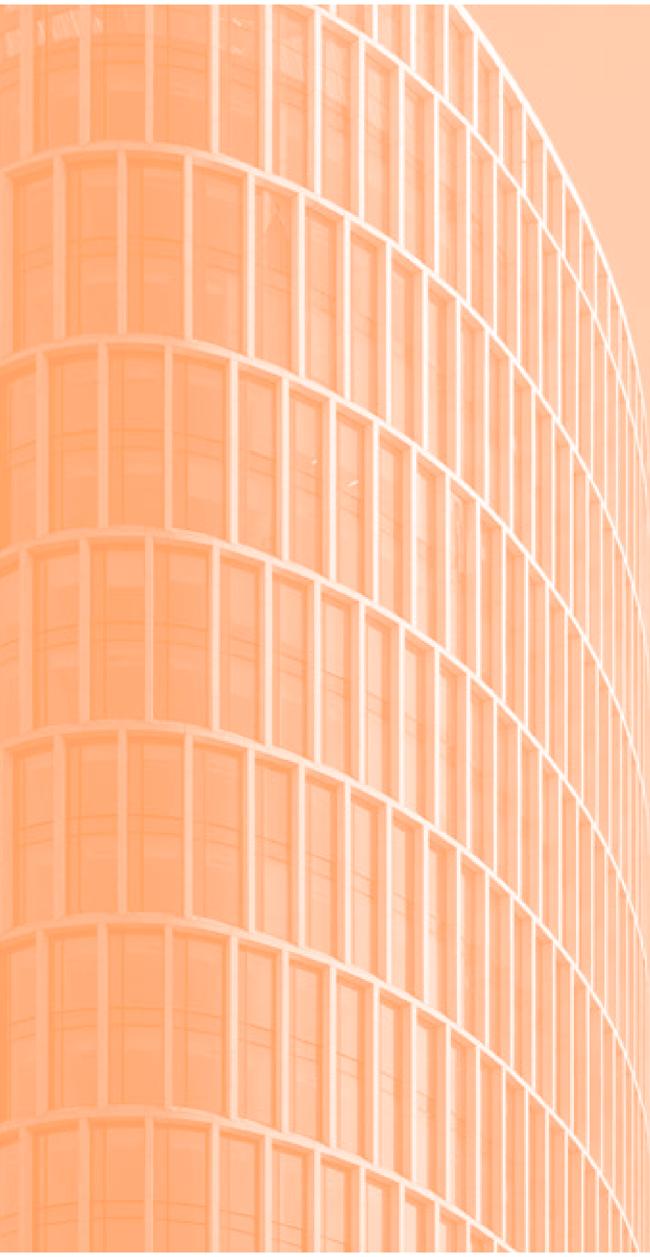
哈尔滨银行
HarbinBank

HARBIN BANK CO., LTD.

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

2019 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 the 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.

"Articles of Association"	the articles of association of Harbin Bank Co., Ltd.
"Board" or "Board of Directors"	the board of directors of the Company
"Board of Supervisors"	the board of supervisors of the Company
"CBIRC"/"CBRC"	the China Banking and Insurance Regulatory Commission/former China Banking Regulatory Commission (before 17 March 2018)
"PRC"	the People's Republic of China
"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
"CSRC"	the China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company
"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
"Group" or "Bank"	the Company and all of its subsidiaries and branches
"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.
"Heilongjiang Financial Holdings"	Heilongjiang Financial Holdings Group Co., Ltd.
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Definitions

"Hong Kong Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"PBOC" or "Central Bank"	the People's Bank of China
"Reporting Period"	the year ended 31 December 2019
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Supervisor(s)"	the supervisor(s) of the Company

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:

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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 2019, the Group had 376 business outlets with branches and sub-branches across seven administrative regions in China.

As at 31 December 2019, the Bank had total assets of RMB583.0894 billion, total loans and advances to customers of RMB263.6041 billion and total customer deposits of RMB425.6837 billion.

In 2019, the Bank was ranked 217th in "Brand Finance Global 500 2019" published by Brand Finance (a famous UK-based branded business valuation consulting firm), 199th in "Top 1000 World Banks 2019" according to The Banker of United Kingdom, 1117th in the Forbes Global 2000, 34th in the "2018 China Banking Top 100 List (2018年中國銀行業100強榜單)" of the China Banking Association, and 13th in the "City Commercial Banks with an Asset Size of more than RMB200 billion in 2018 for the Ranking of the GYROSCOPE Evaluation System (2018年"陀螺"評價體系之資產規模2000億元以上城商行)" of the China Banking Association. The Bank also received the "2019 'Stars of China' The Best Chinese Bank for the 'Belt and Road Initiative' for the Year (2019年"中國之星"年度最佳"一帶一路"中資銀行大獎)" and "2019 Chinese Financial Institutions Golden Dragon Awards: Top Ten City Commercial Banks for the Year (2019中國金融機構金龍榜：年度十佳城市商業銀行)".

Company Profile

Major Awards for 2019

List of Major Awards for 2019

No.	Name of Award	Awarding Party	Time of Award
1	National Advanced Unit for Cultural Construction in Financial Sector for 2017-2018 (2017-2018年全國金融系統文化建設先進單位)	Research Association of Ideological and Political Work of China Financial Institutions	January 2019
2	Top 100 in Clearing House – Excellent Proprietary Business Operators Award	Government Securities Depository Trust & Clearing Co., Ltd.	January 2019
3	Debt Financing Plan Business: Breakthrough Award (債權融資計劃業務：乘風破浪獎)	Beijing Financial Assets Exchange	January 2019
4	Ranked 217th in the Brand Finance Global 500 2019	Brand Finance	January 2019
5	2018 The Most Potential Award	JCB International Credit Card	January 2019
6	Ranked 34th among the 2018 China Banking Top 100 List	China Banking Association	February 2019
7	Ranked 13th in the City Commercial Banks with an Asset Size of more than RMB200 billion in 2018 for the Ranking of the GYROSCOPE Evaluation System	China Banking Association	February 2019
8	Best Forex Market Post-Trading Support Award (最佳外匯市場交易後支持獎)	China Foreign Exchange Trading Center	March 2019
9	Golden Label Road Race: Harbin Bank 2018 Harbin International Marathon	Chinese Athletic Association	March 2019
10	Banking Internet Finance Innovation Award: Best Mobile Banking Award 2018 (2018年銀行業網路金融創新獎：最佳移動銀行獎)	China e-Finance Union	March 2019
11	Best Compliance Performance (Asia Pacific) (最佳合規表現（亞太地區))	MasterCard International	April 2019
12	Top 10 Private Enterprises for Financial Service Innovation Award under 2019 China's Financial Service Innovation Award (2019 中國金融創新獎：十佳民營企業金融服務創新獎)	Chinese Banker	May 2019
13	Forbes Global 2000: ranked 1117th	Forbes	May 2019
14	2019 Tianji Award of Mobile Banking (2019年度手機銀行天璣獎)	Securities Times	July 2019
15	Top 1000 World Banks 2019: ranked 199th	The Banker	July 2019
16	Golden Award of "Social Responsibility Report" of the 33rd World's Best Annual Report Special Award (第33屆世界最佳年度報告特別獎"社會責任報告類"金獎)	ARC AWARD	August 2019

Company Profile

No.	Name of Award	Awarding Party	Time of Award
17	The 33rd World's Best Annual Report in China (第33屆世界最佳年度報告中國區最佳)	ARC AWARD	September 2019
18	The 2nd Iron-horse Bank: Iron-horse-Famous Branded Small and Medium Banks Award (第二屆"鐵馬銀行"——"鐵馬-知名品牌中小銀行"獎)	Modern Bankers	November 2019
19	2019 China Financial Innovation Development Forum-Top 10 Financial Institutions Serving the Real Economy with Financial Innovation (2019中國金融創新發展論壇——金融創新服務實體經濟十佳金融機構)	Hong Kong Commercial Daily and China Association for the Promotion of Development Financing	November 2019
20	2019 "Stars of China" The Best Chinese Bank for the "Belt and Road Initiative" for the Year (2019年"中國之星"年度最佳"一帶一路"中資銀行大獎)	Global Finance	November 2019
21	China Financial Services and Innovation Forum -2019 Top 100 Financial Service and 2019 Top 100 Financial Innovation (中國金融服務與創新論壇——2019金融服務百強、2019金融創新百強)	China Economic Net	November 2019
22	Selection of the 21st Century Asian Financial Competitiveness – 2019 Model in Targeted Poverty Alleviation in China (21世紀亞洲金融競爭力評選——2019中國精準扶貧優秀案例)	21st Century Media	November 2019
23	2019 Best E-Banks in China: Best Mobile Banking Operation Award (2019中國電子銀行金榜獎：最佳手機銀行運營獎)	China Financial Certification Authority	December 2019
24	2019 Chinese Financial Institutions Golden Dragon Awards: Top Ten City Commercial Banks for the Year (2019年中國金融機構金龍榜——年度十佳城市商業銀行)	Financial News	December 2019
25	17th China's Financial Annual Champion Awards: 2019 Cross-border Financial Services Bank and 2019 Outstanding Retail Loan Bank (第17屆中國財經風雲榜——2019年度跨境金融服務銀行、2019年度傑出零售貸款銀行)	Hexun.com	December 2019
26	6th Green Development Summit: "2019 Most Influential Green Development Enterprise Brand" (第六屆綠色發展峰會——"2019最具影響力綠色發展企業品牌")	Xinhua News Agency	December 2019
27	2019 Best Risk Control Performance of the Year Award	MasterCard International	December 2019
28	2019 Outstanding Results of the Year Award	MasterCard International	December 2019
29	2019 Technological Progress of the Year Award	MasterCard International	December 2019
30	2019 Most Promising Foreign Card Acquirer Award	JCB International Card	December 2019

Company Profile

Major Subsidiaries

The details of major subsidiaries of the Company as at 31 December 2019 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
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50	70.00	35

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
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	33.3	90.09	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	1,500	53.00	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					
	2019	2018	2019 vs. 2018	2017	2016	2015
				(In RMB million, except percentages)		
Results of operations			**Rate of change**			
Net interest income	**10,836.1**	10,127.0	7.00%	11,307.5	11,573.3	9,632.9
Net fee and commission income	**2,225.6**	2,391.4	-6.93%	2,444.6	2,393.4	1,959.4
Operating income	**15,124.4**	14,325.4	5.58%	14,133.6	14,172.0	11,945.4
Operating expenses	**(5,153.0)**	(4,594.3)	12.16%	(4,343.5)	(4,522.2)	(4,736.9)
Impairment losses	**(5,180.9)**	(2,425.9)	113.57%	(2,662.1)	(3,294.8)	(1,338.5)
Profit before tax	**4,790.5**	7,305.2	-34.42%	7,128.0	6,445.6	5,919.0
Net profit	**3,635.1**	5,574.4	-34.79%	5,308.9	4,962.2	4,509.6
Net profit attributable to shareholders of the Company	**3,558.4**	5,548.6	-35.87%	5,249.1	4,876.6	4,457.6
For each share (RMB)			**Rate of change**			
Net assets per share attributable to shareholders of the Company	**4.53**	4.21	7.60%	3.75	3.32	3.01
Earnings per share	**0.32**	0.50	-36.00%	0.48	0.44	0.41
Profitability indicators			**Change**			
Return on average total assets[1]	**0.61%**	0.94%	decreased by 0.33 percentage point	0.96%	1.01%	1.14%
Return on average equity[2]	**7.41%**	12.68%	decreased by 5.27 percentage points	13.50%	14.01%	14.23%
Net interest spread[3]	**1.87%**	1.67%	increased by 0.20 percentage point	1.95%	2.47%	2.47%
Net interest margin[4]	**1.95%**	1.87%	increased by 0.08 percentage point	2.15%	2.65%	2.68%
Net fee and commission income to operating income ratio	**14.72%**	16.69%	decreased by 1.97 percentage points	17.30%	16.89%	16.40%
Cost-to-income ratio[5]	**32.71%**	30.88%	increased by 1.83 percentage points	29.71%	28.60%	31.75%

Summary of Accounting Data and Financial Indicators

	As at 31 December					
	2019	2018	2019 vs. 2018	2017	2016	2015
				(In RMB million, except percentages)		
Capital adequacy indicators[6]			**Change**			
Core tier 1 capital adequacy ratio	**10.22%**	9.74%	increased by 0.48 percentage point	9.72%	9.34%	11.14%
Tier 1 capital adequacy ratio	**10.24%**	9.75%	increased by 0.49 percentage point	9.74%	9.35%	11.14%
Capital adequacy ratio	**12.53%**	12.15%	increased by 0.38 percentage point	12.25%	11.97%	11.64%
Total equity to total assets	**8.86%**	7.71%	increased by 1.15 percentage points	7.52%	6.93%	7.61%
Assets quality indicators			**Change**			
NPL ratio[7]	**1.99%**	1.73%	increased by 0.26 percentage point	1.70%	1.53%	1.40%
Impairment coverage ratio[8]	**152.50%**	169.88%	decreased by 17.38 percentage points	167.24%	166.77%	173.83%
Impairment losses on loans[9]	**3.04%**	2.94%	increased by 0.10 percentage point	2.84%	2.55%	2.43%

Summary of Accounting Data and Financial Indicators

	As at 31 December					
	2019	2018	2019 vs. 2018	2017	2016	2015
				(In RMB million, except percentages)		
Other indicators			**Change**			
Loan-deposit ratio	**61.92%**	64.16%	decreased by 2.24 percentage points	62.76%	58.76%	48.46%
Scale indicators			**Rate of Change**			
Total assets	**583,089.4**	615,588.5	-5.28%	564,255.2	539,016.2	444,851.3
Of which: total loans and advances to customers	**263,604.1**	253,762.7	3.88%	237,397.8	201,627.9	148,674.8
Total liabilities	**531,448.2**	568,097.0	-6.45%	521,846.2	501,681.2	411,003.3
Of which: due to customers	**425,683.7**	395,516.8	7.63%	378,258.4	343,151.0	306,817.7
Share capital	**10,995.6**	10,995.6	–	10,995.6	10,995.6	10,995.6
Equity attributable to shareholders of the Company	**49,826.7**	46,274.7	7.68%	41,260.5	36,507.8	33,099.6
Non-controlling interests	**1,814.5**	1,216.8	49.12%	1,148.4	827.2	748.4
Total equity	**51,641.2**	47,491.5	8.74%	42,409.0	37,335.0	33,848.0

Notes:

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

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

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

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

(5) Calculated with the operating cost after deducting 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 on loans divided by the total NPLs.

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

Chairman's Statement

GUO Zhiwen
Chairman

In 2019, global economic growth slowed down. The growth rates of major developed economies declined amid international trade tension and continued weakened investment. Signs of internal-oriented trade protectionism policies emerged and Sino-U.S. trade frictions continued to escalate. Facing the increasingly severe and complicated economic and financial situation as well as the impact of peer risk events, the Board of the Bank, with strong support of our shareholders, proactively responded to the national policies in unison with the management and all employees by implementing regulatory requirements, effectively controlling and mitigating financial risks, and improving quality and efficiency of financial services. The Bank maintained steady and healthy business operations, upgraded its management level, strengthened its market position and realized high quality development.

Chairman's Statement

Over the past year, the Bank's operations remained stable and healthy while breakthroughs were made in key areas. As at the end of 2019, the Group had total assets of RMB583,089.4 million. Net profit of the Bank for the year of 2019 amounted to RMB3,635.1 million. The key regulatory indicators met regulatory standards. Major breakthroughs were achieved in the Company's retail deposits business, which ranked first in terms of the market share of deposits in multiple regions where our branch outlets located at, and its proportion of retail deposits was among the leading institutions in the market. HB Leasing maintained a good momentum for its business operation, and vigorously developed the special agricultural machinery business by opening up the resources of domestic and overseas agricultural machinery manufacturers. The expansion of agricultural machinery business significantly speeded up its pace. HBCF successfully introduced the strategic investment of Duxiaoman (度小滿), the financial technology platform under Baidu, and its capital strength leapt to the forefront of the industry. HBCF was successfully approved as a national high-tech enterprise, which greatly enhanced its brand image and corporate value.

Over the past year, the Bank's featured businesses embraced energetic development while further strengthened their market position. The proportion of retail loan strategic business continued to increase, significantly higher than the average level of city commercial banks. The Bank further strengthened the position of its featured Sino-Russia financial brand and maintained its leading position in Rouble cash exchange, cash cross-border transfer and cross-border interbank loan among its industry peers. The Sino Russian Financial Union initiated by the Bank was included in the Joint Statement of the Eighth Sino-Russian Dialogue Between Ministers of Finance (第八次中俄財長對話聯合聲明). The cross-border e-commerce financial service platform established connection and cooperation with 12 overseas mainstream payment channels, and the transaction settlement amount across all channels accounted for more than 15% of the online banking business in terms of market share, ranking among top three in the market. With the active market expansion of agricultural finance business, the number of mid-end and high-end customers steadily increased and "Smart Flash Loan", the first online project for farmers, was launched.

Over the past year, the Bank conducted extensive cooperation, and continued to strengthen the bank-government relationship. For further deepening the comprehensive strategic cooperation with Harbin New Area, the Company entered into strategic cooperation agreements with the Economic Development Zone as well as five major industry groups in the province such as Heilongjiang Province New Industry Investment Group (省新產業投資集團). The Company continued to strengthen communication with its industry peers and maintained sound cooperative relationships with them. HB Leasing engaged in cooperation with acclaimed international brands such as CNH in the United States, CLAAS in Germany and Kubota in Japan, as well as first-rate domestic brands such as Tung Fong Hung and Wode. HBCF carried out in-depth business cooperation with Duxiaoman, and established sound cooperative relations with over 10 platforms such as JD.com, 360 and Qudian.

Over the past year, the Bank continued to strengthen its risk management and control and maintained stable asset quality. The Company deepened credit model reform, continuously improved the ability to avoid and control risks, and actively applied the retail internal assessment and financial technology risk management tools. With increased efforts in the collection and disposal of non-performing assets, the Bank scored a historical high in the scale of disposal, and inventively applied write-off leverage. HB Leasing enhanced post-leasing management, regulated working process and comprehensively conducted post-leasing reviews for existing businesses, contributing to an effective decrease in non-performing assets. HBCF strengthened the real-time monitoring of business risks, made timely adjustments to the business deployment strategy and significantly increased efforts in the write-off of non-performing assets.

Chairman's Statement

Over the past year, the Bank actively implemented social responsibilities and built a good corporate image. Adhering to the philosophy of "Inclusive Finance, Harmonious Co-Enrichment", the Bank was determined to uphold its microcredit strategy, actively responded to national and regulatory policies, and increased efforts in financial support of "agriculture, rural areas and farmers", small and micro enterprises and people's livelihood. The Bank ranked 199th in the Top 1000 World Banks 2019 according to The Banker of United Kingdom, 34th in China's Top 100 in the Banking Industry according to China Banking Association, and 217th in Global Banking Brands Top 500 of 2019 according to Brand Finance.

Currently, COVID-19 is continuing to cause damage to people all over the world and affect global economy and the financial market. In 2020, the domestic banking industry will face an even more severe and unfavorable environment for development, as well as more challenges and difficulties in operation. Adhering to the general principle of steady improvement, the Bank will maintain stable operation, strengthen comprehensive business risk management and control, increase internal management effectiveness and leverage the Bank's advantages in resource endowment to ensure sound operational results for the Group, create greater value for the shareholders, provide more quality financial services to the customers and make greater contributions to the development of economy and society!

GUO Zhiwen
Chairman

President's Statement

LYU Tianjun
President

2019 marked an extraordinary year in the history of the development of city commercial banks, as well as a critical year of the implementation of the new three-year strategy plan of the Bank. In face of the severe business conditions and complicated and difficult external environment, the Bank persisted in strategic focus and implementation, solved difficulties on problem orientation basis, facilitated business transformation in pursuit of truth and practicability, and elevated values for development. Hence, the Bank was able to maintain stable operation and management with favourable progress. The Bank made new achievements for various tasks by focusing on the theme of "comprehensive enhancement" and adhering to the standard of "strategic focus, problem orientation, pursuit of truth and practicability and elevating values".

President's Statement

In 2019, the Bank continued to optimise the asset and liability structure. As at 31 December 2019, the Group's total assets amounted to RMB583.0894 billion, representing a decrease of RMB32.4991 billion as compared to the end of last year; customer deposits amounted to RMB425.6837 billion, representing an increase of RMB30.1669 billion or 7.6% as compared to the end of last year; total loans amounted to RMB263.6041 billion, representing an increase of RMB9.8414 billion or 3.9% as compared to the end of last year; and the quality of assets was basically stable, with NPL ratio of 1.99% and impairment coverage ratio of 152.50%. For the year of 2019, the Bank recorded an operating income of RMB15.1244 billion and a net profit of RMB3.6351 billion.

In 2019, the Bank facilitated in-depth business transformation. Centring on the microcredit strategy, the Bank implemented retail exclusive sub-branch transformation. Hence, the foundation of the retail business was further strengthened, with faster unleash of comprehensive productivity. The Bank had completed the reorganisation of its corporate customer service team, and customer service had developed towards the direction of integration, professionalism and refinement. The Bank had completed the transformation of credit approval management mode, and established a whole-process asset quality management and control system covering front-middle-back offices, thus effectively strengthened the Bank's capability in risk prevention and control. New model of small and micro finance had been successfully promoted in key regions and key industries. Agriculture-benefiting business development positioning, customer positioning, product positioning and marketing strategy were further defined. The competitive edges of Sino-Russia financial business on regional positioning, unique features, brand and platform had been fully enhanced.

In 2019, the Bank continued to improve its risk management capability. Highlighting reestablishment and execution of the comprehensive system in a standardized way, the Bank established internal compliance system integrating "regulation, system and cultures". The Bank improved the division of labour and management basis on comprehensive risk management, and established a risk control system with clear division of labour across the whole bank, smooth connection and co-management. The Bank focused on facilitating the establishment of smart risk control system. Aiming to improve efficiency, the Bank facilitated the application of internal assessment model, continued to optimise rules and strategies, established anti-fraud alert model, and continued to enhance coverage of smart business and rigid control on risk control. The Bank also continued to optimise the internal assessment model on non-retail business, established new credit loan model, and increased the coverage of internal assessment system application. The Bank focused on maintaining liquidity security, increasing the frequency of daily liquidity monitoring, and enriching liquidity management means, thereby ensuring steady operation. The Bank established a sound query response system, and enhanced its internet safety protection. The Bank strengthened its online security defence through data base audit and wireless network platform so as to ensure safe and steady system operation. The Bank established the Customers' Rights and Interests Protection Department, thus improving the efficiency of the handling of sensitive complaints and media reports.

In 2019, the basis of technology operation of the Bank was further improved. Centring on the digitalised inclusive finance strategy and the development trend of financial technology, the Bank facilitated the progress of basic technology construction and management system innovation. Strictly adhering to the service philosophy of "making technology exist everywhere", the Bank optimised the effective cooperative mechanism between technology and operation, re-built technology R&D system, and improved market response speed, product iteration efficiency and customer service standard. The Bank also optimised different systems such as data governance, technology emergency support and system R&D protection etc. The Bank continued to promote the construction of the emergency disaster recovery system for the three centres in two regions. The bank had installed application-level disaster recovery system for all important information system in accordance with regulatory requirements. In particular, the disaster recovery and emergency drill of the same city with different places for core system and second generation payment system met the highest technology standards on business continuity of city commercial banks imposed by regulatory authorities.

President's Statement

In 2019, the human resources management of the Bank had been improved. The Bank re-built its customer service manager and loan collection manager team, and expanded its customer service manager team on wealth management, small and micro business and agriculture-benefiting business, thus further expanded its professional team with "reasonable amount of staff, full of vitality, huge potential and strong capability". The Bank also enhanced its management personnel appraisal management, established a sound, all-rounded, multi-dimensional and close range management personnel appraisal system, and strictly implemented the standard of "selecting and appoint candidates who have been recognised by both the Company and the public, and possessed both morality and ability with morality as priority". The Bank initiated the "10x100 (十個一百)" professional skills programme for employees, and established a training system "starting from the very beginning until the very end", thus further enhanced the fundamental ability of the Bank.

In 2019, the brand image of the Bank was gradually improved. In response to the national call on winning the battle of poverty alleviation, the Bank dispatched on-site poverty alleviation teams to Shuanglong Village, Liutuan Town, Yanshou County, Heilongjiang Province. Hence, the Bank won the "2019 Outstanding Case on Targeted Poverty Alleviation in China" in the 21st Century Asian Financial Competitiveness Election. The Bank cared about public well-being as well as the establishment of happy communities for the public, and aimed to become a warm, caring bank. The Happy Community Programme of the United Charity Foundation was launched in 7 cities, including Shenyang, Dalian, Tianjin, Chengdu, Chongqing, Shenzhen and Harbin, with over 1,000 charity activities conducted in aggregate. The Bank sponsored the Harbin International Marathon for the fourth consecutive year, the Chengdu International Marathon for the second consecutive time and the Chengdu WNCH Marathon 2019 for the first time, thus facilitating integration of financial culture and sports.

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 who working hard together to overcome difficulties and challenges. On behalf of our management, I hereby extend my most sincere gratitude to all of them who have been paying close attention to and supporting the Bank's development.

Looking back in 2019, we fully utilised every minute of it and did not waste our time. Looking forward to 2020, we have prepared ourselves for the battles ahead confidently without any stop for advancing and moving forward. The development of Harbin Bank has entered a new phase, and a historical opportunity for steady development has arrived. In light of the new phase, new mission and new objectives, we will further emancipate our mind, explore innovation and make gradual improvement. By planning new development with new mindset and creating new achievements with new actions, we will dedicate ourselves to opening a new chapter for the Bank's high quality transformation and development.

LYU Tianjun
President

Report of the Board of Directors

I. Past Economy and Environment and Operation Overview

(I) Past Economy and Environment

In 2019, with a significant rise in domestic and foreign risks and challenges, and the increasing downward pressure on the economy, under the firm leadership of the Party Central Committee headed by Chairman Xi Jinping, the entire party and nation implemented the Party Central Committee's strategies and decisions, adhered to the general direction of seeking improvement in stability, the new development philosophy, the main path of supply-side structural reform and the "six stability policy". China's economic operation was generally stable with improvements, and major progress was made in building a moderately prosperous society in all respects. In 2019, the gross domestic product (GDP) amounted to RMB99,086.5 billion, representing a year-on-year increase of 6.1%. As at 31 December 2019, the balance of M2 amounted to RMB198.65 trillion, representing a year-on-year increase of 8.7%; the balance of M1 amounted to RMB57.6 trillion, representing a year-on-year increase of 4.4%, and the balance of M0 amounted to RMB7.72 trillion, representing a year-on-year increase of 5.4%; the balance of RMB loans amounted to RMB153.11 trillion, and the balance of RMB deposits amounted to RMB192.88 trillion. New RMB loans made in the year amounted to RMB16.81 trillion, representing a year-on-year increase of RMB643.9 billion; and new RMB deposits amounted to RMB15.36 trillion, representing a year-on-year increase of RMB1.96 trillion. Increment of social financing scale for of 2019 was RMB251.31 trillion, representing a year-on-year increase of 10.7%.

