 2018			
Asia Pacific excluding Mainland China	**110,536**	**–**	**110,536**
— of which attributed to Hong Kong	**31,009**	**–**	**31,009**
Europe	**618,807**	**160,000**	**778,807**
North America	**557,387**	**–**	**557,387**
Total	**1,286,730**	**160,000**	**1,446,730**
31 December 2017			
Asia Pacific excluding Mainland China	78,482	–	78,482
— of which attributed to Hong Kong	23,040	–	23,040
Europe	1,221,135	160,000	1,381,135
North America	1,319,506	–	1,319,506
Total	2,619,123	160,000	2,779,123

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

(d) LOANS AND ADVANCES TO CUSTOMERS

(i) Overdue loans and advances to customers

	31 December 2018				
Overdue days	Within 90 days	91 days to 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	**430,982**	**745,584**	**215,689**	**2,364**	**1,394,619**
Guaranteed loans	**3,296,937**	**1,062,904**	**682,281**	**19,196**	**5,061,318**
Loans secured by mortgages	**2,721,782**	**559,982**	**849,385**	**11,606**	**4,142,755**
Pledged loans	**108,785**	**31,526**	**49,292**	**–**	**189,603**
Total	**6,558,486**	**2,399,996**	**1,796,647**	**33,166**	**10,788,295**

	31 December 2017				
Overdue days	Within 90 days	91 days to 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	356,045	141,063	569,971	27,880	1,094,959
Guaranteed loans	1,297,315	831,709	668,871	3,469	2,801,364
Loans secured by mortgages	2,865,605	1,026,348	1,292,693	6,999	5,191,645
Pledged loans	165,471	2,795	72,412	–	240,678
Total	4,684,436	2,001,915	2,603,947	38,348	9,328,646

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

	As at 31 December	
	2018	2017
Heilongjiang region	**4,140,180**	4,224,008
Northeastern China excluding Heilongjiang	**2,453,154**	1,217,658
Northern China	**1,558,452**	735,455
Southwestern China	**2,044,058**	2,585,381
Other regions	**592,451**	566,144
	10,788,295	9,328,646

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2018
(In RMB thousands, unless otherwise stated)

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

As at 31 December 2018 and 2017, 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 2018 and 2017, 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	
	2018	2017
On-balance sheet exposure	**271,455,141**	246,540,294
Off-balance sheet exposure	**99,319,879**	83,287,000

In addition to those disclosed above, exposures to other non-bank counterparties outside Mainland China to which credit is granted to be used in Mainland China are considered insignificant to the Group.

Documents for Inspection

I. Financial Statements with Signature and Seal of Legal Representative, Person in Charge of Accounting Work and Person in Charge of Accounting Firms

II. Original Audit Report with Accounting Firms' Seals and Certified Public Accountants' Signatures and Seals

III. Text of Annual Report Autographed by Directors of the Company

IV. Articles of Association of the Company

哈尔滨银行
HarbinBank