In 2019, Heilongjiang Province actively responded to the downward pressure on the economy. The provincial macro economy remained generally stable, and economic growth constantly gained new momentum, coupled with further improvement in people's livelihood, laying the foundation for Heilongjiang's comprehensive and all-around revitalisation. In 2019, the regional gross domestic product (GDP) of Heilongjiang reached RMB1,361.27 billion, representing an increase of 4.2% over the same period of last year. In 2019, fixed-asset investment completion increased by 6.3% as compared to last year. Total retail sales of consumer goods increased by 6.2% as compared to last year, and disposable income per capita of urban and rural residents increased by 6.0% and 8.5% respectively as compared to last year.

(II) Operation Overview

2019 was an extraordinarily difficult year for city commercial banks throughout the development history. In the face of the complicated and severe economic situation, stricter and tighter regulatory control, and the huge pressure of small and medium banks to accelerate credit stratification and business differentiation, the Bank, under the leadership of the Board and supervision of the Board of Supervisors, earnestly put the national economic and financial policies into practice, upheld the strategic positioning of microcredit, with a focus on the theme of "comprehensive enhancement". Adhering to the standard of "strategic focus, problem orientation and pursuit of truth and practicability", the Bank responded calmly, grasped the overall situation, took an active approach and overcame difficulties. With fruitfull advancement of key work, sound development of key businesses, accurate and effective mitigation of major risks, and steady and proper resolution of key issues, the Bank achieved an admirable performance, with continuously stable business operations and comprehensive governance enhancement.

Report of the Board of Directors

Steady business scale development

As at 31 December 2019, the Group had total assets of RMB583.0894 billion, representing a decrease of RMB32.4991 billion or 5.3% as compared to the end of last year; total loans and advances to customers of the Group amounted to RMB263.6041 billion, representing an increase of RMB9.8414 billion or 3.9% as compared to the end of last year; and due to customers of the Group amounted to RMB425.6837 billion, representing an increase of RMB30.1669 billion or 7.6% as compared to the end of last year.

Stable profitability

The Group recorded a net profit of RMB3.6351 billion for the year of 2019, representing a year-on-year decrease of RMB1.9393 billion or 34.8%, and a net profit attributable to equity holders of RMB3.5584 billion, representing a year-on-year decrease of RMB1.9902 billion or 35.9%. As at 31 December 2019, the return on average total assets of the Group was 0.61%, representing a decrease as compared with 0.94% in 2018; and the return on average equity of the Group was 7.41%, representing a decrease as compared with 12.68% in 2018.

Slight increase in NPLs

As at 31 December 2019, the balance of the Group's NPLs was RMB5.2515 billion, and the NPL ratio was 1.99%; the balance of loans past due for more than 90 days was RMB5.1660 billion, representing 1.96% of total loans; the ratio of loans past due for more than 90 days to NPLs was 98.37%; and impairment losses on loans was 3.04%, representing an increase of 0.10 percentage point as compared to the end of last year, showing increased risk resilience.

Stable development of subsidiaries

In 2019, HB Leasing, HBCF and 32 village and township banks controlled by the Company kept on stable and healthy development momentum. As at 31 December 2019, HB Leasing had total assets of RMB24.8500 billion, representing an increase of 6.32% as compared to the end of last year, and realised a net profit of RMB276.0 million for the year of 2019; HBCF had total assets of RMB7.3880 billion and realised a net profit of RMB106.7 million for the year of 2019; and the 32 village and township banks controlled by the Company had total assets of RMB22.251 billion and recorded a net profit of RMB-305.4 million for the year of 2019.

Compliance with Applicable Laws and Regulations

The Company has been, 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 Company.

(III) Analysis of Key Issues

1. Net interest margin

In 2019, the net interest spread of the Bank was 1.87%, representing an increase of 0.20 percentage point as compared to last year, and the net interest margin was 1.95%, representing an increase of 0.08 percentage point as compared to last year, mainly attributable to (1) a relatively loose monetary market mainly affected by the reserve ratio reduction by the Central Bank, resulting in a downward market interest rate and a decrease in the cost of certain interbank liabilities; (2) the enhancement of asset quality management, increasing efforts to liquidate non-performing assets, and continuously improving its risk pricing capability for loans, while loan yield improved. On the other hand, under the impact of numerous factors such as economic growth slowdown and declining asset quality, the yield of certain debt instruments decreased. At the same time, the intensified market competition led to an increase in the average cost of customer deposits, which had certain negative effects on the net interest spread and net interest margin. Looking forward to 2020, it is expected that the downward pressure faced by China's economy will continue, and with the impact of the COVID-19 pandemic on certain industries, the market competition will be intensified under the gradual progress of interest rate marketisation, 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 2019, the balance of the Group's NPLs was RMB5.2515 billion and the NPL ratio was 1.99% which was lower than the average level of city commercial banks, and the balance of loans past due for more than 90 days was RMB5.1660 billion, representing 1.96% of total loans. The Bank strictly adhered to the classification principal according to the five-category loan classification, the ratio of loans past due for more than 90 days to NPLs was 98.37%, which was constantly controlled within 100%.

The NPLs of the corporate loans of the Bank during the Reporting Period primarily concentrated in the wholesale and manufacturing industries, which amounted to RMB575.7 million and RMB880.7 million, with NPL ratio of 1.65% and 11.31%, respectively. The Bank actively adjusted loan industry and regional structure, further explored the potential of existing customers, examined potential risks of existing customers in advance, proactively took steps to prevent and control the risks, increased efforts in judicial collection and actively resolved existing NPLs. For new loans, the Bank set differentiated customer access standards, risk limits and risk pricing standards based on asset quality of the industry, to improve the quality of new loan assets.

Report of the Board of Directors

In terms of the prevention and control of regional risk, the Bank continued to optimise the loan resources allocation in different regions, strengthened centralised management of approval, established a vertical approval management structure of "headquarter + regional presence", improved approval independence and enhanced asset quality control capacity. 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, the Bank 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 capital adequacy ratios as required by the CBIRC.

As at 31 December 2019, the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio of the Bank were 10.22%, 10.24% and 12.53%, respectively, representing an increase of 0.48 percentage point, 0.49 percentage point and 0.38 percentage point, respectively, as compared to the end of last year. The increase in the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio was mainly due to the capital injection through the Bank's own profit and the sluggish growth of risk-weighted assets. As at the end of the Reporting Period, risk-weighted assets of the Bank amounted to RMB491.4766 billion, representing an increase of RMB12.3167 billion, or 2.57% as compared to the end of last year and the growth slowed down. Looking forward to 2020, 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 capability; (2)actively responding to changes in current situations and strengthening its active capital management, continuously optimising its business structure and raising awareness of intensive capital use; and (3)establishing multi-layer and multi-channel mechanisms for capital replenishment to ensure that the capital adequacy level satisfies the regulatory requirements on an ongoing basis.

4. *Investment in debt instruments issued by financial institutions*

As at 31 December 2019, total investment by the Bank in debt financial instruments issued by financial institutions amounted to RMB166.5995 billion, representing an increase of 5.4% as compared to the end of last year. Pursuant to the requirements of 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. The Bank accurately measured risks, and set aside capital and made provisions accordingly based on the principle of "substance over formality" and the nature of the underlying assets. Following loan provision requirements, the Bank progressively raised the coverage ratio for investment in 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 2019, the balance of provision of the Bank's investment in debt financial instruments issued by financial institutions amounted to RMB3.8805 billion, representing an increase of RMB814.3 million as compared to the end of last year, and the coverage ratio was 2.33%, representing an increase of 0.39 percentage point as compared to the end of last year.

5. *Wealth Management Business*

In 2019, the pace of transformation of wealth management business of commercial banks had accelerated significantly, and wealth management subsidiaries had been established one after another. The proportion of net-value wealth management products to the total size of wealth management products continued to grow rapidly, and the wealth management business of the Bank entered a standardised development stage. In the second half of 2019 with the introduction of accompanying regulatory documents including Measures for the Management of Net Capital of Wealth Management Subsidiaries of Commercial Banks (for Trial Implementation) (《商業銀行理財子公司淨資本管理辦法（試行）》), Rules for the Identification of Standardised Debt Assets (Draft for Comments) (《標準化債權類資產認定規則(徵求意見稿）》) and Notice on Regulating Matters Related to the Cash Management Wealth Management Products (Draft for Comments) (《關於規範現金管理類理財產品管理有關事項的通知(徵求意見稿）》), the grey areas in the industry were gradually clarified, which would further regulate the smooth transformation of wealth management business of the Bank.

During the reporting period, the Bank actively faced the challenges and opportunities brought by the changes from regulatory policies, closely focused on the Bank's new three-year strategic planning and the annual work theme of "comprehensive improvement", and continued to advance the comprehensive transformation of wealth management business on the basis of strengthening risk prevention and returning to the basics of business. The transformation of product innovation, channel expansion, investment transactions and risk management achieved initial results, and we actively created conditions for applying licenses for our wealth management subsidiary.

Report of the Board of Directors

6. Net Stable Funding Ratio

At the end of the first half of 2019, the net stable funding ratio of the Bank was 103.51%, which was in compliance with the regulatory standards. The available stable funding (upon translation) was RMB381.328 billion and the required stable funding (upon translation) was RMB368.388 billion.

At the end of the third quarter of 2019, the net stable funding ratio of the Bank was 100.38%, which was in compliance with the regulatory standards. The available stable funding (upon translation) was RMB372.173 billion, and the required stable funding (upon translation) was RMB370.778 billion.

At the end of 2019, the net stable funding ratio of the Bank was 104.81%, which was in compliance with the regulatory standards. The available stable funding (upon translation) was RMB380.028 billion, and the required stable funding (upon translation) was RMB362.581 billion.

The following table sets out the net stable funding ratio of the Bank as at the dates indicated.

Item	**As at 31 December 2019**	**As at 30 September 2019**	**As at 30 June 2019**
	(In RMB100 million, except percentages)		
Net stable funding ratio	**104.81%**	**100.38%**	**103.51%**
Available stable funding	**3,800.28**	**3,721.73**	**3,813.28**
Required stable funding	**3,625.81**	**3,707.78**	**3,683.88**

II. Analysis on Income Statement

	For the year ended 31 December			
	2019	2018	Change in amount	Rate of change
	(In RMB million, except percentages)			
Interest income	**28,421.6**	27,631.7	789.9	2.9%
Interest expense	**(17,585.5)**	(17,504.7)	(80.8)	0.5%
Net interest income	**10,836.1**	10,127.0	709.1	7.0%
Fee and commission income	**2,477.5**	2,586.1	(108.6)	-4.2%
Fee and commission expense	**(251.9)**	(194.7)	(57.2)	29.4%
Net fee and commission income	**2,225.6**	2,391.4	(165.8)	-6.9%
Net trading income or loss	**1,486.5**	1,432.1	54.4	3.8%
Financial investments income or loss, net	**432.3**	169.8	262.5	154.6%
Other operating income or loss, net	**143.9**	205.0	(61.1)	-29.8%
Operating income	**15,124.4**	14,325.4	799.0	5.6%
Operating expenses	**(5,153.0)**	(4,594.3)	(558.7)	12.2%
Impairment losses	**(5,180.9)**	(2,425.9)	(2,755.0)	113.6%
Operating profit	**4,790.5**	7,305.2	(2,514.7)	-34.4%
Profit before tax	**4,790.5**	7,305.2	(2,514.7)	-34.4%
Income tax expense	**(1,155.4)**	(1,730.8)	575.4	-33.2%
Net profit	**3,635.1**	5,574.4	(1,939.3)	-34.8%

In 2019, the Bank recorded a profit before tax of RMB4,790.5 million and a net profit of RMB3,635.1 million, representing a year-on-year decrease of 34.4% and 34.8%, respectively.

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

In 2019, the Bank recorded a net interest income of RMB10,836.1 million, representing an increase of RMB709.1 million or 7.0% 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.

Report of the Board of Directors

	For the year ended 31 December					
	2019			2018		
	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	**259,311.8**	**16,236.8**	**6.26%**	247,116.8	14,933.1	6.04%
Investments in debt securities[1]	**191,939.6**	**9,142.5**	**4.76%**	196,938.5	10,104.7	5.13%
Cash and balances with Central Bank	**52,522.0**	**731.5**	**1.39%**	52,358.0	746.8	1.43%
Due from banks and other financial institutions[2]	**27,290.2**	**698.9**	**2.56%**	28,177.3	857.5	3.04%
Long-term receivables	**25,233.2**	**1,611.9**	**6.39%**	18,005.6	989.6	5.50%
Total interest-earning assets	**556,296.8**	**28,421.6**	**5.11%**	542,596.2	27,631.7	5.09%

	For the year ended 31 December					
	2019			2018		
	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	**406,137.4**	**12,142.8**	**2.99%**	355,463.0	10,243.0	2.88%
Due to banks[3]	**50,593.6**	**2,124.3**	**4.20%**	47,311.6	2,212.8	4.68%
Debt securities issued and others	**81,247.4**	**3,130.5**	**3.85%**	107,896.2	5,005.2	4.64%
Due to Central Bank	**4,855.2**	**187.9**	**3.87%**	1,469.6	43.7	2.97%
Total interest-bearing liabilities	**542,833.6**	**17,585.5**	**3.24%**	512,140.4	17,504.7	3.42%
Net interest income		**10,836.1**			10,127.0	
Net interest spread[4]			**1.87%**			1.67%
Net interest margin[5]			**1.95%**			1.87%

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		
	2019 vs. 2018		
	Increase/(decrease)		Net increase/
	Volume[1]	Interest rate[2]	(decrease)[3]
			(In RMB million)
Interest-earning assets			
Loans and advances to customers	734.9	568.8	1,303.7
Investments in debt securities	(254.2)	(708.0)	(962.2)
Cash and balances with the Central Bank	4.0	(19.3)	(15.3)
Due from banks and other financial institutions	(27.3)	(131.3)	(158.6)
Long-term receivables	397.6	224.7	622.3
Change in interest income	855.0	(65.1)	789.9
Interest-bearing liabilities			
Due to customers	1,456.3	443.5	1,899.8
Due to banks	154.0	(242.5)	(88.5)
Debt securities issued and others	(1,234.7)	(640.0)	(1,874.7)
Due to Central Bank	100.5	43.7	144.2
Change in interest expense	476.1	(395.3)	80.8

Report of the Board of Directors

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 the interest income/expense for the Reporting Period minus the interest income/expense for the previous period.

(II) Interest income

In 2019, the Bank realised an interest income of RMB28,421.6 million, representing an increase of RMB789.9 million or 2.9% 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 2.5% from RMB542,596.2 million for the last year to RMB556,296.8 million for 2019 attributable to the increases in the Bank's loans and advances to customers and long-term receivables, and due to the increase in average yield ratio of interest-earning assets from 5.09% for the last year to 5.11% for 2019. The increase in average yield ratio of interest-earning assets was mainly attributable to the increase in the yield ratio of loans and advances to customers and long-term receivables for 2019.

1. Interest income from loans and advances to customers

In 2019, the Bank's interest income from loans and advances to customers increased by RMB1,303.7 million or 8.7% year on year to RMB16,236.8 million, primarily due to a 4.9% increase in the average balance of loans and advances to customers and a 0.22 percentage point increase in the average yield ratio. The increase in the average balance of loans and advances to customers was mainly attributable to the Bank's efforts to increase credits granted in order to better support the real economy. The increase in the average yield ratio was mainly attributable to the Bank's enhanced pricing management of loans and improvement of asset quality management.

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					
	2019			2018		
	Average balance	**Interest income**	**Average yield ratio**	Average balance	Interest income	Average yield ratio
	(In RMB million, except percentages)					
Corporate loans	**137,766.6**	**8,288.0**	**6.02%**	130,186.8	7,796.9	5.99%
Personal loans	**119,616.7**	**7,895.4**	**6.60%**	114,917.7	7,025.8	6.11%
Discounted bills	**928.5**	**53.4**	**5.75%**	2,012.3	110.4	5.49%
Total loans and advances to customers	**259,311.8**	**16,236.8**	**6.26%**	247,116.8	14,933.1	6.04%

2. Interest income from investments in debt securities

In 2019, the Bank's interest income from investments in debt securities decreased by RMB962.2 million or 9.5% to RMB9,142.5 million year on year, mainly attributable to a decrease in the average balance of such businesses by RMB4,998.9 million and a decrease in the average yield ratio by 0.37 percentage point. The decrease in the average yield ratio of investments in debt securities was mainly attributable to the decrease in the yield ratio of investments in debt instruments issued by financial institutions as compared to the same period of the last year affected by the market factors and the decline in quality of some assets invested under the debt instruments issued by some financial institutions as a result of the economic downturn.

3. Interest income from cash and balances with Central Bank

In 2019, the Bank's interest income from cash and balances with Central Bank decreased by RMB15.3 million or 2.0% to RMB731.5 million year on year.

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

In 2019, the Bank's interest income from amounts due from banks and other financial institutions decreased by RMB158.6 million or 18.5% to RMB698.9 million year on year, primarily attributable to a 3.1% decrease of average balance and a 0.48 percentage point decrease of average yield ratio of such assets. The decrease in the average balance of such assets was primarily attributable to the reinforcement of the liquidity management and the active reduction of such assets by the Bank, while the decrease of average yield ratio was primarily attributable to the lower yield ratio of financial assets held under reverse repurchase agreements due to the liquidity changes in the market in 2019.

5. Interest income from long-term receivables

In 2019, the Bank's interest income from long-term receivables was RMB1,611.9 million, representing an increase of RMB622.3 million year on year, primarily attributable to a 40.1% increase in the average balance of long-term receivables and the 0.89 percentage point increase in the average yield ratio. The increase in the 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 bargaining power to customers.

(III) Interest Expense

In 2019, the Bank's interest expense amounted to RMB17,585.5 million, representing an increase of RMB80.8 million or 0.5% year on year, primarily attributable to an increase of 6.0% in the average balance of the interest-bearing liabilities from RMB512,140.4 million for 2018 to RMB542,833.6 million for 2019, which was partially offset by the decrease in the average cost ratio of the interest-bearing liabilities from 3.42% for 2018 to 3.24% for 2019. The decrease in the average cost ratio of the interest-bearing liabilities was mainly due to the decrease in the average cost ratio in amounts due to banks, debt securities issued and others in 2019.

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1. *Interest expense on due to customers*

In 2019, the Bank's customer deposit interest expense amounted to RMB12,142.8 million, representing an increase of RMB1,899.8 million or 18.5% year on year, primarily attributable to an increase in the average cost ratio of due to customers from 2.88% for 2018 to 2.99% for 2019 arising from the onset of interest rate liberalisation and increased market competition, and significant growth of due to customers with an increase of RMB50,674.4 million in the average balance from RMB355,463.0 million for 2018 to RMB406,137.4 million for 2019.

	For the year ended 31 December					
	2019			2018		
	Average balance	**Interest expense**	**Average cost ratio**	Average balance	Interest expense	Average cost ratio
	(In RMB million, except percentages)					
Corporate deposits						
Demand	**86,475.8**	**748.1**	**0.87%**	82,093.4	670.8	0.82%
Time	**134,005.0**	**5,291.4**	**3.95%**	147,763.8	6,291.7	4.26%
Subtotal	**220,480.8**	**6,039.5**	**2.74%**	229,857.2	6,962.5	3.03%
Personal deposits						
Demand	**37,450.0**	**133.3**	**0.36%**	35,734.4	127.2	0.36%
Time	**148,206.6**	**5,970.0**	**4.03%**	89,871.4	3,153.3	3.51%
Subtotal	**185,656.6**	**6,103.3**	**3.29%**	125,605.8	3,280.5	2.61%
Total deposits from customers	**406,137.4**	**12,142.8**	**2.99%**	355,463.0	10,243.0	2.88%

2. *Interest expense on due to banks*

In 2019, the Bank's interest expense on due to banks amounted to RMB2,124.3 million, representing a decrease of RMB88.5 million or 4.0% year on year, primarily attributable to the decrease in the average cost ratio of the underlying liabilities from 4.68% for 2018 to 4.20% for 2019, which was partly offset by a 6.9% increase in the average balance of the underlying liabilities from RMB47,311.6 million for 2018 to RMB50,593.6 million for 2019. The increase in average balance of the underlying liabilities was mainly due to the Bank's reinforced liquidity management, expansion of fund resources, and the increase in due to banks, and the decrease in the average cost ratio of the underlying liabilities was mainly attributable to the year-on-year decrease in the price of market capital due to the relatively liquid market.

3. Interest expense on debt securities issued and others

In 2019, the Bank's interest expense on debt securities issued and others amounted to RMB3,130.5 million, representing a decrease of RMB1,874.7 million or 37.5% year on year, mainly attributable to a decrease in the average cost ratio of the underlying liabilities from 4.64% for 2018 to 3.85% for 2019 and a 24.7% decrease in the average balance of the underlying liabilities from RMB107,896.2 million for 2018 to RMB81,247.4 million for 2019. The decrease in the average cost ratio of the underlying liabilities was mainly due to the year-on-year decrease in the price of market capital for 2019, while the decrease in the average balance of the underlying liabilities was mainly due to the expiration of certain inter-bank negotiable certificates of deposit of the Bank.

(IV) Net Interest Spread and Net Interest Margin

In 2019, the Bank's net interest spread increased from 1.67% for 2018 to 1.87% for 2019 and the net interest margin increased from 1.87% for 2018 to 1.95% for 2019, mainly attributable to the impact of the reserve ratio reduction by the Central Bank, the relatively loose monetary market, the decreased market interest rates, and the declined cost of certain interbank liabilities.

(V) Non-interest Income

1. Net fee and commission income

In 2019, the Bank's net fee and commission income decreased by RMB165.8 million or 6.9% to RMB2,225.6 million year on year, primarily attributable to the decrease in the income of the Bank's advisory and consultancy fee, settlement fee, and agency and custodian fee.

	For the year ended 31 December			
	2019	2018	Change in amount	Rate of change
	(In RMB million, except percentages)			
Fee and commission income	**2,477.5**	2,586.1	(108.6)	-4.2%
Advisory and consultancy fee	**521.7**	792.3	(270.6)	-34.2%
Settlement fee	**34.4**	77.1	(42.7)	-55.4%
Agency and custodian fee	**833.5**	885.2	(51.7)	-5.8%
Of which: non-principal protected wealth management agency fee	**507.1**	494.2	12.9	2.6%
Bank card fee	**1,074.9**	806.3	268.6	33.3%
Others	**13.0**	25.2	(12.2)	-48.4%
Fee and commission expense	**(251.9)**	(194.7)	(57.2)	29.4%
Net fee and commission income	**2,225.6**	2,391.4	(165.8)	-6.9%

In 2019, the Bank's advisory and consultancy fee income reached RMB521.7 million, decreased by RMB270.6 million or 34.2% year on year, mainly attributable to the volume change of advisory and consultancy business.

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In 2019, the Bank realised an income of RMB34.4 million from settlement fee, representing a year-on-year decrease of RMB42.7 million or 55.4%, mainly attributable to the changes in the volume of the settlement business and the adjustments in relevant pricing policy.

In 2019, the Bank's agency and custodian fee income was RMB833.5 million, decreased by RMB51.7 million or 5.8% year on year, mainly attributable to the decrease in scale of the agency and custodian business.

In 2019, the Bank realised RMB1,074.9 million from bank card fee, increased by RMB268.6 million or 33.3% 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 2019, the Bank realised an income of RMB13.0 million from other fee and commission, decreased by RMB12.2 million or 48.4% year on year.

2. Net trading income or loss

In 2019, the Bank's net trading income increased by RMB54.4 million or 3.8% year on year to RMB1,486.5 million, mainly attributable to the increase in interest income from the financial assets measured at fair value through profit or loss which was partly offset by the decrease in fair value change.

3. Financial investments income or loss, net

In 2019, the Bank's net gains on financial investments increased by RMB262.5 million or 154.6% year on year to RMB432.3 million, mainly attributable to the increase in gains on disposal of financial assets measured at fair value through other comprehensive income.

4. Other operating income or loss, net

In 2019, the Bank's other operating income, net, decreased by RMB61.1 million or 29.8% year on year to RMB143.9 million, mainly due to the change in foreign exchange and the decrease in net gain on sale of property and equipment.

(VI) Operating Expenses

In 2019, the Bank's operating expenses increased by RMB558.7 million or 12.2% to RMB5,153.0 million year on year.

	For the year ended 31 December			
	2019	2018	Change in amount	Rate of change
	(In RMB million, except percentages)			
Staff costs	**2,762.0**	2,269.5	492.5	21.7%
Tax and surcharges	**205.3**	170.9	34.4	20.1%
Depreciation and amortization	**760.7**	547.4	213.3	39.0%
Others	**1,425.0**	1,606.5	(181.5)	-11.3%
Total operating expenses	**5,153.0**	4,594.3	558.7	12.2%

Staff costs were the largest component of the Bank's operating expenses, representing 53.6% and 49.4% of the Bank's total operating expenses for 2019 and 2018, respectively.

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

	For the year ended 31 December			
	2019	2018	Change in amount	Rate of change
	(In RMB million, except percentages)			
Staff costs				
Salaries, bonuses and allowances	**2,099.2**	1,715.6	383.6	22.4%
Social insurance	**360.6**	256.2	104.4	40.7%
Housing fund	**142.7**	114.0	28.7	25.2%
Staff benefits	**124.5**	138.3	(13.8)	-10.0%
Labor's union expenditure and education costs	**25.3**	23.4	1.9	8.1%
Early retirement benefits	**9.7**	22.0	(12.3)	-55.9%
Total	**2,762.0**	2,269.5	492.5	21.7%

In 2019, the staff costs of the Bank were RMB2,762.0 million, representing an increase of RMB492.5 million or 21.7% year on year, primarily attributable to more branches being established by the Bank, the increase in salaries and benefits, the improved remuneration structure, and more emphasis on performance element under the performance appraisal.

In 2019, the Bank had to pay taxes and surcharges of RMB205.3 million, representing an increase of RMB34.4 million or 20.1% year on year, primarily attributable to the impact of changes in tax policies and the increase in related taxes as a result of the development of the Bank's business.

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In 2019, depreciation and amortization of the Bank were RMB760.7 million, representing an increase of RMB213.3 million or 39.0% year on year, primarily as a result of the increase in the capital cost related to the information technology and the operating offices of the Bank.

In 2019, the Bank's other operating expenses were RMB1,425.0 million, representing a decrease of RMB181.5 million or 11.3% year on year.

(VII) Impairment Losses

In 2019, the Bank's impairment losses increased by RMB2,755.0 million or 113.6% year on year to RMB5,180.9 million, 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. Meanwhile, the Bank intensified the disposal of non-performing assets, and the increase in write-offs led to a corresponding increase in impairment losses.

	For the year ended 31 December			
	2019	2018	Change in amount	Rate of change
	(In RMB million, except percentages)			
Loans and advances to customers	**3,686.2**	1,632.1	2,054.1	125.9%
Other assets	**1,494.7**	793.8	700.9	88.3%
Total impairment losses	**5,180.9**	2,425.9	2,755.0	113.6%

(VIII) Income Tax Expenses

In 2019, the Bank's income tax decreased by RMB575.4 million or 33.2% year on year to RMB1,155.4 million.

	For the year ended 31 December			
	2019	2018	Change in amount	Rate of change
	(In RMB million, except percentages)			
Current income tax expenses	**1,769.5**	1,751.4	18.1	1.0%
Deferred income tax expenses	**(614.1)**	(20.6)	(593.5)	2,881.1%
Effective income tax expenses	**1,155.4**	1,730.8	(575.4)	-33.2%

III. Analysis of Key Items of Financial Position

(I) Assets

As at 31 December 2019, the Bank's total assets decreased by RMB32,499.1 million or 5.3% as compared to the end of last year to RMB583,089.4 million, which was mainly attributable to the decrease in the Bank's cash and balances with the Central Bank, due from banks and other financial institutions and financial assets held under reverse repurchase agreements.

	As at 31 December			
	2019		2018	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Loans and advances to customers, net	**258,496.4**	**44.3%**	248,571.8	40.4%
Net investment in securities and other financial assets	**231,843.2**	**39.8%**	224,878.6	36.5%
Cash and balances with the Central Bank	**52,282.3**	**9.0%**	75,808.7	12.3%
Due from banks and other financial institutions	**3,731.7**	**0.6%**	21,333.5	3.5%
Financial assets held under reverse repurchase agreements	**–**	**0.0%**	10,856.2	1.8%
Other assets	**36,735.8**	**6.3%**	34,139.7	5.5%
Total assets(1)	**583,089.4**	**100.0%**	615,588.5	100.0%

Note:

(1) Of which, accrued interest 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 2019, the Bank's total loans and advances to customers increased by RMB9,841.4 million to RMB263,604.1 million, representing an increase of 3.9% 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			
	2019		2018	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Corporate loans	**140,578.3**	**53.3%**	138,344.3	54.5%
Personal loans	**119,083.9**	**45.2%**	115,387.8	45.5%
Discounted bills	**3,941.9**	**1.5%**	30.6	0.0%
Total loans and advances to customers	**263,604.1**	**100.0%**	253,762.7	100.0%

(1) Corporate loans

As at 31 December 2019, the Bank's corporate loans increased by RMB2,234.0 million to RMB140,578.3 million, representing an increase of 1.6% as compared to the end of last year, mainly attributable 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			
	2019		2018	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Loans to small enterprises[(1)]	**59,357.8**	**42.2%**	65,327.3	47.2%
Other corporate loans excluding loans to small enterprises	**81,220.5**	**57.8%**	73,017.0	52.8%
Total corporate loans	**140,578.3**	**100.0%**	138,344.3	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 2019, the Bank's loans to small enterprises decreased by RMB5,969.5 million to RMB59,357.8 million, representing a decrease of 9.1% as compared to the end of last year. As at 31 December 2019 and 31 December 2018, the Bank's loans to small enterprises accounted for 42.2% and 47.2% of the Bank's total corporate loans, respectively.

(2) Personal loans

As at 31 December 2019, the Bank's personal loans increased by RMB3,696.1 million to RMB119,083.9 million, representing an increase of 3.2% as compared to the end of last year, mainly attributable to an increase of RMB5,434.8 million or 16.5% in loans to small enterprise owners 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			
	2019		2018	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Loans to small enterprise owners	**38,300.0**	**32.2%**	32,865.2	28.5%
Personal consumption loans	**68,096.2**	**57.1%**	69,615.2	60.3%
Loans to farmers	**12,687.7**	**10.7%**	12,907.4	11.2%
Total personal loans	**119,083.9**	**100.0%**	115,387.8	100.0%

As at 31 December 2019, loans to small enterprise owners increased by 16.5% as compared to the end of last year. Personal consumption loans and loans to farmers decreased by 2.2% and 1.7%, respectively, as compared to the end of last year.

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2. *Investment in securities and other financial assets*

As at 31 December 2019, the total amount of the Bank's investment in securities and other financial assets was RMB233,697.2 million, representing an increase of RMB7,692.2 million or 3.4% as compared to the end of last year mainly attributable 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			
	2019		2018	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Financial assets measured at fair value through profit or loss	**59,418.8**	**25.4%**	38,197.8	16.9%
Financial assets measured at amortised cost	**148,023.1**	**63.4%**	153,451.4	67.9%
Financial assets measured at fair value through other comprehensive income	**26,255.3**	**11.2%**	34,355.8	15.2%
Total investment in securities and other financial assets	**233,697.2**	**100%**	226,005.0	100.0%

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

	As at 31 December			
	2019		2018	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Debt investments:				
Bond investments	**66,729.5**	**28.6%**	67,897.0	30.0%
Debt instruments issued by financial institutions[1]	**166,599.5**	**71.2%**	158,026.6	69.9%
Subtotal	**233,329.0**	**99.8%**	225,923.6	99.9%
Equity investment	**368.2**	**0.2%**	81.4	0.1%
Total investment in securities and other financial assets	**233,697.2**	**100.0%**	226,005.0	100.0%

Note:

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

As at 31 December 2019, the Bank's investment in debt instruments issued by financial institutions was RMB166,599.5 million, representing an increase of RMB8,572.9 million or 5.4% as compared to the end of last year. The investments of this class as a percentage of total investment in securities and other financial assets increased from 69.9% as at 31 December 2018 to 71.2% as at 31 December 2019.

	As at 31 December			
	2019		2018	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Government bonds	**29,680.9**	**44.5%**	20,502.1	30.2%
Bonds issued by financial institutions	**4,319.6**	**6.5%**	10,312.1	15.2%
Corporate bonds	**18,491.1**	**27.7%**	13,672.0	20.1%
Bonds issued by policy banks	**14,237.9**	**21.3%**	23,410.8	34.5%
Total bond investments	**66,729.5**	**100.0%**	67,897.0	100.0%

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3. *Other components of the Bank's assets*

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

As at 31 December 2019, the Bank's cash and balances with the Central Bank decreased by RMB23,520.3 million to RMB52,265.8 million, representing a decrease of 31.0% as compared to the end of last year.

As at 31 December 2019, the Bank's due from banks and other financial institutions decreased by RMB17,534.9 million to RMB3,725.2 million, representing a decrease of 82.5% as compared to the end of last year, mainly because the Bank adjusted the weight of such assets based on its capital and changes in liquidity in the market.

As at 31 December 2019, the Bank's financial assets held under reverse repurchase agreements decreased by RMB10,847.5 million to RMB0 million, representing a decrease of 100.0% as compared to the end of last year, mainly because the Bank adjusted the scale of such assets based on the comprehensive consideration of its capital and the situation of market liquidity.

(II) Liabilities

As at 31 December 2019, the Bank's total liabilities were RMB531,448.2 million, representing a decrease of RMB36,648.8 million or 6.5% as compared to the end of last year.

	As at 31 December			
	2019		2018	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Due to customers	**431,361.7**	**81.2%**	400,280.2	70.5%
Due to banks[1]	**25,617.8**	**4.8%**	43,323.1	7.6%
Repurchase agreements	**18,361.7**	**3.5%**	2,990.7	0.5%
Debt securities issued	**45,962.8**	**8.6%**	112,766.4	19.8%
Due to Central Bank	**3,603.6**	**0.7%**	3,173.6	0.6%
Other liabilities[2]	**6,540.6**	**1.2%**	5,563.0	1.0%
Total liabilities[3]	**531,448.2**	**100.0%**	568,097.0	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 is accounted in each of the interest-bearing liabilities items but not in other discussions and analysis.

1. *Due to customers*

As at 31 December 2019, the Bank's due to customers increased by RMB30,166.9 million to RMB425,683.7 million, representing an increase of 7.6% as compared to the end of last year, which was primarily attributable to the strengthening of pricing management, improvement of services and strengthening of marketing capabilities by the Bank.

	As at 31 December			
	2019		2018	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Corporate deposits				
Demand deposits	**104,455.1**	**24.5%**	88,853.4	22.5%
Time deposits	**91,669.2**	**21.5%**	164,355.0	41.5%
Subtotal	**196,124.3**	**46.0%**	253,208.4	64.0%
Personal deposits				
Demand deposits	**44,577.7**	**10.5%**	41,152.7	10.4%
Time deposits	**184,981.7**	**43.5%**	101,155.7	25.6%
Subtotal	**229,559.4**	**54.0%**	142,308.4	36.0%
Total due to customers	**425,683.7**	**100.0%**	395,516.8	100.0%

2. *Due to banks*

As at 31 December 2019, the Bank's due to banks decreased by RMB17,493.3 million to RMB25,203.1 million, representing a decrease of 41.0% as compared to the end of last year, which reflected the Bank's adjustment of the portion of the amount due to banks in the liabilities based on market liquidity and the Bank's capital needs and in view of the need to match assets and liabilities.

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3. Repurchase agreement

As at 31 December 2019, the Bank's repurchase agreement was RMB18,323.2 million, representing an increase of RMB15,333.2 million or 512.8% as compared to the end of last year. The changes in the Bank's repurchase agreement reflected the adjustments to the scale of liabilities by the Bank in accordance with market liquidity and the Bank's capital needs.

4. Debt securities issued

As at 31 December 2019, the Bank's debt securities issued were RMB45,588.5 million, representing a decrease of RMB66,791.2 million or 59.4% as compared to the end of last year, which was mainly due to the maturity of certain debt securities issued by the Bank.

(III) Shareholders' Equity

As at 31 December 2019, the Bank's total shareholders' equity increased by RMB4,149.7 million to RMB51,641.2 million, representing an increase of 8.7% as compared to the end of last year. As at 31 December 2019, total equity attributable to shareholders of the parent company increased by RMB3,552.0 million to RMB49,826.7 million, representing an increase of 7.7% as compared to the end of last year. The increase in shareholders' equity was mainly attributable to the Bank's net profit realised in 2019.

	As at 31 December			
	2019		2018	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Share capital	**10,995.6**	**21.3%**	10,995.6	23.2%
Reserves	**19,286.5**	**37.3%**	18,558.6	39.0%
Undistributed profits	**19,544.6**	**37.9%**	16,720.5	35.2%
Equity attributable to equity holders of the parent company	**49,826.7**	**96.5%**	46,274.7	97.4%
Non-controlling interests	**1,814.5**	**3.5%**	1,216.8	2.6%
Total equity	**51,641.2**	**100.0%**	47,491.5	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	
	2019	2018
		(In RMB million)
Credit commitments:		
Bank bills acceptance	**19,489.6**	74,246.8
Issued letters of guarantee	**1,705.2**	3,135.4
Issued letters of credit	**2,634.1**	7,871.4
Credit limit of credit card	**19,056.8**	14,066.2
Subtotal	**42,885.7**	99,319.9
Capital expenditure commitments	**321.3**	714.5
Operating lease commitments	**N/A**	946.1
Treasury bond redemption commitments	**3,333.0**	2,645.0
Total	**46,540.0**	103,625.5

In addition, as at 31 December 2019, the amount involved in the significant outstanding legal proceedings against the Group (as defendant or third party) with a dispute amount of over RMB10 million was RMB41 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 the 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", adhered to its customer-oriented concept, focused on meticulous risk management, continued to enhance the comprehensive risk management system, and practically strengthened the construction of intelligent risk control system throughout the whole process. The Bank continuously upgraded the assets portfolio, gradually adjusted the asset structure, and strengthened its efforts in the recovery of NPLs. The Bank actively responded to changes in the external business environment and pressure from economic slowdown, and persistently reinforced the risk prevention and control. As at 31 December 2019, the NPL ratio was 1.99%, which was better than the average level of city commercial banks in China. The non-performing level was stable and controllable. The Bank adhered to the prudent and strict standard of asset categorization, the ratio of loans past due for more than 90 days to NPLs was 98.37%, constantly controlled within 100%.

(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			
	2019		2018	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Pass	**249,448.6**	**94.6%**	242,391.6	95.5%
Special mention	**8,904.0**	**3.4%**	6,974.5	2.8%
Substandard	**2,766.9**	**1.0%**	1,591.4	0.6%
Doubtful	**1,750.8**	**0.7%**	1,474.4	0.6%
Loss	**733.8**	**0.3%**	1,330.8	0.5%
Total loans to customers	**263,604.1**	**100.0%**	253,762.7	100.0%
NPLs and NPL ratio(1)	**5,251.5**	**1.99%**	4,396.6	1.73%

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 Lines

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

	As of 31 December					
	2019			2018		
	Loan amount	**NPLs amount**	**NPL ratio**	Loan amount	NPLs amount	NPL ratio
				(In RMB million, except percentages)		
Corporate loans						
Loans to small enterprises	**59,357.8**	**1,283.1**	**2.16%**	65,327.3	1,164.0	1.78%
Other corporate loans excluding loans to small enterprises	**81,220.5**	**1,376.3**	**1.69%**	73,017.0	337.6	0.46%
Subtotal	**140,578.3**	**2,659.4**	**1.89%**	138,344.3	1,501.6	1.09%
Personal loans						
Loans to small enterprise owners	**38,300.0**	**1,270.3**	**3.32%**	32,865.2	1,097.4	3.34%
Personal consumption loans	**68,096.2**	**916.2**	**1.35%**	69,615.2	1,246.8	1.79%
Loans to farmers	**12,687.7**	**405.6**	**3.20%**	12,907.4	550.8	4.27%
Subtotal	**119,083.9**	**2,592.1**	**2.18%**	115,387.8	2,895.0	2.51%
Discounted bills	**3,941.9**	**–**	**–**	30.6	–	–
Total	**263,604.1**	**5,251.5**	**1.99%**	253,762.7	4,396.6	1.73%

In 2019, the Bank continued to actively adjust the credit structure, focused on exploring the potential of existing customers and risk mitigation with regard to corporate customers, and implemented prudent access for new customers. For retail customers, the Bank actively withdrew the problematic customers through a differentiated risk pricing mechanism. At the same time, the Bank intensified the disposal of non-performing assets and write-offs, the special collection centres of the branches began to perform the function of non-performing asset collection, ensuring the general stability of the Bank's asset quality.

During the year, the Bank actively expanded its retail credit business. The proportion of personal loans increased, the asset quality was optimised, with both NPLs and NPL ratio decreased. The Bank continued to optimise the intelligent risk control system, promoted the centralised retail approval mechanism, established the "rule + policy" normalization adjustment mechanism, and supported retail transformation. NPL ratio of loans to small enterprise owners decreased by 0.02 percentage point to 3.32%, while the NPL ratio of personal consumption loans decreased by 0.44 percentage point to 1.35%. For agriculture-benefiting business, the Bank precisely locked onto mid-end and high-end major farmers and breeders, carried out off-season marketing, proactively expanded the customer white list for agricultural loans, continued to optimise the business rules and strategies for agricultural loans, and implemented precise management and control of agricultural loan business. NPL ratio for loans to farmers decreased by 1.07 percentage points to 3.20%. The non-performing level was significantly lower.

Under the pressure from the economic downturn, the NPL ratio of the Bank's corporate loans increased to 1.89%, primarily attributable to: firstly, the fact that some state-owned borrowers which were outstanding in the past defaulted, and the number of the companies involving debt restructuring such as the debt committee increased; on the other hand, due to the Bank's adherence to the microfinance management strategy, the small enterprises accounted for a large proportion of the Bank's clients, which suffered tight capital chain and decline in solvency because of the slowdown in economic growth. The Bank actively responded to this problem by strictly managing the customer access standards of corporate loans, proactively optimising credit supply, gradually shifting resources to strategic customers, and implementing the name list entry system and dynamic management. The Bank continuously strengthened quota and concentration management, increased the comprehensive application of AI and big data and credit ratings published by the PBOC, strengthened centralised management of approval, established a "headquarter + regional presence" vertical approval management structure and enhanced approval independence to improve the controlling capabilities for asset quality. The Bank focused on the whole process management of loans and strengthened the NPL management throughout life cycles of loans. The head office and branches collaborated across business lines and strengthened the management accountability for problematic loans and NPLs. In addition, 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. The Bank promoted the rapid transformation of the experience in the small and micro new model, explored precise marketing, and focused on customer groups "with business data and good performance", while enhancing the philosophy of customer-oriented and development of customers' comprehensive values, maximising the risk-adjusted returns of the small business customer group.

(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							
	2019				2018			
	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	1,741.0	0.7%	137.2	7.88%	2,135.8	0.8%	38.8	1.82%
Mining	99.9	0.0%	3.0	3.00%	157.6	0.1%	3.0	1.90%
Manufacturing	7,789.2	3.0%	880.7	11.31%	11,451.2	4.5%	833.1	7.28%
Production and supply of electricity, heating, gas and water	2,292.8	0.9%	62.7	2.73%	2,767.4	1.1%	80.5	2.91%
Construction	7,734.0	2.9%	444.7	5.75%	12,168.2	4.8%	11.0	0.09%
Transportation, storage and postal services	3,958.6	1.5%	126.9	3.21%	3,801.9	1.5%	–	–
Information transmission, software and information technology services	398.4	0.2%	0.1	0.03%	817.1	0.3%	–	–
Wholesale and retail	34,834.8	13.2%	575.7	1.65%	29,781.7	11.7%	446.3	1.50%
Accommodations and catering	3,675.1	1.4%	52.4	1.43%	3,451.5	1.4%	52.9	1.53%
Finance	820.7	0.3%	1.0	0.12%	734.9	0.3%	–	–
Real estate	29,666.0	11.3%	152.6	0.51%	21,385.7	8.4%	16.6	0.08%
Leasing and commercial services	35,644.3	13.3%	106.6	0.30%	37,357.3	14.7%	6.6	0.02%
Scientific research and technological services	187.9	0.1%	4.7	2.50%	384.2	0.2%	2.8	0.73%
Water conservation, environment and public utility management	10,061.2	3.8%	103.5	1.03%	9,362.5	3.7%	4.5	0.05%
Residential, repair and other services	148.0	0.1%	7.6	5.14%	338.0	0.1%	5.5	1.63%
Education	277.2	0.1%	–	–	338.1	0.1%	–	–
Health and social work	941.2	0.4%	–	–	1,143.3	0.5%	–	–
Culture, sports and entertainment	308.0	0.1%	–	–	345.9	0.1%	–	–
Public management, social security and social organisation	–	–	–	–	422.0	0.2%	–	–
Total corporate loans	140,578.3	53.3%	2,659.4	1.89%	138,344.3	54.5%	1,501.6	1.09%
Total personal loans	119,083.9	45.2%	2,592.1	2.18%	115,387.8	45.5%	2,895.0	2.51%
Discounted bills	3,941.9	1.5%	–	–	30.6	0.0%	–	–
Total	263,604.1	100.0%	5,251.5	1.99%	253,762.7	100.0%	4,396.6	1.73%

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As at 31 December 2019, the NPLs of corporate loans of the Bank concentrated in wholesale and retail and manufacturing, with NPLs of RMB575.7 million and RMB880.7 million, respectively. The high NPL ratio was mainly because most of the customers in the manufacturing, wholesale and retail industries are small enterprise customers as the Bank adhered to a microcredit strategy. In addition, some large state-owned manufacturing enterprises went bankrupt for restructuring in 2019 and the Bank put greater efforts to take proceedings against existing customers with potential risks at the same time. As a result, the above industries accounted for main proportion of NPLs. The Bank actively adjusted its industry and regional structure of loans, stepped up efforts to exploit the potential of the existing customers, investigated the potential risks of existing customers ahead of schedule, proactively took risk prevention measures, continuously stepped up effort to judicially dispose of NPLs, strengthened the mitigation measures on state-owned enterprise and government platforms, strictly controlled new customers, actively disposed existing NPLs and improved asset quality.

(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							
	2019				2018			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
					(In RMB million, except percentages)			
Heilongjiang region	106,676.6	40.5%	2,553.2	2.39%	104,044.3	41.0%	2,518.0	2.42%
Other regions in Northeastern China	41,994.8	15.9%	535.7	1.28%	40,015.7	15.8%	388.1	0.97%
Southwestern China	52,226.7	19.8%	731.4	1.40%	50,694.5	20.0%	462.2	0.91%
Northern China	42,702.9	16.2%	1,267.5	2.97%	41,089.2	16.2%	849.7	2.07%
Other regions	20,003.1	7.6%	163.7	0.82%	17,919.0	7.0%	178.6	1.00%
Total	263,604.1	100.0%	5,251.5	1.99%	253,762.7	100.0%	4,396.6	1.73%

As at 31 December 2019, after the optimisation of the credit asset structure in Heilongjiang for many years, the Bank grew its agricultural loan assets and its regional assets in Harbin, prudently grew the assets in other areas in Heilongjiang other than Harbin, and continuously optimised the existing government credit asset structure. The NPL ratio in Heilongjiang decreased by 0.03 percentage point to 2.39%. As some large state-owned enterprises in Northern China went bankrupt for restructuring during the year, the NPL ratio of the Bank in Northern China increased to 2.97%. At the same time, the NPL ratio in other regions in Northeast China and Southwest China increased due to the pressure on economic downturn but still at a low level, and overall risk was under control. The Bank will continuously optimise its regional credit resource structure. The regions with high risk-adjusted returns will be given priority in the credit resource allocation in support of national and regional policies.

(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							
	2019				2018			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
					(In RMB million, except percentages)			
Unsecured loans	45,981.7	17.4%	723.6	1.57%	39,731.4	15.7%	978.0	2.46%
Guaranteed loans	67,935.4	25.8%	2,050.1	3.02%	72,315.3	28.5%	1,815.2	2.51%
Collateralised loans	128,209.9	48.7%	2,343.2	1.83%	125,073.6	49.3%	1,522.6	1.22%
Pledged loans	21,477.1	8.1%	134.6	0.63%	16,642.4	6.5%	80.8	0.49%
Total	263,604.1	100.0%	5,251.5	1.99%	253,762.7	100.0%	4,396.6	1.73%

During the Reporting Period, the Bank made dynamic responses to changes in the economic environment and raised the controllability of ultimate risk on loan. Collateralised and pledged loans continuously grew with larger scale and proportion as compared to last year. The Bank admitted good quality collaterals and increased the clients' default costs through the collateral risk evaluation system and precise collateral classification management. Although the NPL ratio of collateralised loans increased, the ultimate risk was under control. During the year, the Bank set up a differentiated risk pricing system based on clients' contribution 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 despite a higher NPL ratio of guaranteed loans. In addition, the guarantees provided to the related customers, distant customers and private guarantee companies were carefully selected and strict quota management was implemented by the Bank during the year, while new mutual guarantees and joint guarantees for loan were prohibited. The size and the proportion of guaranteed loans tended to decline.

The Bank continued to strengthen its intelligent risk control system construction, strengthened the application of big data in risk management and control, deepened cooperation with institutions including third-party credit reporting agencies, and made full use of the Central Bank's credit scores and other data to monitor customers' post-loan behaviours dynamically so as to prevent and control credit risk in a timely and accurate manner, and aggressively write off and dispose of NPLs. The NPL ratio of unsecured loans decreased by 0.89 percentage point to 1.57% as compared to the end of last year.

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(VI) Concentration of Borrowers

As of 31 December 2019, 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 2019, 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 2019		
	Industry	Loan balance	% of Total loans	% of Net capital
		(In RMB million, except percentages)		
Borrower A	L- Leasing and commercial services	3,025.6	1.15%	4.91%
Borrower B	K- Real estate	1,750.0	0.66%	2.84%
Borrower C	K- Real estate	1,497.6	0.57%	2.43%
Borrower D	L- Leasing and commercial services	1,488.0	0.56%	2.41%
Borrower E	K- Real estate	1,470.0	0.56%	2.39%
Borrower F	K- Real estate	1,398.1	0.53%	2.27%
Borrower G	K- Real estate	1,281.4	0.49%	2.08%
Borrower H	K- Real estate	1,242.0	0.47%	2.02%
Borrower I	N -Water conservation, environment and public utility management	1,230.3	0.47%	2.00%
Borrower J	L- Leasing and commercial services	1,187.2	0.45%	1.93%
Total		15,570.2	5.91%	25.28%

(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			
	2019		2018	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Current loans	**249,863.5**	**94.8%**	242,974.4	95.7%
Loans past due:[1]				
For 1 to 90 days	**8,574.6**	**3.3%**	6,558.5	2.6%
For 91 days to 1 year	**3,292.5**	**1.2%**	2,400.0	1.0%
For 1 year and above	**1,873.5**	**0.7%**	1,829.8	0.7%
Subtotal	**13,740.6**	**5.2%**	10,788.3	4.3%
Total loans to customers	**263,604.1**	**100.0%**	253,762.7	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 2019, the overdue loans accounted for 5.2% of the total loans, the majority of which were loans within 90 days overdue, accounting for 3.3% 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 increasing temporary overdue. The Bank conducted the whole process management of loan granting. The extension management, sales and recovery of existing loans were strengthened. For the customers with potential risks, quota reduction, enhanced mitigation and comprehensive credit package design were strengthened to prevent the asset quality decline of the loan extension business in the future. During the year, the Bank adopted relatively strict classification criteria and intensified management and control on risk assets, resulting in the ratio of loans past due for more than 90 days to NPLs reaching 98.37%. The asset classification truly reflected the actual asset quality.

(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" for the measurement of impairment of underlying financial assets. The Bank adhered to the prudence principle and made provision for impairment losses on loans in the full amount. As at 31 December 2019, impairment losses on loans amounted to RMB8,008.4 million, which increased by RMB539.3 million as compared to the end of last year. The impairment losses on loans ratio was 3.04%, 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	**2019**	2018
		(In RMB million)
Balance at the beginning of the period	**7,469.1**	7,173.5
Exchange difference	**0.0**	2.6
Charged during the year	**3,686.2**	1,632.1
Accreted interest on impaired loans	**(78.5)**	(70.8)
Write-offs and transferred	**(3,103.6)**	(1,374.3)
Recoveries of loans and advances previously written off	**35.2**	106.0
Balance at the end of the period	**8,008.4**	7,469.1

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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 the Bank's head office and branches in each of 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 2019						
Operating income	8,872.6	1,699.9	2,543.9	1,577.1	430.9	15,124.4
Operating expenses	(3,726.0)	(365.5)	(591.9)	(246.2)	(223.4)	(5,153.0)
Impairment losses	(3,142.2)	(705.3)	(517.0)	(673.6)	(142.8)	(5,180.9)
Operating profit	2,004.4	629.1	1,435.0	657.3	64.7	4,790.5
As of 31 December 2019						
Segment assets	430,680.4	42,908.1	54,775.6	44,646.9	10,078.4	583,089.4
Segment liabilities	407,681.6	32,769.3	41,197.4	41,256.3	8,543.6	531,448.2

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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 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

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			
	2019		2018	
	Amount	**% of total**	Amount	% of total
	(In RMB million, except percentages)			
Heilongjiang region	**8,872.6**	**58.8%**	9,564.4	66.8%
Other regions in Northeastern China	**1,699.9**	**11.2%**	1,179.4	8.2%
Southwestern China	**2,543.9**	**16.8%**	2,007.1	14.0%
Northern China	**1,577.1**	**10.4%**	1,116.8	7.8%
Other regions	**430.9**	**2.8%**	457.7	3.2%
Total operating income	**15,124.4**	**100.0%**	14,325.4	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			
	2019		2018	
	Amount	**% of total**	Amount	% of total
		(In RMB million, except percentages)		
Corporate finance business	**6,065.5**	**40.1%**	4,036.4	28.2%
Retail finance business	**4,408.0**	**29.2%**	4,120.0	28.8%
Financial institutions business	**4,585.5**	**30.3%**	6,065.9	42.3%
Other businesses	**65.4**	**0.4%**	103.1	0.7%
Total operating income	**15,124.4**	**100.0%**	14,325.4	100.0%

VII. Analysis of Capital Adequacy Ratio

The Group continued to optimise its business structure and strengthen capital management, and as at 31 December 2019, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 10.22%, 10.24% and 12.53%, respectively, which were in line with the regulatory requirements during the transition period provided in the Measures for the Administration of Capital of Commercial Banks (for Trial Implementation) issued by the CBRC, which increased by 0.48 percentage point, 0.49 percentage point and 0.38 percentage point, respectively, as compared to the end of last year. The increase in capital adequacy ratio was mainly due to the replenishment of capital with the Bank's own profits and slower growth rate in risk-weighted assets.

In accordance with the Measures for the Administration of 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	
	2019	2018
	(In RMB million, except percentages)	
Core capital	**50,527.3**	46,844.8
Core Tier 1 Capital deductible items:		
Full deductible items	**(306.7)**	(181.3)
Net core tier 1 capital	**50,220.6**	46,663.5
Net other tier 1 capital	**93.3**	76.0
Net tier 1 capital	**50,313.9**	46,739.5
Net tier 2 capital	**11,277.3**	11,477.2
Net capital	**61,591.2**	58,216.7
Credit risk-weighted assets	**456,457.3**	440,690.3
Market risk-weighted assets	**7,814.3**	11,953.1
Operational risk-weighted assets	**27,205.0**	26,516.5
Total risk-weighted assets	**491,476.6**	479,159.9
Core tier 1 capital adequacy ratio	**10.22%**	9.74%
Tier 1 capital adequacy ratio	**10.24%**	9.75%
Capital adequacy ratio	**12.53%**	12.15%

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 retail finance business of the Bank is positioned as a focus of the Bank's strategic transformation, which centers on digital inclusive finance to promote the transformation of comprehensive retail. While serving wealth management and family wealth planning customers, the Bank consolidated the existing elderly customers and cultivated customers of younger generation and scenario finance customers, achieving new breakthroughs in the building of charity brand and customer market positioning. The Bank accelerated the construction of smart banking through measures including the optimisation and iteration of smart products, characteristic layout of the institution and business, customer relationship management with digitalisation and big data application, "online + offline" channel synergy, retail exclusive sub-branch transformation and other measures. Moreover, through the optimisation of business processes, improvement of operational efficiency and provision of standardised quality services, the Bank created a considerate retail service brand to promote the sustainable and high-quality development of its retail finance business.

In 2019, the Bank continued to improve its pricing mechanism and system construction of the retail finance business, as well as enhance the risk pricing capability, therefore creating a new profit model. During the Reporting Period, the retail finance business of the Bank recorded a profit before tax of RMB1,320.1 million, accounting for 27.6% of the profit before tax of the Bank, and operating income of RMB4,408.0 million, representing a year-on-year increase of 7.0% and accounting for 29.2% 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. The Bank innovated its service model by serving the communities around its outlets and providing financial and non-financial services with "warmth" to the residents in the communities. The "happy community" and "happy kitchen" series customer-benefiting activities were organised mainly for the elderly customers to comprehensively satisfy their various needs such as entertainment, healthcare and wealth accumulation, thus forming a complete elderly care financial comprehensive service system. For livelihood services, the Bank undertook the issue of social security cards for Harbin to promote the implementation of the "internet + human resources and social security" program in Harbin. Online healthcare security payment, enquiry and notice and exclusive value-added services for social security customers were able to be provided through the Bank's online channels. As at 31 December 2019, the Company had 13,158.9 thousand retail deposit customers, representing an increase of 905.8 thousand or 7.39% 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 754.5 thousand, representing an increase of 186.0 thousand or 32.72% as compared to the same period of last year.

Retail deposits

The Company 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 2019, the total retail deposits of the Company (in RMB and other currencies) amounted to RMB229,559.4 million, representing an increase of RMB87,251.0 million or 61.3% as compared to the end of last year. The average balance of retail deposits (in RMB and other currencies) amounted to RMB185,656.6 million, representing an increase of RMB60,050.8 million or 47.8% as compared to the end of last year. Demand deposits accounted for 19.4% of retail customer deposits balance. According to the statistics provided by the Harbin branch of the PBOC, the balance of retail deposits of the Harbin branch of the Company ranked first in the local market with a market share of 18.3% during the Reporting Period, representing an increase of 3.4 percentage points as compared to the end of the last year. The increase in retail deposits of 9 branches ranked first in their local markets.

Retail loans

During the Reporting Period, upholding its featured development strategy of "microcredit", the Bank leveraged its advantages in the comprehensive value of retail loans with the "customer-oriented" approach to contribute for the Company's brand and value, depending on scenario-based model for major retail business, primarily residence scenario and supplemented with health, education, culture and entertainment, consumption, transportation and finance scenarios. The Bank constantly applied the concept of big data and mobile internet and focused on groups of customers who had house(s), high credit rating, and significant financial assets. The Bank optimised and upgraded the operation model of "touch net" based on the "full life cycle" demand of customers, realised a full-product on-line operating system for retail loans, and promoted the new experience of "Internet +" through the practice of precision marketing to secure a huge number of customers through means of exploring the existing customers docking and implementing the name list entry system. The Bank also introduced the use of artificial intelligence and big data to strengthen the ability of anti-fraud and risk prevention and control, identification, and early warning. The Bank also deepened the application of retail internal assessment results in the whole business process, established a dynamic optimisation and adjustment mechanism of credit rating and decision making engine and continuously improved the "model + rules" smart decision-making mechanism, which in turn further enhanced the efficiency of decision making and risk control capabilities of the retail loan business of the Bank.

As at 31 December 2019, the balance of the Bank's personal loans reached RMB119,083.9 million, representing a year-on-year increase of 3.2% and 45.2% 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 RMB38,300.0 million, RMB68,096.2 million and RMB12,687.7 million, respectively, and accounted for 32.2%, 57.1% and 10.7%, respectively, of the Bank's total personal loans.

Bank cards

During the Reporting Period, growth of the bank card business of the Bank remained steady. The Bank basically completed the construction of the credit card business system and management structure with rapid business development. The number of debit card clients increased steadily. In 2019, the credit card business of the Bank had moved from the original "emphasis on card issuance" into the stage of "fair balance between issuance and operation", continuously adhering to the customer-oriented concept and promoting and optimising innovative credit card products. With the help of big data, customer portraits and other technical means, the Bank launched various marketing activities in a targeted and paced manner. It deepened the joint marketing with branches and enhanced brand influence through marathon events in various places. The Bank also actively attempted cross-sector cooperation and became the first city commercial bank to issue a Tencent Weijia co-branded card.

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As at 31 December 2019, the total number of issued credit cards reached 1,068.7 thousand, representing an increase of 42.9% as compared to the end of last year, of which 321.1 thousand were newly issued during the Reporting Period, representing an increase of 31.0% as compared to the number of new cards issued in the same period of last year. The credit card asset balance amounted to RMB13.79 billion, representing an increase of 27.6% as compared to the same period of last year.

As at 31 December 2019, the number of debit cards issued by the Company recorded a steady increase. The total number of issued debit cards reached 16.5704 million, of which 1.1692 million were newly issued during the Reporting Period, representing an increase of 7.59% as compared to the end of last year.

Wealth management

The wealth management business of the Bank revolves around the appreciation of the value of customers' family wealth management. The Bank continues to diversify its product offerings, widens its online sales channels, with a focus on the financial scenarios such as healthcare for the elderly, children and education. It provides integrated services deeply within the community, and dedicates itself to providing professional, convenient and high-quality wealth management service to customers' families. As at 31 December 2019, the Bank realised total sales of personal wealth management products of RMB105.886 billion.

(II) Corporate Finance Business

In 2019, centring on the work theme of "comprehensive enhancement", adhering to the objective of "returning to the basics and reshaping the foundation" and primarily through obtaining customers, strengthening foundation and controlling risks, the Bank stuck to the strategic positioning as "a first-class international microcredit bank by providing excellent services with unique characteristics", carried out in-depth corporate deposit marketing, expanded channels for deposits and further optimised the deposit structure. The Bank 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 enhance the profitability of asset business. The Bank also enhanced the 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 system development of the corporate finance business, focused on improving the comprehensive financing service level to customers, and actively promoted the healthy development of the Bank's corporate finance business. During the Reporting Period, the corporate finance business of the Bank recorded profit before tax of RMB2,020.9 million, accounting for 42.2% of profit before tax of the Bank; and operating income of RMB6,065.5 million, representing an increase of 50.3% as compared to the same period of last year and accounting for 40.1% of operating income of the Bank.

Corporate customers

By leveraging the Bank's strengths in cross-regional operation and outlet layout and adhering to the guiding philosophy of being "customer-oriented", focusing on leading enterprises within coverage, state-owned enterprises, quality listed companies, quality private enterprises and customers with a core position in the industry chain for proactive marketing, and gearing towards the direction of "risk prevention, structure adjustment and leaders selection", the Bank sought RMB 100 billion-level local characteristic industrial clusters, continued to build key marketing channels and built a platform with multi-dimensional access to customers. The Bank comprehensively upgraded the customer marketing system, and, being customer-oriented, promoted the implementation and reform of corporate customer service team model of branches both inside and outside of the province. The Bank established the customer service model of "professional team, professional solutions, special products and exclusive process", enhanced the depth of service, deepened the exploration of core customer value and expanded the number of customers. As at 31 December 2019, the Company had 93.7 thousand corporate customers, representing an increase of 2.1 thousand customers as compared to the end of last year.

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 deposit marketing by adopting multiple measures. The Bank strengthened its business cooperation with other banks to broaden sources of deposit through more channels. As at 31 December 2019, the average daily corporate deposits of the Bank amounted to RMB220,480.8 million, representing a year-on-year decrease of RMB9,376.4 million, with a decline rate of 4.1%.

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 Company accounted for 15.7% of corporate deposits in the local market, ranking first in this region.

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Corporate loans

The Bank firmly grasped the operation direction of "returning to the basics" and "finance serving real economy", continuously elevated the comprehensive financial service capacity and supported regional real economy development. During the Reporting Period, the Bank further perfected and applied the risk management tools, established a complete customer evaluation system, promoted customer tiering and debt rating applications, enhanced management and control over asset distribution and continuously adjusted and optimised customer structure. At the same time, the Bank actively supported the development of private and small and medium-sized enterprises throughout their life cycle by building professional service team for corporate customers, added variety to the financial products, optimised guarantee methods, ensured technological support, improved incentive assessment and expanded service channel. The Bank fully leveraged on its flexible operation mechanism, innovative use of modern financing methods, actively supported the construction of Heilongjiang "Top Hundred Projects" (百大項目) and advanced industrial transformation and upgrading, in order to become the first choice for enterprises inside the province as well as the preferred bank for enterprises outside the province. As at 31 December 2019, the total corporate loans of the Bank amounted to RMB140,578.3 million, representing an increase of 1.6% as compared to the beginning of the year and accounting for 53.3% of total loans. Being conscious of observing the risk baseline, the Bank kept the overall quality of its corporate loan assets under control, as at 31 December 2019, the NPLs of corporate loans was RMB2,659.4 million, and the NPL ratio was 1.89%.

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 asset management platform system and successfully brought them online, and provided professional account, settlement and financial management services for enterprises adhering to customer-centered in order to create new sources of business growth, thus comprehensively enhancing the Bank's market competitiveness and profitability.

During the Reporting Period, the corporate finance business of the Bank recorded non-interest income of RMB600.5 million, representing a year-on-year decrease of 15.8%.

(III) Financial Market Business

For financial market business qualification, the Company is a Class A settlement member of the national interbank bond market in China, 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.

During the Reporting Period, financial institutions businesses of the Bank recorded an operating income of RMB4,585.5 million with a year-on-year decrease of 24.4%, accounting for 30.3% of the operating income of the Bank.

Bond Investments and Transactions

During the Reporting Period, both domestic and international economic and financial situations were complicated and changeable. Under the internal pressure of economic downturn and the difficulty of financing for small and medium-sized financial institutions, and within the external environment of Sino-US trade frictions and sharp fluctuations in international financial markets, the Bank maintained its strategic determination, studied and predicted market changes with precision and accuracy, steadily seized the key opportunities in interest rate fluctuations during the year, advanced in band operation and bond investment structural adjustments, actively participated in the underwriting of policy financial bonds and local government bonds as well as product innovations in the interbank market. The Bank's band spread income of the year amounted to a record high of RMB440 million, representing an increase of RMB247 million as compared to last year; the comprehensive yield of bond assets amounted to 5.45%, representing an increase of 90BP as compared to last year.

In 2019, the Bank's aggregate cash exchange in the interbank market exceeded RMB3.42 trillion, representing an increase of RMB1.59 trillion as compared to last year. The Bank was awarded the 2019 Outstanding Proprietary Dealer of China Bond and an Active Trader in the Bond Market of National Inter-bank Lending Center and ranked 13th among the city commercial banks. The underwriting amount of financial bonds and local government bonds of the Bank was RMB25.39 billion throughout the year, and the Bank was awarded the Best Progress Award for Local Government Bond Underwriters of China Bond. The Bank actively participated in innovative trading varieties such as X-bond and X-lending, receiving the title of X-bond Active Trader and X-Lending Star. In 2019, the Bank's transaction volume of bond lending amounted to RMB127,245 million, ranking fourth among city commercial banks. The brand and influence of the Bank's bond investment and trading has significantly increased.

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Investment banking business

Based on its new three-year development strategy and annual plans, the Bank played a leading role in innovation through service transformation, and steadily carried out product expansion and innovation in key areas. In 2019, the Bank achieved a breakthrough from zero for USD-dominated bond investment. The Bank's underwriting and investment of debt financing instruments gained further market recognition and was awarded the "Breakthrough" (乘風破浪) award issued by Beijing Financial Assets Exchange.

During the Reporting Period, the Bank paid close attention to changes in the economic environment and the market, strengthened risk control and continued to improve standardised asset allocation. As at 31 December 2019, total investment in debt instruments issued by financial institutions amounted to RMB166,599.5 million, representing a year-on-year increase of 5.4%.

Wealth management business

During the Reporting Period, the Company issued 346 wealth management products, raising funds amounting to RMB107,401 million. As at the end of the Reporting Period, the balance of wealth management products was RMB65,657 million, all of which were non-principal protected wealth management products. Among which, the balance of the existing net-value wealth management products amounted to RMB13,393 million, representing an increase of RMB12,782 million as compared to the end of last year, with a growth rate of 2,091.98%. The Company recorded strong growth in the number of wealth management customers, which reached 814.5 thousand as at the end of the Reporting Period, representing an increase of 39.40% as compared to the end of last year.

During the Reporting Period, the Bank actively responded to the requirements of new regulations on asset management and the accompanying regulatory policies, pushing forward the comprehensive transformation of the wealth management business, and achieved a series of results. First, according to the rectification requirements during the transition period, the Bank downsized the existing scale of principal protected wealth management products to 0, while the existing non-principal protected products remained stable in terms of size in the process of transformation. Second, the Bank accelerated the transformation of net-value products. As at the end of the Reporting Period, the balance of net-value products accounted for 20.33% of the remaining balance of all wealth management products. Third, the Bank continuously innovated and diversified its product lines. During the Reporting Period, the Bank established a series of fixed-term products, with a term of half a year, one year, and one and a half years respectively, which further enriched the Bank's wealth management product system and accelerated the progress of net value transformation for products.

During the Reporting Period, the Bank was again awarded the "2018 Outstanding Unit of National Banking Wealth Management Information Registration Work (2018年全國銀行業理財信息登記工作傑出單位)" issued by the Banking Wealth Management Registration & Depository Center (銀行業理財登記託管中心) in China. According to the "Banks' Wealth Management Capabilities Ranking Report (2018)" (銀行理財能力排名報告(2018年度)) published by PY Standard (普益標準), the Bank ranked 10th in overall wealth management capability among 124 city commercial banks in China.

(IV) Key Featured Businesses

1. *Microcredit business*

During the Reporting Period, the Bank continuously promoted the implementation of the microcredit development strategy and, guided by the microcredit strategy and adhering to the "customer-oriented" principle, the Bank comprehensively improved business capabilities, strengthened risk prevention and control, innovated management mode, focused on technology R&D for microcredit, and continued to develop the microcredit business brand with the microfinance service as its core business. The Bank was awarded the "2019 Most Influential Green Development Enterprise Brands" (2019最具影響力綠色發展企業品牌) and the "Top Ten Inclusive Banks" ("十佳普惠銀行"). As at 31 December 2019, the balance of the Bank's microcredit loans reached RMB178,441.7 million, representing a decrease of RMB2,273.4 million as compared to the end of last year and accounting for 67.7% 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			
	2019		2018	
	Amount	**% of total**	Amount	% of total
			(In RMB million, except percentages)	
Loans to small enterprises	**59,357.8**	**33.3%**	65,327.3	36.1%
Personal loans	**119,083.9**	**66.7%**	115,387.8	63.9%
Total balance of microcredit loans	**178,441.7**	**100.0%**	180,715.1	100.0%

Small and micro enterprise finance business

During the Reporting Period, the Bank adhered to the "customer-oriented" service principle, strengthened its management, established a collaborative working mechanism, carried out customer group positioning, market expansion, customer service, and continuously improved its small and micro financial client service under the financial service mode of a combination of standardisation and customisation.

During the Reporting Period, the Bank closely followed the economic trend, 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. At the same time, the Bank established a long-term risk monitoring mechanism. After conducting a comprehensive risk investigation, the Bank strengthened the overdue loans risk monitoring and enhanced asset quality management.

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During the Reporting Period, the Bank promoted the construction of a talent team for small and micro enterprises business, established a "value-oriented" incentive promotion mechanism, carried out the "iron triangle" training mechanism for marketing managers, risk managers and product managers, adopted a step-by-step training model for tiered advancement, thereby building a professional small and micro finance team.

As at 31 December 2019, the Bank's loans to small enterprises amounted to RMB59,357.8 million, representing a decrease of 9.1% as compared to the end of last year. The balance of NPLs for the small enterprises was RMB1,283.1 million and the NPL ratio was 2.16%.

Consumer finance business

During the Reporting Period, the Company constantly put the philosophy of "Inclusive Finance" into practice by establishing an all-rounded comprehensive consumer finance service (product) system, expanding the platform for quality business cooperation and enriching product lines so as to improve customer experience. The Bank centered on strategic planning, advanced towards the "online + offline" business direction, firmly developed the consumer finance platform of "openness and cooperation" with increasing depth, further accelerated the combination of advanced technologies, such as Internet big data and artificial intelligence, with traditional financial services. Relying on the dual-wheel drive of "technology + data", the Company continued to optimise its existing risk control model and approaches in order to improve the overall risk control of its consumer finance business and control the overall business risk. In 2019, the Company significantly improved its core competencies in consumer finance business, including big data risk control, intelligent channel linkage and refined operation management capacities.

As at 31 December 2019, the balance of the Bank's personal consumption loans amounted to RMB68,096.2 million.

2. Sino-Russia financial services

During the Reporting Period, the Company 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 thus maintained its leading position in Sino-Russia financial services among its domestic peers. In 2019, Harbin Bank's RMB-RUB transaction volume amounted to RUB80 billion, ranking first in the interbank foreign exchange market in terms of RUB transaction volume, and the cross-border transfer of RMB cash reached a record high of RMB192 million.

In 2015, the Company, as the Chinese promoter and the chairing 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. The number of members grew to 72 from the 35 founding members with 2 new additions during the Reporting Period. The Sino Russian Financial Union has been highly recognized by both Chinese and Russian authorities for its contributions in providing financing support for Sino-Russian project cooperation and promoting Sino-Russian cross-border financial cooperation, and was included in the Joint Statement of the Eighth Sino-Russian Dialogue Between Ministers of Finance (第八次中俄財長對話聯合聲明).

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During the Reporting Period, the Company organised and held two commercial events. The first one was arranging for Chinese members of the council to participate in the 23rd St. Petersburg International Economic Forum. In the forum, the council representatives participated in the plenary session which was attended by Russian President, Putin, and Chinese President, Xi Jinping. Moreover, council members signed a number of cooperation agreements and conducted in-depth exchanges on issues such as Sino-Russia economic and financial cooperation and reached a consensus on further cooperation. The second one was holding the "70th Anniversary of the Establishment of Diplomatic Relations between China and Russia" fifth general meeting of the Sino-Russia Financial Council, namely the Financial Cooperation Development Forum of the Sino-Russia Forge Ahead & Win-win Cooperation. Over one hundred guests including members of the Sino-Russia Financial Council, and corporate representatives from Harbin New Area, China and Russia attended the meeting, at which the application for council membership of the new members and the election of the new vice-chairman-in-office were considered and approved. The Chinese and Russian economists conducted in-depth analysis of the economic situation of the two countries at the meeting. Moreover, the members signed a number of cooperation agreements, and the cooperation intention between the members and domestic Russian-related corporate customers was successfully carried out. The representatives expressed their views on how to further deepen the all-round financial cooperation between China and Russia in the context of the 70th anniversary of the establishment of diplomatic relations between China and Russia. The general meeting had fruitful achievements.

During the Reporting Period, the Company signed the Interbank Lending Agreement amounting to RMB2 billion with VEB.RF, a Russian state development corporation, and led the cross-border RMB syndicated lending among members of the Sino-Russia Financial Council. The Bank participated in the dual-currency international syndicated interbank lending project, where Credit Bank of Moscow, the second largest private bank in Russia, was the borrower, and the maximum line of credit was USD500 million, thus deepening asset business cooperation between the Bank and its counterpart in the central district of Russian Federation. As at the end of 2019, the total interbank credit granted by the Bank to Russian banks amounted to approximately RMB8 billion, and the Bank had 22 Russia accounting banks with domestic and foreign currency settlement network covering the entirety of the Russian Federation, which played an important role in the development of Sino-Russia financial cooperation.

During the Reporting Period, the Bank further facilitated the internationalisation of RMB and the use and promotion of RMB cash in countries along the "the Belt and Road Initiative", innovatively opened up four new channels including Heilongjiang's first cross-border air transport channel for cash in RMB and Harbin's first cross-border transport channel for cash in RMB to Russia. The Bank launched the first "one-stop" service for overland cross-border cash transportation in Renminbi for Russia, which successfully opened up the dual-currency, two-way and air-ground joint transportation channels for cash in Renminbi and Rouble and thus our transportation service covers throughout the eastern and western regions of Russia. The Bank signed the "Cooperation Agreement of Cross-border Cash Transportation" with six large state-owned banks and mainstream local banks in Russia, further improving the trading counterparties system of the cross-border cash transportation related to Russia. The Bank also took the lead in opening up convenient channels for the two-way flow of cash between three areas of the Heilongjiang Free Trade Zone and Russia. As at the end of 2019, the Bank handled a total of 22 cross-border transfers of RMB cash, totalling RMB312 million.

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During the Reporting Period, the Bank completed Heilongjiang's first Chinese-funded USD debt business with an aggregate amount of RMB500 million, opening up new financing channels for Heilongjiang's "going global" enterprises in the international market.

Cross-border E-commerce payment and settlement

The cross-border E-commerce financial business of the Company maintained its robust development, enriched its online channel, simultaneously supporting MASTERCARD, JCB International Credit Card payment tools and mainstream payment tools in Russia such as YANDEX, WALLET ONE electronic wallet and online banking of commercial banks. In 2019, online products of the Russian World Card were added to the platform, enabling the Bank to be the first commercial bank in China to cooperate with it, which constantly enhanced the Bank's capabilities to provide online service to Russia banks. During the Reporting Period, the platform hosted 2,514 cross-border E-commence customers, achieving a transaction settlement volume of RMB1.732 billion, and the aggregate transaction settlement volume for cross-border E-commence exceeds RMB14.2 billion. Income generated from the intermediary business amounted to RMB32.27 million, and market share exceeded 15%, ranking third in the industry, with the cross-border E-commerce service brand enjoying an ever-increasing presence. In 2019, the Bank received the "Best Risk Control Performance of the Year Award", the "Outstanding Contribution of the Year Award" and the "Technology Progress of the Year Award" granted by MasterCard International, as well as the "Most Promising Foreign Card Acquirer Award" granted by JCB International Credit Card. 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 RMB6 million in respect of the service and trade from Harbin Municipal Bureau of Commerce.

3. *Agriculture-benefiting finance business*

During the Reporting Period, the Company comprehensively implemented the national strategic direction of "Rural Revitalisation", grasped the strategic opportunities arising from the modernised agricultural development and adhered to the coordinated development of agricultural reclamation areas and rural areas, and comprehensively built a new agriculture benefiting development layout that featured "from the province to outside the province, from two seasons to the whole year".

During the Reporting Period, while adhering to the "customer-oriented" philosophy, the Company deepened and advanced the multi-dimensional transformation of modern agricultural finance. Leveraging new marketing channels such as "customer white list + argo-ecological circle", the Company fully expanded the moderate-scale breeding households, efficiently integrated the Group's resources and carried out comprehensive financial services such as "agricultural finance loan + Harbin Bank Agricultural Machinery financial lease" and "agricultural finance loan + Wealth Management for Farmers", satisfying the diverse financial needs of farmers. The Company successfully hosted the "Agricultural Integrity Customer Festival", namely the public launch ceremony of "Agricultural Flash Loan (農閃貸)", which announced the debut of the first all-online "Smart Flash Loan" (智能閃貸) product of the Bank, becoming one of the few fully online loan products for farmers. The Company introduced special financial support policy for disaster-stricken farmers, effectively increased its presence as a regional agricultural brand, and practiced the philosophy of providing "warmth and emotional support (有溫度、有情懷)".

As at 31 December 2019, the balance of the agricultural loans of the Company amounted to RMB37,975 million, and the balance of the loans to farmers amounted to RMB12,687.7 million. The business covered the majority of rural markets of 11 cities and 6 major Agricultural Cultivation Bureau of Heilongjiang and some rural villages of Shenyang, Chengdu and Chongqing outside the province. The Bank greatly promoted the economic development and the prosperity of rural financial markets from Heilongjiang to the provinces and counties in Northeast China, and supported the rural areas to achieve comprehensive revitalisation.

(V) Information on Controlling Subsidiaries

1. Village and township banks

As at 31 December 2019, the Company had a controlling interest in 32 village and township banks and 41 village and township sub-branches, which were mainly located in the eastern, central and western regions of China. As at 31 December 2019, the total assets of the 32 village and township banks amounted to RMB22,251 million, of which the total amount of loans amounted to RMB13,506 million, representing a year-on-year increase of 7.11% and the balance of deposit amounted to RMB16,217 million, representing a year-on-year increase of 7.43%. The 32 village and township banks realised a net profit of RMB-305.4 million in 2019 in aggregate, mainly attributed to the increase of credit risk and their provision level resulting from the downward trend of macroeconomic condition.

All village and township banks had thoroughly implemented the overall strategy of the Group. Centring on the "four adherences", namely localisation, lower stream expansion, specialised operation and serving the "Agriculture, Rural Areas and Farmers" and small and micro enterprises, the 32 village and township banks, 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 Company.

2. HB Leasing

Since its establishment, HB Leasing has made some achievements in respect of asset scale, accumulated leased amount, business innovation model and etc., and initially maintained leading position in domestic leasing market to farmers. As at 31 December 2019, the total assets of HB Leasing amounted to RMB24.85 billion. The accumulated leased amount during the year amounted to RMB10,858 million, with a net profit recognised for the year of RMB276 million, representing a year-on-year increase of 58.62%.

Report of the Board of Directors

HB Leasing always strives to serve the real industry and 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, continuing to build and optimise the agricultural machinery leasing and retail business model under the empowerment of science and technology. 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 a registered capital of RMB1.5 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 consumer financial service platform that features asset creation and output. As at 31 December 2019, the total assets of HBCF amounted to RMB7,388 million, the total assets under management amounted to RMB11,157 million, and the net profit for the year amounted to RMB106.7 million, representing a year-on-year increase of 113.4%.

In 2019, HBCF received various industry awards, including "Most Potential Consumer Finance Enterprise Award (最具潛力消費金融企業獎)", "Fintech Impact Brand Award (金融科技影響力品牌獎)", "Consumer Finance Highest Growth Value Award (消費金融最具成長價值獎)", "Excellent Inclusive Finance Solution (普惠金融優秀解決方案)" and "Most Influential Chinese Brands 2019 (2019中國品牌影響力年度品牌)".

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, while continues to build an efficient, intelligent, warm and trustworthy consumer financial brand.

(VI) Distribution Channels

1. Physical Network

As at 31 December 2019, the Company had a total of 301 branch outlets, including 17 branches, 282 sub-branches, 1 branch-level financial service centre for small enterprises and 1 headquarters business department. In addition, the Company had controlling interest in 32 village and township banks, 41 village and township sub-branches, 1 consumer finance company and 1 financial leasing company.

2. Electronic banking

The Bank has gradually built up an electronic service system combining online means such as mobile phone banking, online banking, WeChat banking, phone banking and offline self-service terminals. E-channels have become the main business channels of the Bank. As at 31 December 2019, the replacement rate of business transactions through the Bank's electronic banking reached 93%, and that of mobile banking reached 61%, representing an increase of 2 percentage points and 10 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 2019, the Bank had 1,232 self-service terminals, including 472 BCDMs, 310 ATMs, 218 smart cabinets, 130 non-cash super counters, 87 multi-media inquiry machines and 15 card issuance machines.

(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, special services and other functions, and updated the overall design style of the personal online banking interface, while corporate online banking provides customers with account management, transfer and remittance, issuing and paying for others, investment and wealth management, electronic commercial drafts, bill pools, treasury management and other functions. As at 31 December 2019, a total of 3,172.6 thousand customers maintained their online banking accounts with the Bank, representing an increase of 37.82% as compared to the same period of last year; and transaction amount reached RMB1,139.218 billion, representing an increase of 15.57% as compared to the same period of last year.

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(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. During the Reporting Period, the telephone banking customer service centre recorded a total of 2,636.5 thousand business calls, representing a decrease of 5.43% 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. During the Reporting Period, the credit card customer service centre recorded a total of 1.88 million business calls, representing an increase of 8.9% as compared to the same period of last year.

(4) Mobile phone banking

The Bank has accelerated the business development of mobile phone banking. It offers various transaction functions for its customers, including account management, investment and wealth management, transfers and remittance, living payment, credit cards, loans and convenient services. The Bank launched the brand new 3.0 version of mobile phone banking this year, and liberalised the mobile banking customer system, introduced Internet users and types II and III electronic accounts, implemented intelligent transfer services, applied biometric technology to increase mobile banking transfer limits, and launched transfers via mobile number, micro finance area, private banking sections, insurance supermarkets, social security, provident fund, health and medical care, instant message armour, "Yun Zheng Tong (雲證通)" and other special services. As at 31 December 2019, the Bank had 1,943.1 thousand active mobile banking users, representing an increase of 65.77% as compared to the same period of last year; and transaction amount reached RMB433,299 million, representing an increase of 107.85% as compared to the same period of last year.

(5) WeChat banking

The Bank's WeChat banking has stretched banking services from traditional offline channels to finger tips of customers, which opens featured functions such as account change notifications, social security inquiry and supplementary payment, palm wealth management, structured deposits, certificates of deposit, credit card inquiry and repayment, loan application and branch inquiry. Moreover, it provided value added daily-life services, such as online medical registration and diagnosis, payroll inquiry, and charging and bill payment services. As at 31 December 2019, WeChat banking had over 2,547.4 thousand followers, representing an increase of 14.52% as compared to the same period of last year. The sales of wealth management products on WeChat banking amounted to RMB33.746 billion.

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(VII) Information Technology

In 2019, the Bank accelerated technological infrastructure construction and innovation of management mechanism in response to the strategy of Digital Inclusive Finance and the development trends of financial technology. 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. Continuously promoting infrastructure construction and improving support for business continuity

During the Reporting Period, the Bank continued to promote the construction of disaster recovery systems of the three centres in two regions. The application-level disaster backup covered of key information technology systems increased by three times. The disaster recovery of the same city with different places and emergency drills of core systems and second-generation payment system that the Bank focused on the completion met regulatory authorities' highest requirements for business continuity of city commercial banks.

2. 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.

3. Continuously strengthening technology management

During the Reporting Period, the Bank implemented the service concept of "Science and technology stand by your side", continuously optimised the R&D, and operation and maintenance system of science and technology, realised parallel operation and deep integration with business, and simultaneously improved the framework of science and technology system. The Bank revised a total of 19 technology systems throughout the year to further improve the pertinence and applicability of the system. Meanwhile, in order to improve the overall level of the scientific and technological team, a total of nearly 100 professional and technical personnels in the fields of application and security were introduced throughout the year. Combining internal training mechanisms, the Bank effectively built a scientific and technological team that can timely and effectively support the strategic landing and business development of the Company.

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4. *Significant increase in capabilities of technology self-development*

During the Reporting Period, the Company continuously optimised and adjusted the work mode of research and development, established a quantitative software development measurement system, introduced mature software cost methods, scientifically evaluated development capacity, and continuously improved the level of independent research and development. 46 self-developed systems were developed at the beginning of the year, and the self-developed rate reached 92.27%. In particular, the fields of payment and risk monitoring made breakthrough progress, among which, "Smart payment platform" was awarded Contribution Award for Financial Technology Innovation.

5. *Continuously promoting data management*

During the Reporting Period, the Bank continued to improve the data management system, established a data management plan, clarified future practice paths, further enhanced the effectiveness of data services, deepened the application of big data, and comprehensively improved the level of digital management of the Group. Among them, the automatic collection rate of regulatory data was increased to more than 80% and the validation of the reported data reached 100%. The Bank expanded its data mining research on the projects of early warning for high-net-worth customer and outlet queuing, and it initially achieved certain results.

6. *Constantly enhancing data security capability*

During the Reporting Period, the Bank further enhanced its information security protection capabilities and focused on strengthening security protection of personal financial data. With the steady advancement of the Bank's data management and the gradual exertion of data value, the Bank strictly controlled the entire data life cycle, refined the data hierarchical and type classification strategy, implemented behaviour auditing of production data operations, and ensured the confidentiality, completeness, and availability of the Bank's data, offering effective support for the development of online and financial services.

IX. Risk Exposure and Management

In 2019, the Bank continued to deepen the refined management of risk and rigid management and control, paid attention to the promotion of active risk management philosophy, focused on risk diversification and scale control during the economic downturn, comprehensively enhanced various risk management capabilities, and achieved overall controllability under the premise of the sustainable development of supporting business.

(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 solidly advanced the credit risk management level and promoted the construction of intelligent risk control system, conducted deep mining of valuable data through risk management means via the application of big data, and gradually built a smart risk engine system with comprehensive and active management philosophy to enhance the digitalisation, automation, process, specialisation and centralisation of the risk management process. The Bank utilised artificial intelligence algorithm to optimise and complete the rules governing the risk control over third-party data, push forward the standardisation and standardised use of retail behaviour score cards, established an anti-fraud warning model, and strengthen the whole process management of retail asset quality. The Bank continued to optimise its non-retail internal assessment models, newly build a credit bond model, increased the application coverage of the internal assessment system, strengthened the breadth and depth of the application of the results of the new capital agreement in the non-retail sector, and continuously improved the standards for the access of corporate customers and approval. The Bank also strengthened its risk policy guidance, established differential management standards for proactive management of the transmission of risk concepts, continued to deepen the structure of existing customers, strictly controlled the risks of new customers, realised the optimisation of the asset allocation across the Bank, and maintained the asset quality at a stable and controllable level.

During the Reporting Period, the Bank completed the transformation of the credit approval mode. For corporate credit, the Bank restructured the credit review committee, introduced non-local members, set up a correction mechanism, and strengthened post-approval management as a means; in terms of retail approval, "model + rules strategy application" had evolved and matured gradually, the first and second lines of defence are closely linked. The Bank established a strategic review mechanism for normalised rules, orderly mitigated existing risks, effectively performed independent checks and balances of centralized approval, and effectively enhanced efficiency on the basis of effective control over credit risk.

During the Reporting Period, the Bank continued to strengthen the construction of the collateral risk valuation system and the value assessment of collateral risk. The Bank strengthened the application of artificial intelligence and big data in the field of collateral valuation and independently established a bank-wide collateral risk valuation database, constantly improving the speed of database iteration with the supplement of data updates on buildings and business districts by on-site investigations. In addition, the Bank established a land management right database for agricultural loans, accumulating massive data resources to improve the self-assessment capability of agricultural finance business. With an independently-developed automated assessment model introduced and applied, it continued to improve the model construction and enhanced the automated assessment capability. The Bank further promoted the application of tiered management of collateral, providing support for the realisation of access of quality property and withdrawal of inferior property, and constantly boosting the risk mitigation effect of the Bank.

(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 or meet other capital requirements for normal operation. The Bank attaches great importance to the management of liquidity risk. The Bank 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. The Bank actively adjusted the structure of assets and liabilities, expanded diversified financing channels, strengthened communication with counterparties, and actively participated in medium loan facilitation and open market operations of the Central Bank. The Bank also stabilised the source of liabilities, expanded and consolidated general deposits, and implemented multiple measures to ensure stable growth of core deposits. The Bank realised the refined allocation of assets and liabilities by continuously improving the refined and precise risk management strategies, improving the frequency and efficiency of cash flow analysis through technical means such as stress testing, strengthening the dynamic prediction of the entire Bank's liquidity, accurately measured the liquidity gap, and reasonably calculated the daily changes in assets and liabilities. Moreover, the Bank enlarged the reserve of high-quality liquid assets to ensure that the Bank's overall liquidity risk is under control. Analysis of the remaining maturity of the financial assets and financial liabilities of the Group is set out below:

	As at 31 December 2019								
	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	13,437.3	23,695.6	23,964.3	24,089.4	121,968.4	209,049.4	115,633.3	38,181.3	570,019.0
Total financial liabilities	–	155,678.8	40,889.8	84,728.1	154,203.9	85,041.5	8,878.1	–	529,420.2
Net position	13,437.3	(131,983.2)	(16,925.5)	(60,638.7)	(32,235.5)	124,007.9	106,755.2	38,181.3	40,598.8

(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. The Bank 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. As to the transaction book interest rate risk, 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, 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. As to the bank book exchange rate risk, during the Reporting Period, with the reform of the loan prime rate (LPR) in the loan market, the Bank continued to increase the research and judgment on trends of the market interest rate, proactively adjusted the structure of assets and liabilities, and constantly optimised the interest rate risk exposure. The Bank measured the Bank's book interest rate risk through reasonable use of gap analysis, scenario simulation and other methods. The Bank, through the simulation of interest rate fluctuation scenarios, analysed the impact on its net interest income and economic value, thereby reasonably measuring the Bank's book interest rate risk.

The following table sets out the results of the Bank's gap analysis as of 31 December 2019, based on the earlier of (i) the next expected re-pricing dates and (ii) the final maturity dates for its financial assets and financial liabilities (whichever the earlier).

	As at 31 December 2019					
	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	207,838.5	97,601.7	137,956.6	59,033.6	67,588.6	570,019.0
Total financial liabilities	275,523.7	150,120.8	82,456.6	8,774.6	12,544.5	529,420.2
Interest rate sensitivity gap	(67,685.2)	(52,519.1)	55,500.0	50,259.0	N/A	N/A

Exchange rate risk refers to the risk of loss in the Bank's on- and off-balance sheet businesses as a result of adverse changes in exchange rates. The Bank's exchange rate risk exists mainly in its 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. During the Reporting Period, the Bank continuously optimised the foreign exchange limit management system, set transaction limits, stop-loss limits and exposure limits to conduct foreign exchange risk management on foreign exchange transactions, and closely monitored and assessed the impact of changes in the domestic and foreign market environment on the foreign exchange business of the Bank in a timely manner, intensifying the daily monitoring and control. The Bank used foreign exchange exposure analysis, VaR analysis and other measurement methods to reasonably measure exchange rate risk levels, continued to optimise the structure of monetary assets, effectively maintained the risk-benefit balance of the overall foreign exchange assets, and improved the effectiveness and pertinence of exchange rate risk management.

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The following table sets out the Bank's financial assets and liabilities by currency as at 31 December 2019.

	As at 31 December 2019					
	RMB	USD equivalent to RMB	HKD equivalent to RMB	RUB equivalent to RMB	Other Currencies equivalent to RMB	Total (RMB equivalent)
						(In RMB million)
Total financial assets	568,501.4	1,394.8	18.4	30.3	74.1	570,019.0
Total financial liabilities	529,071.3	249.9	37.5	9.6	51.9	529,420.2
Net position of financial assets and liabilities	39,430.1	1,144.9	(19.1)	20.7	22.2	40,598.8
Credit commitments	42,531.6	354.1	–	–	–	42,885.7

(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. As for key risk indicators (KRI), the Bank re-assessed its KRIs regularly. 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. As for 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. The Bank also strengthened the monitoring, analysis and reporting of operational risks, guided branches to improve the operational risk management level, promoted the standardisation of the termination audit process, established a suspension and resumption credit mechanism, and effectively improved the refined management of operational risk.

(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 the Bank's usage of information technology.

During the Reporting Period, the Bank had included management of information technology risk into its general risk management system and established an information technology governance organisation structure with reasonable division of labour, clear responsibilities, mutual checks and balances, and clear reporting relationships. At the implementation level, the Bank regularly conducted information technology risk identification, evaluation, monitoring and measurement through the use of management tools such as risk and control self-assessment, key risk indicators, and loss event collection. The Bank continuously optimised and improved business impact analysis and methodology, establishing a set of scientific and systematic tools as well as analysis and evaluation standards that met the Bank's actual business conditions. The Bank regularly conducted self-assessment on the management level of the business continuity, conducted emergency combat drills in relation to the information system, and ensured that the Bank shall continue to operate on an ongoing basis. During the assessment process, the Bank fundamentally identified, evaluated and measured its information technology risk via the completion of multiple on-site interviews and field investigations by the business department, hence improving the Bank's information technology risk management level. At the same time, during the Reporting Period, the Bank conducted a switching exercise on the core business system in a practical way. In the overall disaster switching recovery work of the disaster recovery centre at different locations within the same city, which mainly focused on the practical business operation, achieved a substantial breakthrough. Such a milestone leapfrog progress had laid a more solid foundation for the Bank's daily change synchronisation maintenance and disaster recovery configuration verification work. Meanwhile, in addition to the continuous quantified project service evaluation on the outsourcers' project service quality, as well as constant monitoring of the services provided by the outsourcers, this year, the Bank also conducted a switching exercise of the Bank's core business system in a practical way, and conducted testing of service support capabilities of the outsources 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 had 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 continuous 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. The Bank strove to realise the foundation of compliance management, actively optimised the compliance system and mechanism construction, and strictly prevented and effectively resolved compliance risk; it placed emphasis on the transmission of various regulatory policies as well as system and regulations, and by leveraging the professional advantages, and emphasising the substance of risks, and through pre-involved business research and development, product development and process design, it strongly supported and promoted business innovation and sound development of the Bank at different dimensions; intensively performed special governance, risk investigation as well as 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 thoroughly showing the power of compliance risk management, and actively advocating and strictly supervising the scrupulous compliance with the bottom line among the institutions and personnel at all levels; 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 and the compliance awareness of all staff members.

(VII) Anti-money Laundering Management

During the Reporting Period, the Bank conducted anti-money laundering work by strictly following the more stringent regulatory requirements for management, striving for the "risk-based" management concept, constantly improving the political stance, continuously optimising the application system for anti-money laundering business, improving blacklist monitoring mechanism, enhancing its anti-money laundering internal control policy system, strengthening the positive role of manual identification and analysis, and establishing a money-laundering risk prevention and control system for closed-loop management before, during and after the money-laundering event, so that the intelligence, compliance and effectiveness of the Bank's customer identification and fund monitoring were further improved. Meanwhile, the Bank strengthened the publicity and training of anti-money laundering, actively cooperated with regulatory authorities in conducting co-investigations into anti-money laundering, established a good internal and external environment for anti-money laundering, and effectively fulfilled financial institutions' obligations regarding anti-money laundering and anti-terrorist financing.

X. Key Relationships with Persons with Significant Impact

The Bank attached great importance on occupational health and security for the employees, and increasingly improved 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 Company. 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 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 its 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 2018 annual results and 2019 interim results were held in Hong Kong during March and August 2019 respectively, with a total of over 70 fund managers, analysts and reporters from China and overseas attended the meeting; (2) The management of the Company conducted two overseas result roadshows in March and August 2019 respectively, and met over 40 overseas institutional investors; (3) In 2019, 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 (4) In 2019, the Company timely responded to the questions and recommendations provided by investors through various channels, including answering over 100 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 2.63 million transactions, and its credit card centre handled a total of over 1.88 million transactions for the year. Better communication with customers provided a good customer base for the Bank.

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XI. Corporate Social Responsibility

2019 marked the 70th anniversary of the founding of New China, also a key year for transformation and development of the Bank. The Bank unwaveringly adhered to the business philosophy of "Inclusive Finance, Harmonious Co-enrichment" and the microcredit strategy to advance China's inclusive finance practices. While being committed to building a "first-class international microcredit bank by providing excellent services with unique characteristics", the Bank dedicated intensive efforts in various social responsibility practices including targeted poverty alleviation, green finance development and happy community construction, striving to become a respected bank with deep cultural heritage and prominent public welfare brand. Bearing in mind the mission and entrustment of the times of "good finance, good society", the Bank continued to integrate the brand philosophy of "trust, warmth, connection and commitment" into the enhancement of its "environment, society and governance" capacity, aiming at fulfilling its corporate social responsibilities with practical action and giving back to the society. In 2019, the total expenditure on social charitable business of the Bank amounted to RMB28.20 million, and the green credit balance was RMB2,411 million.

In 2019, the Bank actively responded to the national call to support poverty alleviation through industrial development to win the battle against poverty, pay attention to people's livelihood and build a happy community trusted by the people, striving to become a bank of caring and warmth. In 2019, the Bank continued to focus on targeted poverty alleviation. In Heilongjiang Province, after two years of targeted industry assistance in 2017 and 2018, the on-site poverty alleviation team of the Bank stationed at Shuanglong Village of Liutuan Town in Yanshou, Heilongjiang further consolidated the quality and effectiveness of industrial poverty alleviation, and was awarded the "2019 Excellence Case of Targeted Poverty Alleviation in China (2019中國精準扶貧優秀案例)" in the 21st Century Asian Financial Competitiveness selections for its actual results. The Mulan sub-branch of Harbin Branch and Suibin sub-branch of Hegang Branch supported local seeding and animal husbandry projects and expanded industry channels through solving practical issues such as production capital, management and sales channels, creating opportunities for poverty alleviation and income growth. In Southwestern China, the Liangshan Prefecture "Purchase in lieu of Donation" Targeted Poverty Alleviation 2018-2020 Collective Subscription Agreement entered into between Chengdu Branch and Liangshan Prefecture People's Government had commenced implementation, and poverty alleviation products equivalent to RMB50,000 was subscribed for in 2019. In 2019, the "Happy Community Programme" co-initiated with United Charity Foundation effectively improved the coverage and satisfaction level of the financial social worker services, with continuous efforts to create a community of quality life. Currently, the programme covers seven cities, namely Shenyang, Dalian, Tianjin, Chengdu, Chongqing, Shenzhen and Harbin, with participation from 22 sub-branches and investment in public welfare funds amounting to approximately RMB4.2981 million. In 2019, the Bank donated to Harbin Institute of Technology Education Foundation of Development for the tenth consecutive year to finance its development and construction, conveying the Bank's care and support in education development. Since the launch of "Harbin Bank Lilac Blossom, Dream Achievement Hope Project" in 2018, the Bank continued to finance 180 poverty-stricken students for their education. In 2019, the Bank sponsored Harbin International Marathon for the fourth consecutive year, sponsored Chengdu International Marathon for the second time in a row, and sponsored the 2019 Chengdu Panda Marathon to further promote the integration of finance culture and mass sports.

The Bank continued to advocate the concept of green finance, and continued to increase efforts in green operations, promote energy conservation and consumption reduction and lower the impact of its own operations on the environment. At the same time, the Bank strictly complied with the national financial policies, including those related to green credit, gradually promoted green finance and made solid progress in the construction of "Green Bank". Notably, Shenyang Branch of the Company firstly initiated the five systematic projects of "Blue Sky, Clear Water, Green Mountain, Pure Land, and Rural Environmental Remediation", and subsequently engaged in active cooperation with Liaoning Environment Protection Industry Association (遼寧省環保產業協會), provided a comprehensive package of financial services support for its member companies, such as corporate settlement, payroll on behalf and corporate liquidity financial management and planning. As at the end of the Reporting Period, Shenyang Branch provided loans of RMB18.73 million in total for four private environmental protection enterprises.

In 2019, the Bank persisted and advanced on the path of inclusive finance, and fulfilled its social responsibilities with the courage to practice. In the future, the Bank will remain true to its original aspiration and mission, actively respond to the call of the Party Central Committee, address social concerns, take practical actions to advance social harmony, promote environment improvements and contribute to sustainable economic development.

XII. Dividend

(I) Dividend

As approved at the meeting of the Board held on 30 March 2020, it is proposed to distribute a final cash dividend for the year of 2019 of RMB0.10 (tax inclusive) per share to all shareholders, totalling approximately RMB1,099.56 million (tax inclusive). Such dividend distribution plan is subject to the approval of the 2019 annual general meeting of the Company. If it is approved by the shareholders at the 2019 annual general meeting, the Company proposes to distribute the 2019 final cash dividend on or before Wednesday, 15 July 2020. Detailed information in relation to the specific arrangements of the distribution of 2019 final dividend, including the book closure period and record date, will be separately announced by the Company.

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

(II) Dividend Tax

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

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

Report of the Board of Directors

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

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

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

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

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

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

Report of the Board of Directors

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 2019, 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 2019, the distributable reserve of the Company and its subsidiaries under the China Accounting Standards for Business Enterprises was RMB19,545 million and the distributable reserve of the Company was RMB18,356 million.

(V) Debentures

During the Reporting Period, the Company and its subsidiaries did not issue any new debentures.

(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 2019 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 all or any key businesses of the Bank during the Reporting Period.

Report of the Board of Directors

(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 RMB28.20 million for the year ended 31 December 2019.

(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 substantial 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 47 to the Consolidated Financial Statements of this report that constitutes the connected transaction or continuing connected transaction that should be disclosed under the Hong Kong Listing Rules.

(XIII) Related Party Transactions as Defined by the CBIRC

During the Reporting Period, the Bank conducted related party transactions with major shareholders of the Bank, their controlling shareholders, de facto controllers and other related parties as defined by the CBIRC, (collectively, the "**major shareholders and their related parties**"), which were within the scope of normal operation of the Company. The terms and conditions and pricing of the transactions were in line with the general requirements of the Bank's business management and the requirements of the regulatory authorities. The transactions were not conducted in terms more favourable than those provided to other borrowers or counterparties. The business procedures also met the relevant requirements of the regulatory authorities and the Bank's related party transaction management rules. During the Reporting Period, there were no related party transactions between the Bank and the concert parties and the ultimate beneficiary of its major shareholders.

The major shareholders of the Bank as defined by the CBIRC are shareholders who hold or control more than 5% of the Bank's shares or voting rights, or hold less than 5% of the total capital or total shares of the Bank, but have significant influence on the Bank's operations and management.

Report of the Board of Directors

During the Reporting Period, the related party transactions between the Bank and the Bank's such major shareholders and their related parties were mainly deposit and credit transactions, as well as capital transactions, all of which were performed normally, and did not have a negative impact on the Bank's operating results and financial position.

1. Deposit transactions with the major shareholders and their related parties

As at the end of the Reporting Period, major shareholder, Heilongjiang Financial Holdings and its related parties, had a deposit balance amounted to RMB1,875.6246 million in the Bank; related parties of Harbin Economic Development had a deposit balance amounted to RMB568.9339 million in the Bank; related parties of Harbin Kechuang Xingye Investment Company Limited had a deposit balance amounted to RMB5.4171 million in the Bank; related parties of Heilongjiang Keruan Software Technologies Company Limited had a deposit balance amounted to RMB12,700 in the Bank; Heilongjiang Tiandi Yuanyuan Network Technology Company Limited had a deposit balance amounted to RMB34,200 in the Bank; and Heilongjiang Xinyongsheng Trading Company Limited had a deposit balance amounted to RMB0.2442 million in the Bank.

2. Related credit transactions with the major shareholders and their related parties

(1) Loan transactions

Each of Harbin Automobile Exchange Market Co., Ltd. (哈爾濱汽車交易市場有限公司), Harbin Property Heating Supply Group Co., Ltd. (哈爾濱物業供熱集團有限責任公司) and Heilongjiang Jinxin Financial Leasing Co., Ltd. (黑龍江金信融資租賃有限公司) became a related party of Harbin Economic Development since 29 October 2019. From then on and ended on 31 December 2019, these companies did not conduct any new related party transaction with the Bank. As at the end of the Reporting Period, the outstanding loans of these companies amounted to RMB0.27 billion, and the aggregate credit balance granted to Harbin Economic Development and its related parties amounted to RMB0.27 billion.

During the Reporting Period, Heilongjiang Financial Holdings, a major shareholder of the Bank, conducted 6 loan transactions with the Bank from 13 December 2019 to 31 December 2019. The outstanding credit balance amounted to RMB27.8104 million. The amount of any of the aforesaid transactions was individually less than 1% of the Bank's net capital[Note], and the credit balance granted to Heilongjiang Financial Holdings by the Bank did not exceed 5% of the Bank's net capital upon completion of the aforesaid transaction. According to the administrative regulations of the CBIRC, these transactions constitute general related party transactions. As at the end of the Reporting Period, the aggregate credit balance granted to Heilongjiang Financial Holdings and its related parties amounted to RMB750 million.

Note: According to the requirement of the Administrative Measures for Related Party Transactions between Commercial Banks and their Insiders or Shareholders issued by the CBIRC, the net capital mentioned above refers to the unaudited net capital as at the end of the third quarter of 2019.

Report of the Board of Directors

(2) Guarantee transactions

As at the end of the Reporting Period, Heilongjiang Xinzheng Investment Guarantee Group Co., Ltd. (黑龍江省鑫正投資擔保集團有限公司), Heilongjiang University Student Startup Loan Guarantee Co., Ltd. (黑龍江省大學生創業貸款擔保有限公司) and Heilongjiang Agricultural Financing Guarantee Co., Ltd. (黑龍江省農業融資擔保有限責任公司) (each a related party of Heilongjiang Financial Holdings, a major shareholder of the Bank) conducted guarantee transactions with the Bank with a guarantee balance of RMB427.7289 million.

(3) Off-balance sheet transactions

As at the end of the Reporting Period, the corporate bonds (issued by Harbin Investment Group Corporation Limited (哈爾濱投資集團有限責任公司), i.e., a related party of Harbin Economic Development, which is a major shareholder of the Bank) held by the off-balance-sheet wealth management products issued by the Bank amounted to RMB330 million in total.

(XIV) 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 the date of publication of this report 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 Proposal on the Appointment of Independent Non-executive Director of the Seventh Session of the Board was considered and approved at the 2018 annual general meeting of the Company held on 17 May 2019, pursuant to which Mr. Hou Bojian was appointed as an independent non-executive Director of the Company. The qualification of Mr. Hou Bojian as a Director had been approved by the Heilongjiang Regulatory Bureau of the CBRC, with effect from 2 September 2019.

Former independent non-executive Directors, Mr. Wan Kam To and Mr. Kong Siu Chee have served as independent non-executive Directors of the Bank for six years, and resigned as independent non-executive Directors of the Company in accordance with relevant regulatory requirements of the PRC, with effect from 8 October 2019.

During the Reporting Period, the Proposal on the Change in External Supervisors of the Seventh Session of the Board of Supervisors was considered and approved at the 2018 annual general meeting of the Company held on 17 May 2019, pursuant to which Ms. Li Zhaohua and Mr. Sun Yi were newly appointed as external Supervisors of the Seventh Session of the Board of Supervisors of the Company, while Ms. Bai Fan and Ms. Meng Rongfang ceased to be external Supervisors of the Company.

(XV) 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.

(XVI) 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.

(XVII) 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).

(XVIII) 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, to the knowledge of the Company, as at 31 December 2019, 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 (%)
Sun Feixia	Executive Director	Beneficial owner	Domestic Shares	378,907	0.003
Deng Xinquan	Supervisor	Beneficial owner	Domestic Shares	1,205	0.00001

Note:

1. As disclosed in the announcements of the Company dated 15 November 2019 and 13 December 2019, respectively, Heilongjiang Tuokai Economic and Trading Company Limited (黑龍江拓凱經貿有限公司), a company indirectly controlled by Director Chen Danyang, had completed the transfer of 522,447,109 Domestic Shares of the Company. As such, as at 31 December 2019, Mr. Chen Danyang was no longer deemed to be interested in any shares of in the Bank.

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).

Report of the Board of Directors

(XIX) Permitted Indemnity Provisions

In 2019, 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.

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

For the year ended 31 December 2019, 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.

(XXI) 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 report.

(XXII) Auditors

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

XIV. Prospects

In 2020, the domestic and international situation will become more complicated and severe, with continued slowdown in the global economic growth, accelerated manifestation of the conflicts from structural adjustments and continuous downward pressure on national economy. At the national level, building of "moderately prosperous society in all respects" and "three critical battles against major financial risks, poverty and pollution" have arrived at a deciding point and the "13th Five-year Plan" will also come to a close. "Stability" will be the keyword for all economic development and counter-cyclical macroeconomic policy adjustment will be further implemented, with the fiscal policy remaining active and focused on improving quality and efficiency, and the monetary policy switching from "moderately tight" to "flexible and moderate". In general, the domestic economy will maintain a high-quality development on a new medium-speed growth platform. At the same time, with the various conflicts and issues at the crucial point of reform and transformation overlapping, there will be more sources of turbulence and risks, as such, the banking industry, particularly city commercial banks, will ushered into a new era. Therefore, in the future, the Bank will continue to strengthen its strategic determination and confidence in transformation, promote transformation and innovation in sound operations, and seek high-quality development in transformation and innovation.

In the future, adhering to the business philosophy of "Inclusive Finance, Harmonious Co-enrichment" and continuously and sticking unwaveringly to the microcredit strategy, the Bank will firmly implement the established strategies and tactics, effectively carry out the work theme of "steady improvements", further consolidate the results of operation transformation, comprehensively improve the corporate governance capacity to restore the major operating indicators across the board, rebuild a good market image and strive to achieve the Group's strategic planning goals with high quality and efficiency.

By order of the Board
GUO Zhiwen
Chairman

Harbin, PRC
30 March 2020

Changes in Share Capital and Information on Shareholders

I. Share Capital

The Company was listed on the Hong Kong Stock Exchange on 31 March 2014, upon an issuance of 2,748,700,000 H Shares in total, and on the same date, 274,870,000 Domestic Shares were transferred to the National Council for Social Security Fund of the PRC (全國社會保障基金理事會) and converted into H Shares on a one-for-one basis pursuant to the relevant PRC regulations relating to reduction of state-owned shares. After completion of the issuance, the total share capital of the Company increased to 10,995,599,553 shares. As at the end of the Reporting Period, the Company has a registered capital of RMB10,995,599,553 in total.

II. Statement of Changes in Shares

Unit: Shares

	1 January 2019		Increase/decrease during the Reporting Period (+/-)					31 December 2019	
	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	2,199,089,800	20.00%	–	–	–	3,133,111,296	3,133,111,296	**5,332,201,096**	**48.49%**
(2) Shares held by private enterprises	5,709,449,378	51.92%	–	–	–	-3,133,111,296	-3,133,111,296	**2,576,338,082**	**23.43%**
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 33 state-owned corporate shareholders, including Harbin Economic Development, Heilongjiang Financial Holdings, Harbin Hadong Investment Co., Ltd. (哈爾濱市哈東投資有限責任公司), and Harbin Industrial Investment Group Co., Ltd. (哈爾濱工業投資集團有限公司), 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[1]	Nature of shareholder	Number of shares held (Shares)	Shareholding percentage (%)[2]	Number of shares pledged or frozen[3]	Type of shares
1 Harbin Economic Development and Investment Company Limited	State-owned	3,257,943,986	29.63%	–	Non overseas-Listed shares
2 Heilongjiang Financial Holdings Group Co., Ltd.	State-owned	2,035,675,058	18.51%	–	Non overseas-Listed shares
3 Harbin Kechuang Xingye Investment Company Limited	Private enterprise	720,262,554	6.55%	–	Non overseas-Listed shares
4 Beijing Xinrun Investment Co., Ltd.	Private enterprise	255,418,587	2.32%	–	Non overseas-Listed shares
5 Dongninglizhi Decoration Engineering Co., Ltd.	Private enterprise	199,010,054	1.81%	194,982,174	Non overseas-Listed shares
6 Shanghai Jihui Engineering Consultation Co., Ltd.	Private enterprise	164,345,260	1.49%	–	Non overseas-Listed shares
7 Harbin Huayuantong Economic Technology Development Co., Ltd.	Private enterprise	157,436,960	1.43%	–	Non overseas-Listed shares
8 Zhejiang Tongxin Asset Management Co., Ltd.	Private enterprise	151,310,124	1.38%	151,310,124	Non overseas-Listed shares
9 Dalian Shengzhi Network Technology Company Limited	Private enterprise	150,657,923	1.37%	–	Non overseas-Listed shares
10 Hangzhou Tenran Industrial Co., Ltd.	Private enterprise	150,657,923	1.37%	–	Non overseas-Listed shares

Notes:

1. On 15 November 2019, Heilongjiang Keruan Software Technologies Company Limited and Heilongjiang Tongda Investment Co., Ltd. entered into an Agreement in relation to the Transfer of Shares of Harbin Bank Co., Ltd. with Harbin Economic Development, pursuant to which, Heilongjiang Keruan Software Technologies Company Limited and Heilongjiang Tongda Investment Co., Ltd. agreed to transfer to Harbin Economic Development 719,816,019 Domestic Shares and 377,620,219 Domestic Shares held by Heilongjiang Keruan Software Technologies Company Limited and Heilongjiang Tongda Investment Co., Ltd., respectively, at a total consideration of approximately RMB5,208 million. On the same date, Heilongjiang Xinyongsheng Trading Company Limited, Heilongjiang Tiandi Yuanyuan Network Technology Company Limited, Heilongjiang Tuokai Economic and Trading Company Limited, and Harbin Jubang Investment Co., Ltd. entered into a Share Transfer Agreement with Heilongjiang Financial Holdings, pursuant to which, Heilongjiang Xinyongsheng Trading Company Limited, Heilongjiang Tiandi Yuanyuan Network Technology Company Limited, Heilongjiang Tuokai Economic and Trading Company Limited and Harbin Jubang Investment Co., Ltd. agreed to transfer to Heilongjiang Financial Holdings 639,804,806 Domestic Shares, 572,253,048 Domestic Shares, 522,447,109 Domestic Shares and 301,170,095 Domestic Shares, held by Heilongjiang Xinyongsheng Trading Company Limited, Heilongjiang Tiandi Yuanyuan Network Technology Company Limited, Heilongjiang Tuokai Economic and Trading Company Limited and Harbin Jubang Investment Co., Ltd., respectively, at a total consideration of approximately RMB9,771 million. On 13 December 2019, each party completed the registration for the change of shareholder. Heilongjiang Keruan Software Technologies Company Limited, Heilongjiang Tongda Investment Co., Ltd., Heilongjiang Xinyongsheng Trading Company Limited, Heilongjiang Tiandi Yuanyuan Network Technology Company Limited, Heilongjiang Tuokai Economic and Trading Company Limited, and Harbin Jubang Investment Co., Ltd. ceased to hold any shares of the Company.

Changes in Share Capital and Information on Shareholders

2. 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.

3. The above pledged or frozen shares held by the shareholders are subject to pledge only and not judicial moratorium.

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

As at 31 December 2019, 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 Share

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 Municipal People's Government State-owned Assets Supervision and Administration Commission[1]	Interest of controlled corporation	3,257,943,986	40.87%	29.63%
Harbin Investment Group Corporation Limited[1]	Interest of controlled corporation	3,257,943,986	40.87%	29.63%
Harbin Economic Development and Investment Company[1]	Beneficial owner	3,257,943,986	40.87%	29.63%
Department of Finance of Heilongjiang Province of the People's Republic of China[2]	Interest of controlled corporation	2,039,975,058	25.59%	18.55%
Heilongjiang Financial Holdings Group Co., Ltd.[2]	Beneficial owner	2,035,675,058	25.54%	18.51%
	Interest of controlled corporation	4,300,000	0.05%	0.04%
Harbin Kechuang Xingye Investment Company Limited[3]	Beneficial owner	720,262,554	9.03%	6.55%

Notes:

1. Harbin Economic Development directly holds 3,257,943,986 Domestic Shares of the Company. Harbin Economic Development is owned as to 100% by Harbin Investment Group Corporation Limited (哈爾濱市投資集團有限責任公司), which in turn is owned as to 100% by the Harbin Municipal People's Government State-owned Assets Supervision and Administration Commission (哈爾濱市人民政府國有資產監督管理委員會). According to the SFO, each of the Harbin Municipal People's Government State-owned Assets Supervision and Administration Commission and Harbin Investment Group Corporation Limited is deemed to be interested in the 3,257,943,986 Domestic Shares held by Harbin Economic Development. Harbin Economic Development was established on 22 August 1992 with a registered capital of RMB2,307,522,010, and Mr. Zhang Xianjun (張憲軍) 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).

Changes in Share Capital and Information on Shareholders

2. Heilongjiang Financial Holdings directly holds 2,035,675,058 Domestic Shares of the Company and indirectly holds 4,300,000 Domestic Shares of the Company through its indirectly controlled corporation Harbin Dazheng Microcredit Co., Ltd. (哈爾濱市大正小額貸款有限責任公司). According to the SFO, Heilongjiang Financial Holdings is deemed to be interested in a total of 2,039,975,058 Domestic Shares of the Company. In addition, Heilongjiang Financial Holdings is wholly owned by the Department of Finance of Heilongjiang Province (黑龍江省財政廳). According to the SFO, the Department of Finance of Heilongjiang Province is also deemed to be interested in such 2,039,975,058 Domestic Shares of the Company. Heilongjiang Financial Holdings was established on 18 January 2019 with a registered capital of RMB13,600,000,000 and Yu Hong (于宏) being the legal representative. The business scope of Heilongjiang Financial Holdings is investment and asset management and capital investment services; non-public offering of securities investment funds; holding company services; and financial information services.

3. 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 a 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, merger and acquisition, asset restructuring, asset custody and finance leasing.

H Share

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 a 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. Fubon Life Insurance Company Limited held 18% equity interest in CITIC Capital Holdings Limited and nominated director. The two companies are therefore parties related to each other. Due to reasons including different requirements under the laws of Taiwan and Mainland China, Fubon Life Insurance Company Limited has not completed the shareholder qualification approval process as at the date of this report.

Changes in Share Capital and Information on Shareholders

2. CITIC Capital Holdings Limited held the interests in the relevant number of shares through a series of controlled corporations. Fubon Life Insurance Company Limited and CITIC Capital Holdings Limited are parties related to each other, and pursuant to requirements of regulatory authorities, CITIC Capital HB Investment L.P. (an indirect non-wholly subsidiary of CITIC Capital Holdings Limited) was undergoing the approval procedures for shareholder's qualification as at the date of this report.

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 2019.

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

As at the end of the Reporting Period, details of the substantial shareholders of the Company (holding 10% or more of the shares of the Company) under the Hong Kong Listing Rules are as follows:

1. As at 31 December 2019, Harbin Economic Development, the largest shareholder of the Company, held 29.63% of the total issued shares of the Company. According to the Business License (Unified Social Credit Code: 91230100424004064C) issued by the Market Supervision and Administration Bureau of Harbin on 17 December 2019, and the Articles of Association of Harbin Economic Development and Investment Company amended on 27 November 2019, Harbin Economic Development is a validly subsisting economic entity with limited liability (sole proprietorship invested or controlled by non-natural person). Harbin Economic Development is owned as to 100% by Harbin Investment Group Corporation Limited, which in turn is owned as to 100% by the Harbin Municipal People's Government State-owned Assets Supervision and Administration Commission.

2. As at 31 December 2019, Heilongjiang Financial Holdings directly and indirectly held 18.55% of the total issued shares of the Company. According to the Business License (Unified Social Credit Code: 91230100MA1BF51Q38) issued by the Market Supervision and Administration Bureau of Harbin on 18 January 2019 and the Articles of Association of Heilongjiang Financial Holdings Group Co., Ltd., Heilongjiang Financial Holdings is a validly subsisting economic entity with limited liability (wholly state-owned). Heilongjiang Financial Holdings is wholly owned by the Department of Finance of Heilongjiang Province.

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

As at 31 December 2019, no shares held by any shareholder with shareholding of 5% or more of the Company were pledged or judicially frozen.

Changes in Share Capital and Information on Shareholders

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 2019.

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 2019 to the date 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

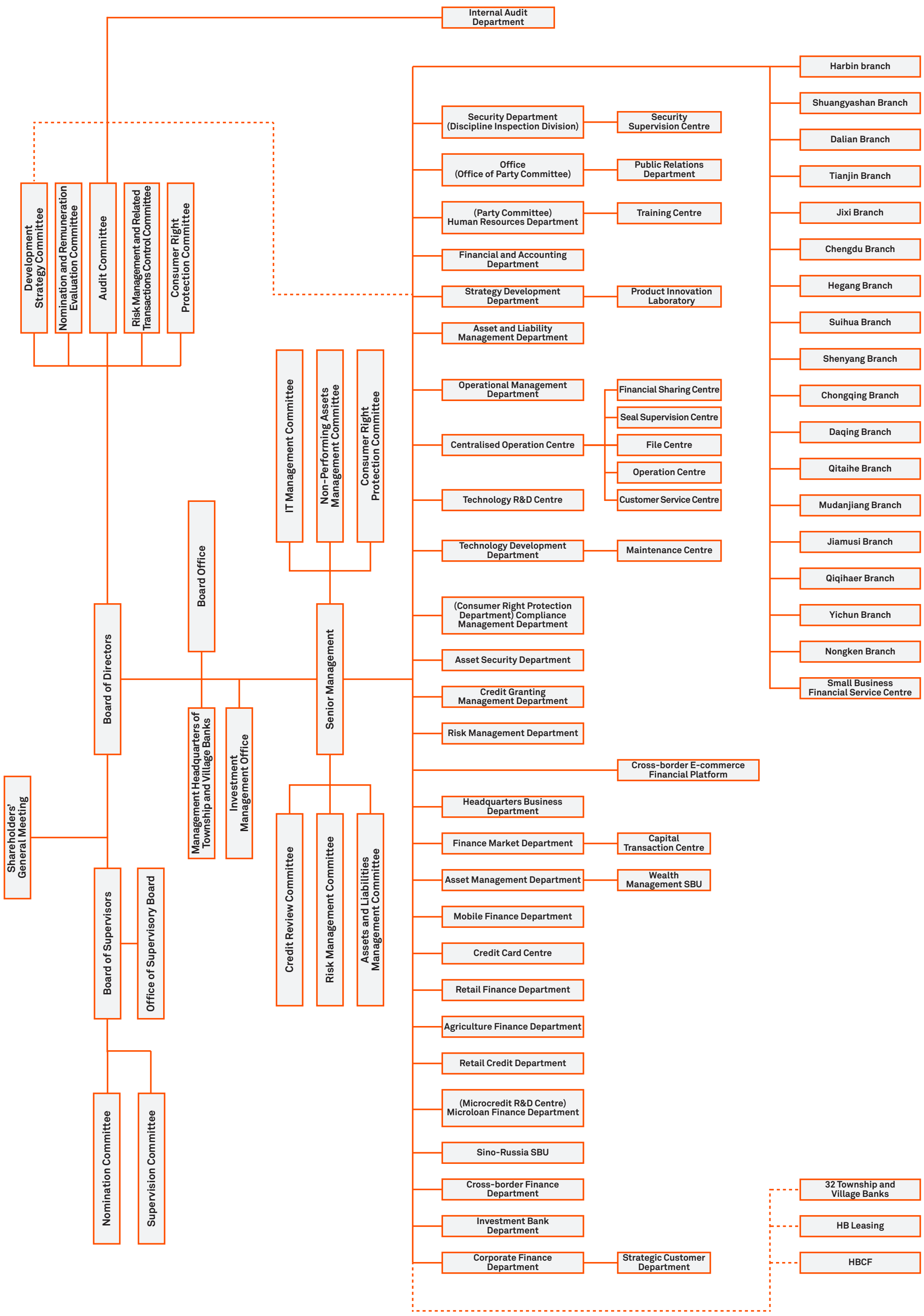
Name of shareholders	Director nominated by the shareholders	Supervisor nominated by the shareholders
Harbin Economic Development and Investment Company Limited	Zhang Taoxuan	–
Fubon Life Insurance Company Limited	Ma Pao-Lin	–
Heilongjiang Tuokai Economic and Trading Company Limited*	Chen Danyang	–
Huaxia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

* Heilongjiang Tuokai Economic and Trading Company Limited no longer holds any Shares of the Bank since 13 December 2019.

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 2019, 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, the Rules of Procedure for the Board of Supervisors, the Working Rules for the Independent Directors, the Terms of Reference of the Development Strategy Committee of the Board, the Terms of Reference of the Risk Management and Related Transactions Control Committee of the Board, the Terms of Reference of the Audit Committee of the Board, the Terms of Reference of the Nomination and Remuneration Evaluation Committee of the Board, 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 2019 to 31 December 2019, 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 2019, the shareholders' general meetings of the Company passed the following resolutions relating to corporate governance of the Company:

I. At the 2018 annual general meeting convened by the Company on 17 May 2019, proposals namely the Proposal on the 2018 Work Report of the Board of Directors, the Proposal on the 2018 Work Report of the Board of Supervisors, the Proposal on the 2018 Final Account Report, the Proposal on the 2019 Financial Budgets, the Proposal on the 2018 Profit Distribution Plan, the Proposal on the 2018 Annual Report, the Proposal on the Appointment of Auditors for 2019, the Proposal on the Appointment of Independent Non-executive Director of the Seventh Session of the Board, the Proposal on the Change in External Supervisors of the Seventh Session of the Board of Supervisors, the Proposal on the Amendments to the Equity Management Measures, the Proposal on the Amendments to the Administrative Measures for the Related Party Transactions, the Proposal on the Amendments to the Articles of Association, the Proposal on the Amendments to the Rules of Procedures for the Board of Directors, the Proposal on the Board to Issue H Shares, the Proposal on the Extension of the Validity Period of the Resolution of Shareholders' General Meeting in respect of the Non-Public Issuance of Offshore Preference Shares, 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.

Corporate Governance Report

At the 2019 first domestic shareholders' class meeting convened by the Company on 17 May 2019, the Proposal on the Extension of the Validity Period of the Resolution of Shareholders' General Meeting in respect of the Non-Public Issuance of Offshore Preference Shares 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.

At the 2019 first H shareholders' class meeting convened by the Company on 17 May 2019, the Proposal on the Extension of the Validity Period of the Resolution of Shareholders' General Meeting in respect of the Non-Public Issuance of Offshore Preference Shares 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.

In 2019, the Company organised and held 58 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, 10 meetings of the Board, 31 meetings of the special committees of the Board, 7 meetings of the Board of Supervisors and 7 meetings of the special committees of the Board of Supervisors. At the meetings, the Company considered and approved 238 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 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 relevant 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 for their decision-making. The senior management shall conduct business and management activities within the scope of authorisation by 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 the 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 relationship management and other daily routines.

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

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

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

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

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

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

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

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

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

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

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

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

12. Deciding on external investment, acquisition and disposal of assets, assets mortgage, external security, related 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;

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 of the Company 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; and

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

IV. Board Members

The Board of the Company consisted of 11 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 4 independent non-executive Directors (Mr. Ma Yongqiang, Mr. Zhang Zheng, Mr. Sun Yan and Mr. Hou Bojian). 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 nominated by shareholders and have working experience in the fields of management, finance and accounting; the 4 independent non-executive Directors are experts in economic, finance, accounting and legal fields, 1 of whom is from Hong Kong, and with experience in areas such as auditing, finance, management consulting, as well as 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. Board Diversity Policy

The Company understands and recognises the importance of Board diversity, and considers the realisation of Board diversity as an important factor to ensure the Company's enhancement of corporate governance and sustainable development. The Company formulated the Board Diversity Policy of Harbin Bank Co., Ltd. According to this policy, when designing the Board composition, the Company should include gender, age, nationality, educational background, professional qualifications, industry experience, and other factors from various aspects in the consideration of the Board diversity issue. During the process of selection and appointment of Board members, the Company should give full consideration to the diversity of relevant candidates, conducting a comprehensive assessment of their talents, skills, experience and background, and objectively measuring their potential contribution to the Bank, thereby ensuring that the Board has a variety of point of views and perspectives in the performance of their duties, to formulate the best composition of Board members that matches the Bank's development strategy.

Corporate Governance Report

The Company's main policy for selecting Board members is to actively consider the benefits of diversity to appoint the most appropriate candidates. Selection of Board members shall be based on a range of diversified areas, taking into account the skills, experience, independence, knowledge of the Bank's business, a combination of various factors (including gender and age) and other factors related to the operation efficiency of the Board. The Nomination and Remuneration Evaluation Committee shall review this policy in due course to ensure its effectiveness. The Nomination and Remuneration Evaluation Committee shall discuss on the necessity for amendments to be made on the policy, make amendment proposals to the Board and submit them to the Board for consideration and approval.

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

During the Reporting Period, the Proposal on the Appointment of Independent Non-executive Director of the Seventh Session of the Board was considered and approved at the 2018 annual general meeting of the Company held on 17 May 2019, pursuant to which Mr. Hou Bojian was appointed as an independent non-executive Director of the Company. The qualification of Mr. Hou Bojian as a Director has been approved by the Heilongjiang Regulatory Bureau of the CBIRC, with effect from 2 September 2019. Former independent non-executive Directors of the Company, Mr. Wan Kam To and Mr. Kong Siu Chee have served as independent non-executive Directors of the Bank for six years, thus resigned from their positions as independent non-executive Directors of the Company in accordance with the relevant regulatory requirements of the PRC, both with effect from 8 October 2019.

VII. 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, as the President of the Company, is mainly in charge of the management of daily operation and the implementation of relevant resolutions and operation plans of the Board.

VIII. Duties of Directors

During the Reporting Period, all Directors of the Company 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, except that Mr. Zhang Zheng had an attendance of 90%, the attendance of all other 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 2019, 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 162 of this report.

IX. Board Meetings and the Directors' Attendance

During the Reporting Period, the Company held 10 Board meetings to consider and approve major proposals on development strategies, operation plans, financial policies, rule amendments and other matters, including 87 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 6th meeting of the seventh session of the Board	21 January 2019	On-site
The 7th meeting of the seventh session of the Board	21 March 2019	On-site
The 8th meeting of the seventh session of the Board	17 May 2019	On-site
The 9th meeting of the seventh session of the Board	18 June 2019	Telecommunication
The 10th meeting of the seventh session of the Board	29 August 2019	On-site
The 11th meeting of the seventh session of the Board	8 October 2019	Telecommunication
The 12th meeting of the seventh session of the Board	17 October 2019	On-site
The 13th meeting of the seventh session of the Board	19 October 2019	On-site
The 14th meeting of the seventh session of the Board	25 October 2019	On-site
The 15th meeting of the seventh session of the Board	20 December 2019	On-site

Corporate Governance Report

The attendance of each Director in the Board meetings and Shareholders' general meetings/class meetings in 2019 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(Note)	Number of general meetings/ class meetings attended/ requiring attendance
Guo Zhiwen	10	10	0	100%	3/3
Lyu Tianjun	10	10	0	100%	3/3
Sun Feixia	10	10	0	100%	3/3
Zhang Taoxuan	10	10	0	100%	0/3
Ma Pao-Lin	10	10	0	100%	0/3
Peng Xiaodong	10	10	0	100%	3/3
Chen Danyang	10	10	0	100%	3/3
Wan Kam To (resigned on 8 October 2019)	6	6	0	100%	3/3
Kong Siu Chee (resigned on 8 October 2019)	6	6	0	100%	3/3
Ma Yongqiang	10	10	0	100%	3/3
Zhang Zheng	10	9	1	90%	0/3
Sun Yan	10	10	0	100%	3/3
Hou Bojian (newly appointed on 2 September 2019)	5	5	0	100%	0/0

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

X. Duty Performance of Independent Non-Executive Directors

The Board of the Company is currently composed of 4 independent non-executive Directors, the appointment of whom is in full compliance with the requirements of the CBIRC, CSRC and the Hong Kong Listing Rules regarding the 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, thus 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 2019 to the date of this report.

XI. Special Committees of the Board

The Board of the Company has 5 special committees, including the Audit Committee, Nomination and Remuneration Evaluation Committee, Risk Management and Related Transactions Control Committee, Development Strategy Committee, and Consumer Rights Protection 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, each of the Nomination and Remuneration Evaluation Committee, Risk Management and Related Transactions Control Committee, Audit Committee and Consumer Rights Protection Committee is chaired by independent non-executive Directors, thus further strengthens the supervision on the Company by independent non-executive Directors.

In 2019, the special committees of the Board of the Company exercised their power in an independent, standardized and effective manner in accordance with the laws. During the Year, they held 31 meetings, at which 101 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 scientific decision-making process of the Board were improved, and fostering the sustainable and healthy development of businesses of the Bank.

Members and terms of reference of the 5 special committees of the Company and their work in 2019 are as follows:

Corporate Governance Report

(I) Audit Committee

The Audit Committee mainly consists of independent non-executive Directors. The current members include independent non-executive Directors, namely Mr. Ma Yongqiang (chairman of the committee) and Mr. Hou Bojian, 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 procedures;

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; and

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 2019, the Audit Committee held 5 meetings, at which 23 proposals and reports were considered and approved, including the Proposal on the 2018 Annual Results Announcement and Annual Report, the Proposal on 2018 Profit Distribution Plan, the Proposal on the 2019 Financial Budgets, the Proposal on the Appointment of Auditors for 2019, the Proposal on the 2018 Internal Control Evaluation Report of Harbin Bank Co., Ltd., the Proposal on Approval of 2019 Unaudited Interim Financial Statements Prepared according to the International Financial Reporting Standards, and the Proposal on Consideration of 2019 Interim Results Announcement and Interim Report. In 2019, 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 2018 annual report and 2019 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 29 March 2020, the Audit Committee reviewed the audited consolidated financial statements for the year ended 31 December 2019 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 2019 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 (resigned on 8 October 2019)	3	3	0	100%
Kong Siu Chee (resigned on 8 October 2019)	3	3	0	100%
Ma Yongqiang	5	5	0	100%
Peng Xiaodong	5	5	0	100%
Hou Bojian (newly appointed on 2 September 2019)	2	2	0	100%

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

(II) Nomination and Remuneration Evaluation Committee

The Nomination and Remuneration Evaluation Committee mainly consists of independent non-executive Directors. The current members include independent non-executive Directors, namely Mr. Sun Yan (chairman of the committee), Mr. Zhang Zheng and Mr. Hou Bojian, 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; and

10. Formulating Board diversity policy.

In 2019, the Nomination and Remuneration Evaluation Committee held 6 meetings. All members strictly performed the obligations under 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 2019 annual performance assessment index of the senior management. Meanwhile, 8 proposals and reports including the Proposal on 2018 Directors' Performance Assessment Report, the Report on Harbin Bank's 2018 Performance Evaluation, the Proposal on the Determination of 2019 KPI for Senior Management and the Proposal on the Nomination of Mr. Hou Bojian as a Candidate for Independent Non-executive Director were considered and approved. The attendance of each member in the meetings of the Nomination and Remuneration Evaluation Committee in 2019 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)
Wan Kam To (resigned on 8 October 2019)	6	6	0	100%
Chen Danyang	6	6	0	100%
Sun Yan	6	6	0	100%
Zhang Zheng	6	6	0	100%
Hou Bojian (newly appointed on 2 September 2019)	1	1	0	100%

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

Nomination policy:

In selecting candidates for the Directors in accordance with the nomination policy and procedure, the Company's Nomination and Remuneration Evaluation Committee shall:

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

2. study and review whether the qualifications of Director candidates meet the standards stipulated in domestic and overseas laws and regulations and the Articles of Association;

3. extensively search for qualified Director candidates;

4. review the independence of candidates for independent non-executive Directors;

5. conduct preliminary review on the qualifications and appointment conditions of Director candidates and propose the qualified candidates to the Board for consideration;

6. propose the Director candidates to the general meeting via written proposal after consideration and approval of the Board;

7. take into account the Board diversity policy when performing the above duties;

8. review the Board diversity policy when appropriate to ensure the effectiveness of the policy;

9. advise the Board on the appointment or re-appointment of Directors and the succession of Directors (particularly executive Directors); and

10. deal with other matters authorised by the Board.

(III) Risk Management and Related Transactions Control Committee

The Risk Management and Related Transactions Control Committee consists of independent non-executive Directors and an executive Director. The current 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; and

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 2019, the Risk Management and Related Transactions Control Committee held 14 meetings, at which 46 proposals and reports were considered and approved, including the Proposal on the Risk Management Policy of Harbin Bank in 2019, the Proposal on Risk Appetite Statement of Harbin Bank in 2019 and the Proposal on the Risk Management Report in 2018. The attendance of each member in the meetings of Risk Management and Related Transactions Control Committee in 2019 is as follows:

Member of Risk Management and Related Transactions Control Committee	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy	Attendance rate (Note)
Ma Yongqiang	14	14	0	100%
Sun Feixia	14	14	0	100%
Sun Yan	14	14	0	100%
Zhang Zheng	14	14	0	100%

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

(IV) Development Strategy Committee

The Development Strategy Committee consists of executive Directors, independent non-executive Directors and non-executive Directors. The current members include executive Directors, namely Mr. Guo Zhiwen (chairman of the committee) and Mr. Lyu Tianjun, an independent non-executive Director, namely Mr. Hou Bojian, 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;

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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. Communicating with senior management and departments regarding the operation and risk exposure of the Bank on a regular basis, as well as providing advice and recommendation; and

7. Researching and providing advice on the strategy, policy and objective for green credit, supervising the senior management in the implementation of green credit, so as to fulfill social responsibility.

In 2019, the Development Strategy Committee held 4 meetings, at which 21 proposals and reports were considered and approved including the Proposal on the Report of the Evaluation of the Implementation of the Strategic Planning of Harbin Bank for 2018 and First Half 2019, the Proposal on the Work Report of Consumer Right Protection for 2018, the Proposal on 2020 Outbound Investment Plan, the Proposal on Capital Adequacy Management Plan of 2020 and the Proposal on the Issuance of Capital Bonds Without a Fixed Term and the Authorisation to Relevant Persons to Deal with All Matters Relating to the Issuance of Capital Bonds Without a Fixed Term. The attendance of each member in the meetings of Development Strategy Committee in 2019 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	4	4	0	100%
Lyu Tianjun	4	4	0	100%
Kong Siu Chee (resigned on 8 October 2019)	3	3	0	100%
Zhang Taoxuan	4	4	0	100%
Ma Pao-Lin	4	4	0	100%
Hou Bojian (newly appointed on 2 September 2019)	1	1	0	100%

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

(V) Consumer Rights Protection Committee

The Consumer Rights Protection Committee consists of independent non-executive Directors and executive Directors. The current members include independent non-executive Directors, namely Mr. Zhang Zheng (chairman of the committee) and Mr. Sun Yan, and executive Directors, namely Mr. Lyu Tianjun and Ms. Sun Feixia.

The major terms of reference of the Consumer Rights Protection Committee during the Reporting Period are as follows:

1. Formulating the Company's strategies, policies and objectives of consumer rights protection, guiding the senior management to reinforce the construction of a corporate culture enabling consumer rights protection in terms of overall planning, and incorporating relevant contents of consumer rights protection into corporate governance, corporate culture development and business development strategies;

2. Urging the senior management to effectively implement relevant work of consumer rights protection, attending special briefings by the senior management on the Company's consumer rights protection work on a regular basis, considering and approving relevant special reports and submitting them to the Board, and consider the relevant work as an important item of information disclosure;

3. Supervising and assessing the Company's consumer rights protection work from the aspect of comprehensiveness, timeliness and effectiveness, and the senior management's performance of duties; and

4. In accordance with the Company's overall strategy, considering the proposals regarding consumer rights protection before submitting the relevant proposals to the Board for consideration.

In 2019, the Consumer Rights Protection Committee held 2 meetings, at which 3 proposals and reports were considered and approved, namely the Proposal on the Administration Measures of Consumer Rights Protection of Harbin Bank (Amendment), the Proposal on the Work Scheme of Consumer Rights Protection of Harbin Bank for 2019 and the Proposal on the Report of Consumer Rights Protection of Harbin Bank for the First Half of 2019. The attendance of each member in the meetings of Consumer Rights Protection Committee in 2019 is as follows:

Member of Consumer Rights Protection Committee	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy	Attendance rate (Note)
Zhang Zheng	2	2	0	100%
Lyu Tianjun	2	2	0	100%
Sun Feixia	2	2	0	100%
Sun Yan	2	2	0	100%

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

XII. 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 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 5 meetings, at which 16 proposals and reports were considered and approved including the Work Report of the Board of Supervisors, performance evaluation reports, the annual report, profit distribution plan, the internal capital adequacy evaluation procedure report and adjustment of members of special committees of the Board of Supervisors. The attendance of each Supervisor in the meetings of the Board of Supervisors in 2019 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	5	5	0	100%
Li Dong	5	5	0	100%
Li Zhaohua (newly appointed on 17 May 2019)	4	4	0	100%
Sun Yi (newly appointed on 17 May 2019)	4	4	0	100%
Meng Rongfang (resigned on 17 May 2019)	1	1	0	100%
Bai Fan (resigned on 17 May 2019)	1	1	0	100%
Liu Mo	5	5	0	100%
Luo Zhonglin	5	4	1	80%
Fang Shang	5	5	0	100%

Note: During the Reporting Period, attendance by proxy was not counted 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. 7 meetings were held throughout the year at which 15 proposals were studied and considered including the annual performance evaluation report, periodic reports and the profit distribution plan.

(I) Nomination Committee

The Nomination Committee consists of external Supervisors and an employee representative Supervisor. The members include external Supervisors, namely Mr. Li Dong (chairman of the committee) and Mr. Sun Yi, 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; and

8. Other matters authorised by the Board of Supervisors.

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During the Reporting Period, the Nomination Committee held 1 meeting, at which a total of 4 proposals were considered and approved, namely the Evaluation Report on the Performance of the Board and the Directors in 2018 Issued by the Board of Supervisors, the Evaluation Report on the Performance of the Board of Supervisors and Supervisors in 2018, the Evaluation Report on the Performance of Senior Management and its Members in 2018 Issued by the Board of Supervisors and the Proposal on Changes of Certain External Supervisors. The attendance of each Supervisor in the meetings of the Nomination Committee in 2019 is as follows:

Committee member	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy	Attendance rate
Li Dong	1	1	0	100%
Bai Fan (resigned on 17 May 2019)	1	1	0	100%
Sun Yi (newly appointed on 17 May 2019)	0	0	0	–
Luo Zhonglin	1	1	0	100%

(II) Supervision Committee

The Supervision Committee consists of an external Supervisor, a shareholder representative Supervisor and an employee representative Supervisor. The members include an external Supervisor, namely Ms. Li Zhaohua (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 development strategy conform with the actual 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; and

5. Other matters authorised by the Board of Supervisors.

During the Reporting Period, the Supervision Committee held 6 meetings, at which 11 proposals and reports were considered and approved, namely the Proposal on Audit Report on the Economic Responsibility of Gao Shuzhen, Li Qiming, Zhang Bin and Cheng Yun in respect of their Resignation, the Proposal on 2018 Profit Distribution Plan, the 2018 Annual Report, the 2018 Internal Capital Adequacy Evaluation Procedure Report of Harbin Bank, the 2018 Internal Control Evaluation Report of Harbin Bank, the Audit Report on the Economic Responsibility of Lu Weidong in respect of his Resignation, the Proposal on the Implementation of Strategic Evaluation of the Board of Supervisors in 2019, the Audit Report on the Economic Responsibility of Gao Shuzhen in respect of her Resignation, the Audit Report on the Economic Responsibility of Li Qiming in respect of his Resignation, the 2019 Interim Report and Review of 2019 Interim Audit Report. The attendance of each Supervisor in the meetings of the Supervision Committee in 2019 is as follows:

Committee member	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by proxy	Attendance rate
Li Zhaohua (newly appointed on 17 May 2019)	4	4	0	100%
Meng Rongfang (resigned on 17 May 2019)	2	2	0	100%
Liu Mo	6	6	0	100%
Fang Shang	6	6	0	100%

XIII. Change of Members of the Board of Supervisors during the Reporting Period

The Proposal on the Change in External Supervisors of the Seventh Session of the Board of Supervisors was considered and approved at the 2018 annual general meeting of the Company held on 17 May 2019, pursuant to which Ms. Li Zhaohua and Mr. Sun Yi were appointed as the external Supervisors of the seventh session of the Board of Supervisors of the Company. On the same date, Ms. Bai Fan and Ms. Meng Rongfang ceased to be Supervisors of the Company.

XIV. 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.

XV. Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code set out in Appendix 10 of the Hong Kong Listing Rules as the code of conduct for governing the securities transactions by the Directors and Supervisors of the Bank. Having made specific enquiries to the Directors and Supervisors, all Directors and Supervisors have confirmed that they had complied with the aforesaid code during the period from 1 January 2019 to 31 December 2019. The Bank also set guidelines for employees' dealings in the Company's securities on terms no less exacting than the required standards as set out in the Model Code. The Bank is not aware of any violation of such guidelines by any employee.

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

During the Reporting Period, the Board of the Company organised specific trainings with a theme of "Compliance Risk and Prevention for Commercial Banks" for all its Directors, Supervisors and senior management members in order to strengthen the cultivation of compliance awareness and improve of risk prevention capabilities. During the Reporting Period, it organised surveys or investigations and symposia for independent non-executive Directors for 6 times, during which they went to Beijing and Mudanjiang and other regions to conduct on-site visits on HBCF, HB Leasing, Ning'an Rongxing Village and Township Bank Co., Ltd. and Mudanjiang branch. 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 the subsidiaries and branches of the Company. Drawing on their own expertise and practical experience, the independent non-executive Directors gave a number of valuable opinions and advices to subsidiaries and branches, which gave full play to their functions of providing constructive recommendations and expressing independent and objective opinions, and laid a sound foundation for the Bank to improve its group management and decision making.

During the Reporting Period, the Company organised 1 centralized training session for Supervisors and arranged some Supervisors to participate in 1 external training session, i.e. "Governance of the Board of Supervisors of Commercial Bank and Improvement on Supervisors' Performance Ability", to strengthen the sense of responsibility and improve the capability of performance of the Supervisors.

During the Reporting Period, the Board of Supervisors of the Company conducted survey interviews with 6 branches, 8 village and township banks and 4 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 survey interviews with the Human Resources Department, the Internal Audit Department, the Compliance Management Department and the Asset and Liability Management Department to supervise the scientificity and rationality of the management system and policies within the Group.

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The attendance of each Director in training sessions on specific topics and on-site business visits in 2019 is as follows:

Name of Directors	Number of training sessions on specific topics attended	Number of on-site business visits
Guo Zhiwen	1	8
Lyu Tianjun	1	8
Sun Feixia	1	6
Zhang Taoxuan	1	0
Ma Pao-Lin	1	0
Peng Xiaodong	1	0
Chen Danyang	1	0
Wan Kam To (resigned on 8 October 2019)	1	3
Kong Siu Chee (resigned on 8 October 2019)	1	3
Ma Yongqiang	1	3
Zhang Zheng	1	2
Sun Yan	1	3
Hou Bojian (newly appointed on 2 September 2019)	1	2

The attendance of each Supervisor in training sessions on specific topics and on-site business visits in 2019 is as follows:

Name of Supervisors	Number of training sessions on specific topics attended	Number of on-site business visits
Deng Xinquan	1	22
Luo Zhonglin	1	3
Fang Shang	1	4
Li Zhaohua (newly appointed on 17 May 2019)	2	3
Sun Yi (newly appointed on 17 May 2019)	1	5
Li Dong	1	3
Meng Rongfang (resigned on 17 May 2019)	0	0
Bai Fan (resigned on 17 May 2019)	0	0
Liu Mo	1	1

XVII. Amendments to the 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 laws, regulations and regulatory requirements including the Guiding Opinions of the General Office of the State Council on Strengthening the Protection of Financial Consumers' Rights and Interests (《國務院辦公廳關於加強金融消費者權益保護工作的指導意見》), the Implementation Measures of the People's Bank of China for Protecting Financial Consumers' Rights and Interests (《中國人民銀行金融消費者權益保護實施辦法》) and the Guiding Opinions of the General Office of the China Banking Regulatory Commission on Strengthening the Protection of Consumers' Rights and Interests in Banking Industry and Resolving Current Issues of Public Concern (《中國銀監會辦公廳關於加強銀行業消費者權益保護解決當前群眾關切問題的指導意見》), on 21 March 2019, the Board approved the proposal to establish the Consumer Rights Protection Committee and the proposal to make further amendments to the Articles of Association then in effect and the Articles of Association that 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 2018 annual general meeting held on 17 May 2019, and the amended Articles of Association became effective on 30 September 2019 after obtaining the approval of the Heilongjiang Regulatory Bureau of CBIRC.

XVIII. 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 materials from the company secretary. Ms. Sun has confirmed her receipt of no less than 15 hours of relevant professional training during the Reporting Period.

XIX. 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 potentials 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, the Company continuously paid high attention to the 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 2018 annual results and 2019 interim results were held in Hong Kong in March 2019 and August 2019 respectively, with a total of over 70 fund managers, analysts and reporters from China and overseas attended the meeting; (2) The management of the Bank conducted two overseas results roadshows in March 2019 and August 2019 respectively, and met over 40 overseas institutional investors; (3) In 2019, the Bank welcomed institutional investors from Hong Kong, U.S. and Japan etc. as well as analysts from investment banks and securities companies, introducing the Bank's strategic direction and objectives of becoming a "first class international microcredit bank" to the investors and analysts, with a timely conclusion that related the concerns of investors to the Company's operation and management for better commencement of the Company's business and the enhancement of its operation and management; (4) In 2019, the Bank timely responded to the questions and recommendations provided by investors through various channels, including answering over 100 calls from investors, replying numerous e-mail enquiries from investors and analysts, and arranging meetings between the Company and the 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

XX. 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.

XXI. 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.

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(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.

XXII. External Auditors and Auditors' Remuneration

The Bank engaged Ernst & Young Hua Ming LLP and Ernst & Young to respectively act as auditors for 2019 annual financial report of the Bank prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, respectively. The Bank did not change its auditors during the past three years.

For the year ended 31 December 2019, the Company paid RMB4.717 million to the above external auditors for their audit services.

XXIII. 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 2019 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 adopted 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 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 authorities and professional bodies for the purpose of assessing five different internal control elements, namely, the internal 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 2019 review, which have been reported to the Audit Committee and the Board, reflect that the Group's risk management and internal control systems are effective and adequate.

(III) Procedures for 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 established 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 authorities 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 assessment 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 by the Company 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.

If any employee of the Bank becomes aware of any new progress or information which may constitute 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 establishment, 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 branches 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 lines.

During the Reporting Period, the Company implemented a series of works on improving and optimising internal control, primarily including the following: Firstly, the Company improved its risk evaluation system. The Board, the senior management and responsible management personnel of the Company fully understood various risk exposures under the operating and management process, such as credit risk, market risk, liquidity risk, operation risk, legal risk and reputation risk, and basically established a comprehensive risk management system which is suitable for the Bank through years of effort. Major risk exposures, such as credit risk, market risk, liquidity risk, compliance risk, legal risk and reputation risk, were covered by the scope of risk management and were consistently monitored. Series of management measures and systems had been applied gradually 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.

Corporate Governance Report

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 branches and departments, the Bank established the relevant authorisation system which defined the authorities of branches, 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 truthfulness, 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 lines, 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 reported 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 any intervention from 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, with the identification and revelation of risks as the core, the Bank promoted the full practical application of digital audit technology, strengthened the linkage and integration between on-site and off-site and carried out risk-oriented audit with big data support, effectively covering the Group's subsidiaries, the departments at the headquarters, and branches, effectively performed the audit supervision and evaluation function to bring about value-added benefits from audit, and facilitated the Group's steady operation and the achievement of its strategic goals. The Board and senior management paid close attention to the conversion of audit discoveries and results, actively promoted rectification and process optimisation, as well as urged and supervised the effective performance of the audited parties to enhance risk prevention and control capacity.

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 report.

Report of the Board of Supervisors

I. Meeting of the Board of Supervisors

In 2019, the Board of Supervisors held 5 meetings, at which 16 proposals and reports were considered and approved, namely the 2018 Work Report of Board of Supervisors, the 2019 Work Plan of Board of Supervisors, the 2018 Profit Distribution Plan, the 2018 Annual Report, the 2018 Internal Capital Adequacy Evaluation Procedure Report of Harbin Bank, the Proposal on the 2018 Internal Control Evaluation Report of Harbin Bank, the Audit Report on the Economic Responsibility of Lu Weidong in respect of his Resignation, the Evaluation Report on the Performance of the Board and the Directors in 2018 Issued by the Board of Supervisors, the Evaluation Report on the Performance of the Board of Supervisors and the Supervisors in 2018, the Evaluation Report on the Performance of Senior Management and its Members in 2018 Issued by the Board of Supervisors, the Proposal on the Change in External Supervisors, the Proposal on the Changes of Members of the Special Committees under the Board of Supervisors, the Audit Report on the Economic Responsibility of Gao Shuzhen in respect of her Resignation, the Audit Report on the Economic Responsibility of Li Qiming in respect of his Resignation, the 2019 Interim Report and the Review of 2019 Interim Audit Report.

II. Major Work of the Board of Supervisors

(I) System Establishment

During the Reporting Period, in order to comprehensively streamline the working mechanism of the Board of Supervisors for systematic improvements, in accordance with the Articles of Association and relevant laws and regulations, integrated with regulatory inspections, the Board of Supervisors amended the Measures for the Evaluation by the Board of Supervisors on Duty Performance of Directors of Harbin Bank Co., Ltd. and the Measures for the Evaluation of Duty Performance of Senior Management of Harbin Bank Co., Ltd. The Board of Supervisors further implemented the reporting system of senior management to the Board of Supervisors, clarified reporting issues, frequency and time limit, and unblocked information channels to ensure that Supervisors have timely information on the Group's operations and implement effective supervision.

(II) Strategic Assessment

During the Reporting Period, the Board of Supervisors evaluated the scientificity, rationality and effectiveness of the 2016-2020 Strategic Development Plan of Harbin Bank (Revised Edition), in order to pinpoint highlights and shortcomings and put forward rationalisation proposals, providing beneficial reference for the Group's strategic development.

(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 conducted 22 interviews and researches on some provincial and external branches, departments of headquarter and invested village and township banks 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 management systems and policies within the Group. 22 meeting minutes were formed and 2 special research reports were compiled, containing 113 proposals on risk prevention measures, talent team building, innovative technology service methods, optimisation of village and township banks' equity structure, and honest and clean Party conduct, which were highly valued by the Board and senior management and were deployed and implemented in a timely manner.

(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 proposal, 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.

(V) Putting Forward Management Suggestions

During the Reporting Period, the Board of Supervisors consistently paid attention to the 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.

(VI) Self-enrichment

Firstly, the Board of Supervisors organised special research for external Supervisors in respect of construction of corporate governance mechanism, group management of internal control and compliance, and analysis of litigation cases, in order to provide suggestions for the development of the Group and improve duty performance. Secondly, 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 for the Supervisors to attend the "Governance of the Board of Supervisors of Commercial Bank and Improvement on Supervisors' Performance Ability" in order to enrich their thinking and improve their theoretical skills. Thirdly, the Board of Supervisors strengthened the file management for Supervisors' duty performance, paid attention to evaluation on daily accumulation and trace management, as well as detailed assessment of the Supervisors' meeting attendance and status of comments, 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
30 March 2020

Important Events

I. Issuance of Debt Securities

(I) Bond Issuance during the Reporting Period

During the Reporting Period, the Company and its subsidiaries did not issue any new bonds.

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

1. 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 Company's stock assets, optimising asset structure and improving the Company'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

2. *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).

3. *2016 HB Leasing financial bonds*

According to the resolutions of the 5th meeting of the first session of the board of directors of HB Leasing on 17 July 2015 and the 2015 first extraordinary general meeting of HB Leasing on 17 July 2015, the board of directors and the shareholders' general meeting 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 and a coupon rate of 3.50%, the interest is calculated annually at a fixed rate and its short name was "16 HB Leasing Bond 01" (bond code: 1622010), with principal and interest payment due and paid on 29 July 2019.

4. *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 and a coupon rate of 4.75%, and the interest is calculated annually at a fixed rate, and its short name was "17 Harbin Bank Green Finance 03" (bond code: 1720022).

5. *2018 HB Leasing Second Tranche of Financial Bonds*

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 at 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 second tranche of financial bonds on 2 May 2018. The issuance size was RMB1.0 billion with a term of 3 years and a coupon rate of 5.48%, and the interest is calculated annually at a fixed rate, and its short name was "18 HB Leasing Bond 01" (bond code: 1822011).

Important Events

(III) Proposed Issuance of Financial Bonds

1. 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. Within the issuance size and prior to the 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.

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 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 issuance size of the capital supplemental bonds is to be determined by the Board or its designated person 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 expiration date prior to the exercise of redemption right by the Company. Interests on the capital supplemental bonds shall be paid in cash. The interest-bearing principal amount of the capital supplemental bonds shall be the aggregate amount of the relevant tranches 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 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 of the Company.

3. According to the resolutions of the 23rd meeting of the second session of the board of directors of HB Leasing held on 19 April 2019 and the 2018 annual general meeting of HB Leasing held on 20 June 2019, the board of directors and the general meeting of HB Leasing approved the Proposal on the Issuance of Financial Bonds, approving the public issuance of not more than RMB3.5 billion financial bonds by HB Leasing with a term of not more than 5 years. The interest rate of the bond is fixed/floating, which is finally determined through bookkeeping or other means. The interest will be paid annually, and the repayment of principal is in a lump sum when it becomes due. The proceeds raised from the issuance of the bonds will be used in the investment in agriculture and greening projects.

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 proposal 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.

According to the resolutions (the "**Relevant Shareholders' Resolutions**") of the 2017 first extraordinary general meeting, the 2017 first domestic shareholders' class meeting and the 2017 first H shareholders' class meeting, the validity period of both the issuance plan of the offshore preference shares (the "**Offshore Issuance Plan**") and the Relevant Shareholders' Resolutions is 36 months from the date being considered and approved at the 2017 first extraordinary general meeting. Considering that the validity period of the Relevant Shareholders' Resolutions was going to expire and in order to ensure the continuity and validity of the relevant work of the issuance of the offshore preference shares, the Proposal on the Extension of the Validity Period of the Resolution of Shareholders' General Meeting in respect of the Non-Public Issuance of Offshore Preference Shares was considered and approved at the 2018 annual general meeting, the 2019 first domestic shareholders' class meeting and the 2019 first H shareholders' class meeting on 17 May 2019. The extended validity period of both the Offshore Issuance Plan and the Relevant Shareholders' Resolutions was 12 months from the date of being considered and approved at the 2018 annual general meeting. Meanwhile, considering that the extended validity period of the authorisation was going to expire and in order to ensure the continuity and validity of the relevant work of the issuance of the offshore preference shares, 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 2018 annual general meeting, the 2019 first domestic shareholders' class meeting and the 2019 first H shareholders' class meeting. The further extended validity period of the authorisation was 12 months from the date of being considered and approved at the 2018 annual general meeting (i.e. 17 May 2019).

Important Events

The issuance of Offshore Preference Shares is still subject to (i) the approval by the Heilongjiang Bureau of the CBIRC, (ii) the approval by the CSRC, and (iii) the filing and registration with the National Development and Reform Commission. The Bank had previously obtained the approval by the Heilongjiang Bureau of the CBRC (the "**Approval**") and had made the relevant filing and registration with the National Development and Reform Commission (the "**Filing and Registration**") in relation to the issuance of Offshore Preference Shares, and had obtained the approval by the National Development and Reform Commission on the extension of the validity period of the Filing and Registration. However, both the validity period of the Approval and the extended validity period of the Filing and Registration have been expired. The Bank will continue to look for an appropriate timing for the issuance of Offshore Preference Shares, and when appropriate, (i) reapply for the approval by the Heilongjiang Bureau of CBIRC, (ii) apply for the approval by the CSRC, and (iii) complete the relevant filing and registration with the National Development and Reform Commission. 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.

III. 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 RMB41 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.

IV. 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 or circulating criticisms by the CSRC or public censures by the Hong Kong Stock Exchange, or penalties by other relevant regulatory authorities that posed significant impact on the Company's operation.

V. Material Contracts and Their Performance

During the Reporting Period, the Company had not entered into any material contracts nor performed such contracts.

VI. Audit Review

The Bank's consolidated financial statements for the year ended 31 December 2019 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 2019 had been reviewed by the Audit Committee of the Board and the Board of Directors.

Important Events

VII. 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.

VIII. Profit Distribution during the Reporting Period

The Proposal on the 2018 Profit Distribution Plan was considered and approved at the 2018 annual general meeting of the Company held on 17 May 2019. The Company did not distribute any final dividend for 2018 to all Shareholders. The Company did not distribute any interim dividend for the six months ended 30 June 2019.

IX. 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 2019 was considered and approved at the 2018 annual general meeting of the Company held on 17 May 2019.

X. 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	52	Executive Director and Chairman of the Board	2018.5.18 – the conclusion of the 2020 annual general meeting
Lyu Tianjun	Male	53	Executive Director and President	2018.7.6 – the conclusion of the 2020 annual general meeting
Sun Feixia	Female	49	Executive Director and Vice Chairman of the Board	2018.7.6 – the conclusion of the 2020 annual general meeting
Zhang Taoxuan	Male	58	Non-Executive Director	2018.5.18 – the conclusion of the 2020 annual general meeting
Ma Pao-Lin	Male	57	Non-Executive Director	2018.5.18 – the conclusion of the 2020 annual general meeting
Peng Xiaodong	Male	49	Non-Executive Director	2018.5.18 – the conclusion of the 2020 annual general meeting
Chen Danyang	Male	46	Non-Executive Director	2018.5.18 – the conclusion of the 2020 annual general meeting
Ma Yongqiang	Male	44	Independent Non-Executive Director	2018.7.6 – the conclusion of the 2020 annual general meeting
Zhang Zheng	Male	47	Independent Non-Executive Director	2018.7.6 – the conclusion of the 2020 annual general meeting
Sun Yan	Male	51	Independent Non-Executive Director	2018.7.6 – the conclusion of the 2020 annual general meeting
Hou Bojian	Male	60	Independent Non-Executive Director	2019.9.2 – 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	55	Employee Representative Supervisor and Chairman of the Board of Supervisors	2018.5.18 – the conclusion of the 2020 annual general meeting
Luo Zhonglin	Male	54	Employee Representative Supervisor	2018.5.18 – the conclusion of the 2020 annual general meeting
Fang Shang	Male	48	Employee Representative Supervisor	2018.5.18 – the conclusion of the 2020 annual general meeting
Liu Mo	Male	41	Shareholder Representative Supervisor	2018.5.18 – the conclusion of the 2020 annual general meeting
Li Dong	Male	61	External Supervisor	2018.5.18 – the conclusion of the 2020 annual general meeting
Li Zhaohua	Female	54	External Supervisor	2019.5.17 – the conclusion of the 2020 annual general meeting
Sun Yi	Male	49	External Supervisor	2019.5.17 – the conclusion of the 2020 annual general meeting

Senior Management

Name	Gender	Age	Position	Term of office
Lyu Tianjun	Male	53	Executive Director and President	2018.7 – the conclusion of the 2020 annual general meeting
Sun Feixia	Female	49	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	50	Executive Vice President	2018.5 – the conclusion of the 2020 annual general meeting
Wang Tao	Male	44	Assistant to the President	2018.7 – the conclusion of the 2020 annual general meeting
Yang Dazhi	Male	43	Assistant to the President	2018.7 – the conclusion of the 2020 annual general meeting
Zhou Jie	Female	45	Assistant to the President	2018.7 – the conclusion of the 2020 annual general meeting
He Dongbo	Male	41	Assistant to the President	2018.7 – 28 February 2020
Wang Ying	Female	48	Chief Audit Officer	2018.7 – the conclusion of the 2020 annual general meeting
Gong Tiemin	Male	44	Chief Risk Officer	2018.8 – the conclusion of the 2020 annual general meeting
Qi Yilei	Male	48	Chief Credit Approval Officer	2018.7 – the conclusion of the 2020 annual general meeting
Liang Yong	Male	48	Chief Information Officer	2018.10 – the conclusion of the 2020 annual general meeting

Directors, Supervisors, Senior Management, Employees and Organisations

II. Information on Remuneration Paid to Directors, Supervisors and Senior Management for 2019

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 2019 is set out below:

Remuneration band	Number of individuals
RMB1,000,000 and below	0
RMB1,000,001 to RMB1,500,000	0
RMB1,500,001 to RMB2,000,000	4
RMB2,000,001 to RMB2,500,000	3
RMB2,500,001 to RMB3,000,000	1
RMB3,000,001 and above	3

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

(I) Information on Directors

Executive Directors

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

Directors, Supervisors, Senior Management, Employees and Organisations

Mr. Lyu Tianjun (呂天君), 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 head of the government debt management division of Harbin Municipal Finance Bureau since May 2019. From April 2011 to December 2019, he was the general manager of Harbin Economic Development. From April 2011 to May 2019, he was the head of the treasury division and the general manager of the payment centre of Harbin Municipal Finance Bureau. 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.

Directors, Supervisors, Senior Management, Employees and Organisations

Mr. Ma Pao-Lin (馬寶琳), has been a non-executive Director of the Company since August 2015. Mr. Ma has been a consultant 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 September 2019, and a deputy general manager and executive deputy general manager of Fubon Life Insurance Company Limited from July 2007 to August 2019. Mr. Ma was a supervisor of Fubon Securities Investment Trust Co., Ltd. from August 2018 to August 2019, and has been a consultant of Fubon Securities Investment Trust Co., Ltd. since December 2019. He has been a director of Long Time Tech. Co., Ltd. since October 2018, 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 director of Diamond BioFund Inc. since January 2013 and a director of Diamond Capital Inc. since January 2013. He was the chairman of Fubon Financial Holding Venture Capital Corp. from December 2018 to August 2019, a director of Fubon Financial Holding Venture Capital Corp. from October 2009 to August 2019, and a manager of Fubon Financial Holding Co., Ltd. from October 2008 to August 2019. 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. 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 dean of Guanghua School of Management of Peking University since January 2020, a professor and a Ph.D. tutor of the Finance Department of Guanghua School of Management of Peking University since August 2016, the deputy director of the School Administration Committee of Guanghua School of Management of Peking University since December 2018, 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

Mr. Hou Bojian (侯伯堅) (former name: Hou Bojian (侯柏堅)), an independent non-executive Director of the Company since September 2019. Mr. Hou is a holder of the professional qualification certificate of Hong Kong securities industry and the fund manager qualification certificate of the Asset Management Association of China. Mr. Hou has been a managing director of Hong Kong HT Strategy Ltd. since October 2011, a director of Shanghai Tonglian Financial Services Co., Ltd. (上海通聯金融服務有限公司) since August 2011, a supervisor of Shanghai Rensheng Import and Export Co., Ltd. (上海仁生進出口有限公司) since August 2011, a director of Guangzhou Renhui Investment Co., Ltd. (廣州仁匯投資有限公司) since December 2010, a director of Guangzhou Renhui Trade Development Co., Ltd. (廣州仁輝貿易發展有限公司) since April 2009, and the deputy chief executive officer of Hong Kong Ren Tong Group Limited (香港仁通集團有限公司) since August 2008. Mr. Hou served as a director of Shenzhen Zhongzhanxin Technology Fund Investment Partnership (深圳中展信科技基金投資合夥企業) from December 2015 to February 2017. Previously, Mr. Hou served as an executive director of Full Apex (Holdings) Limited (a company listed on the Singapore Exchange Securities Trading Limited, stock code: BTY) from April 2005 to August 2008. From January 2001 to April 2005, he held several positions, including a senior consultant of Guangzhou Tiancheng Certified Public Accountants, a financial adviser of Guangzhou Full Apex Group and its member companies and a financial adviser of Hong Kong Ren Tong Group (香港仁通集團). Mr. Hou served as an executive director, vice general manager and chief financial officer of Guangdong Investment Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00270) from July 1992 to January 2001. From 1992 to 2001, he held several positions during the same period, including a non-executive director of Guangdong Land Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00124, originally known as Guangdong Brewery Holdings Limited), a non-executive director of Guangdong Tannery Limited (a company listed on the Hong Kong Stock Exchange, stock code: 01058), a director of Hi Sun Technology (China) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00818, originally known as Guangdong Building Industries Limited), an executive director of Guangnan (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 01203), the chairman of the supervisory committee of Guangdong Teem (Holdings) Limited, a director of Hong Kong Baiyue Finance Limited, a director of Hong Kong Citybus Ltd. (香港城市巴士有限公司), a director of Hong Kong Far East Landfill Technologies Limited (香港遠東垃圾堆填有限公司), a director and chief financial officer of Hong Kong Guangdong Transportation Co., Ltd. (香港廣東交通有限公司), a director of Hong Kong Guangdong Electricity Co., Ltd. (香港廣東電力有限公司), a director of Wharney Guang Dong Hotel Hong Kong, a director of Guangdong Hotel Hong Kong, and a deputy managing director of Hong Kong Bidacheng Investment Co., Ltd. (香港必達成投資有限公司). Mr. Hou served as a vice general manager of the finance department and the general manager of the accounting department of Guangdong Holdings Group (香港粵海集團) from May 1989 to July 1992, the chief financial officer of Shenzhen Guangdong Hotel Co., Ltd. (深圳粵海酒店有限公司) from July 1988 to May 1989, and a technician at Guangdong Yuedong Diesel Engine Factory (廣東粵東柴油機廠) from 1976 to 1981. Mr. Hou obtained his master's degree in economics from Jinan University in July 1988, and was granted the title of accountant by Guangdong accountant professional title appraisal panel in October 1992.

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. 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.

Directors, Supervisors, Senior Management, Employees and Organisations

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 has been an arbitrator of the fifth committee of the Harbin Arbitration Commission since September 2018. 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.

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, associate director and director of the finance division, and is currently a director of the proprietary investment 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. Li Zhaohua (李兆華), has been an external Supervisor of the Company since May 2019. Ms. Li has been a professor at the School of Accounting of Harbin University of Commerce since July 2005, a standing executive member of the fifth council of Heilongjiang Institute of Internal Auditors since December 2017, a performance appraisal expert of Heilongjiang Enterprises Association since June 2017, an executive member of the third council of Heilongjiang Institute of Management since December 2016, a bidding evaluation expert for government procurements in Heilongjiang since May 2015 and the vice president of the Harbin Institute of Environment and Operations since March 2015. Ms. Li served as an associate professor of the Accounting Department of Harbin University of Commerce from May 2000 to July 2005, an associate professor of the Accounting Department of Heilongjiang College of Finance and Political Science from September 1996 to May 2000, a lecturer of the Audit Department of Heilongjiang College of Finance and Political Science from September 1993 to September 1996, a teaching assistant of the Audit Department of Heilongjiang College of Finance and Political Science from July 1988 to September 1993, and a professional advisor of the Accounting Department of the Professional Construction Committee of Heilongjiang University of Finance and Economics from June 2018 to April 2019. Ms. Li obtained her master's degree in economics from Peking University in September 1996.

Directors, Supervisors, Senior Management, Employees and Organisations

Mr. Sun Yi (孫毅), has been an external Supervisor of the Company since May 2019. Mr. Sun has been a professor of the School of Law of Heilongjiang University since September 2015, a standing executive member of the sixth council of the Harbin Law Society since December 2018, a member of the second council of the Civil Law Research Institute of the China Law Association since June 2017, an arbitrator of the fourth and fifth committee of the Harbin Arbitration Commission since September 2013, an editor of the Northern Legal Science Magazine since January 2007, a researcher of the Civil and Commercial Laws Research Center of Heilongjiang University since April 2004 and a lawyer of Tianleping Law Firm since November 2003. Mr. Sun served as an associate professor of the School of Law of Heilongjiang University from September 2004 to August 2015, a lecturer of the School of Law of Heilongjiang University from September 1999 to August 2004, and a teaching assistant of the School of Law of Heilongjiang University from September 1996 to August 1999. In June 2003, he obtained a doctorate degree in law from China University of Political Science and Law. Mr. Sun obtained the practicing lawyer's license in May 1997.

(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.

Directors, Supervisors, Senior Management, Employees and Organisations

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 Cross-border Finance Department and the president of Sino-Russia SBU of the Company since April 2019. From January 2018 to April 2019, he was the general manager of the Corporate Finance Department of the Company. From August 2016 to January 2018, he 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. Ms. Zhou has been the general manager of the Retail Finance Department of the Company since January 2018. From January 2018 to April 2019, she was the general manager of the Cross-border Finance Department of the Company. From August 2015 to April 2019, she was the president of Sino-Russia SBU. Ms. Zhou has been 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), was an assistant to the president of the Company from July 2018 to 28 February 2020. 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 Company 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 manager 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 refer to "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 Remuneration 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 2019, the Company (excluding subsidiaries) had 6,941 employees, among which 1,080 were headquarters staff, accounting for 15.56% of the total, and 2,441 were Harbin Branch staff, accounting for 35.17% of the total. Regarding the age composition, the average age of employees of the Company is 35.26. 1,451 are between 26 and 30 years old, accounting for 20.9% of the total. Regarding the educational background composition, there are 6,192 employees with a bachelor's degree or above in the Company, accounting for 89.21% of the total. Regarding the number of years of services, the Company had 2,196 employees with 10 years or more banking experiences, accounting for 31.64% of the total. Staff turnover rate of the Company (excluding subsidiaries) was 3.78%. Key talents' turnover rate of the Bank was 2.39%.

Subsidiaries had 1,597 employees in total.

(II) Staff training Programmes

During the Reporting Period, the Bank, adhering to the work theme of "overall enhancement", focused on the training needs of staff from different levels with respect to job competency and core competency improvement, with particular emphasis on "new employees" and "employees in new management positions". In the meantime, the Bank continued to create excellent training programs by initiating the "Ten Hundreds" (十個一百) construction project and the "embark, endure, cruise, escort and voyage" (啟航、續航、巡航、護航、遠航) training system in order to improve employees' professional capacity. Both training completion rate and coverage rate were 100%. In 2019, the Company (excluding subsidiaries) arranged 744 training sessions in total, including 581 internal training sessions, and 163 external training sessions for selected staff of the Company. The total training hours amounted to 3,307, and the number of head office level trainers amounted to 65.

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 its strategic objectives layer by layer, and carries out the mechanism of review every half year. 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, continuing to carry out the "Leaders" Training Program in 2019 covering almost 2,000 employees; conducted selection of trainee assistants for the head office, with 71 trainee assistants in reserve and 34 appointed; facilitated talents exchange and secondment between the head office and branches, with 37 staff participating in head office/branch exchange throughout the year; thirdly, adopted a points system for the performance review results, with employees' annual performance review results translated into points, which may be redeemed for rank or salary promotion qualifications, ensuring the "fairness, openness, transparency" in the rank and salary promotion system, with over 2,400 employees achieving promotion in rank or salary during the year.

(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 2019, the Bank improved its employee remuneration structure and remuneration standard, with over 5,200 employees in the middle or lower ranks receiving fixed remuneration increases. In 2019, staff costs of the Bank were RMB2,762 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	131 sub-branches
2	Shuangyashan Branch	Jinyu Building, Xinxing Street, Jianshan District, Shuangyashan	12 sub-branches
3	Dalian Branch	No. 118, Gangxing Road, 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	Room 000101-000114, Building B, Garden Building, 7th Committee, Xiangyang District, Hegang City	8 sub-branches
7	Shenyang Branch	No. 200A 3, 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	7 sub-branches
12	Qitaihe Branch	No. 247, Dongjin Street, Taoshan District, Qitaihe	6 sub-branches
13	Mudanjiang Branch	No. 267, Taiping Road, Dong'an District, Mudanjiang	7 sub-branches
14	Jiamusi Branch	No. 152 Heping Street, Qianjin District, Jiamusi	4 sub-branches
15	Qiqihaer Branch	No. 37, Longsha Road, Jianhua District, Qiqihaer City	8 sub-branches
16	Yichun Branch	No. 115, Xinxing Middle Street, Yichun District, Yichun City	1 sub-branch
17	Nongken Branch	Financial Building, Yingbin Road, Nongken Jiansanjiang Administration, Heilongjiang Province	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 165 to 287, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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	
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 2019, gross loans and financial investments at amortised cost amounted to RMB411,627 million, representing 71% of total assets, and impairment allowance for loans and financial investments at amortised cost amounted to RMB12,004 million), impairment of loans and financial investments at amortised cost is considered a key audit matter. 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 Relevant disclosures are included in Note 4, Note 21, Note 23 and Note 49 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 increases in credit risk; • Assessed forward-looking information that management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumption of multiple macroeconomic scenarios; and • 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 losses, including loan business data, internal credit rating data, macroeconomic statistics, impairment system computational logic, as well as data inputs and outputs; and • Evaluated and tested key controls over the expected credit loss model, 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 the link between power and returns. The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. As at 31 December 2019, the balance of unconsolidated wealth management products managed by the Group was RMB65,657 million, and the amount of investments in unconsolidated structured entities invested by the Group was RMB166,599 million. 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 45 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
30 March 2020

Consolidated Statement of Profit or Loss

For The Year Ended 31 December 2019
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December 2019	2018
Interest income	5	**28,421,578**	27,631,719
Interest expense	5	**(17,585,533)**	(17,504,676)
NET INTEREST INCOME	5	**10,836,045**	10,127,043
Fee and commission income	6	**2,477,541**	2,586,139
Fee and commission expense	6	**(251,909)**	(194,709)
NET FEE AND COMMISSION INCOME	6	**2,225,632**	2,391,430
Net trading income	7	**1,486,496**	1,432,138
Net gain on financial investments	8	**432,305**	169,783
Other operating income, net	9	**143,922**	205,014
OPERATING INCOME		**15,124,400**	14,325,408
Operating expenses	10	**(5,153,006)**	(4,594,310)
Credit impairment losses	13	**(5,180,902)**	(2,425,861)
OPERATING PROFIT		**4,790,492**	7,305,237
PROFIT BEFORE TAX		**4,790,492**	7,305,237
Income tax expense	14	**(1,155,415)**	(1,730,829)
PROFIT FOR THE YEAR		**3,635,077**	5,574,408
Attributable to:			
Owners of the parent		**3,558,447**	5,548,642
Non-controlling interests		**76,630**	25,766
		3,635,077	5,574,408
EARNINGS PER SHARE (RMB yuan)			
Basic and diluted	17	**0.32**	0.50

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 2019
(In RMB thousands, unless otherwise stated)

		Years ended 31 December	
	Note	**2019**	2018
Profit for the year		**3,635,077**	5,574,408
Other comprehensive income, net of tax:			
Other comprehensive income attributable to owners of the parent	40	**(31,358)**	852,402
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		**5,912**	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		**(86,080)**	829,069
– Allowance for credit impairment on investments in debt instruments measured at fair value through other comprehensive income		**48,810**	(837)
Subtotal of other comprehensive income for the year, net of tax		**(31,358)**	852,402
Total comprehensive income for the year		**3,603,719**	6,426,810
Total comprehensive income attributable to:			
Owners of the parent		**3,527,089**	6,401,044
Non-controlling interests		**76,630**	25,766
Total		**3,603,719**	6,426,810

Consolidated Statement of Financial Position

As at 31 December 2019
(In RMB thousands, unless otherwise stated)

	Note	As at 31 December 2019	As at 31 December 2018
ASSETS			
Cash and balances with the central bank	18	**52,282,319**	75,808,679
Due from banks and other financial institutions	19	**3,731,686**	21,333,475
Reverse repurchase agreements	20	**–**	10,856,196
Loans and advances to customers	21	**258,496,366**	248,571,811
Derivative financial assets	22	**28,521**	16,248
Financial investments	23	**231,843,228**	224,878,613
– financial assets at fair value through profit or loss	(a)	**59,606,966**	38,388,632
– financial assets at fair value through other comprehensive income	(b)	**26,727,296**	34,968,319
– financial assets at amortised cost	(c)	**145,508,966**	151,521,662
Finance lease receivables	24	**23,124,389**	21,757,875
Property and equipment	25	**8,947,322**	8,852,940
Deferred income tax assets	26	**2,638,284**	2,013,730
Other assets	27	**1,997,323**	1,498,916
TOTAL ASSETS		**583,089,438**	615,588,483
LIABILITIES			
Due to the central bank	28	**3,603,534**	3,173,554
Borrowings from banks and other financial institutions	29	**13,053,570**	14,677,842
Due to banks	30	**12,564,272**	28,645,246
Derivative financial liabilities	22	**26,881**	14,608
Repurchase agreements	31	**18,361,742**	2,990,739
Due to customers	32	**431,361,665**	400,280,197
Income tax payable		**830,391**	290,973
Debt securities issued	33	**45,962,823**	112,766,380
Other liabilities	34	**5,683,396**	5,257,427
TOTAL LIABILITIES		**531,448,274**	568,096,966

Consolidated Statement of Financial Position

As at 31 December 2019
(In RMB thousands, unless otherwise stated)

	Note	As at 31 December 2019	As at 31 December 2018
EQUITY			
Equity attributable to owners of the parent			
Share capital	35	**10,995,600**	10,995,600
Capital reserve	36	**7,663,342**	7,638,457
Other comprehensive income	40	**319,926**	351,284
Surplus reserves	37	**3,782,467**	3,425,328
General and regulatory reserves	38	**7,520,778**	7,143,548
Undistributed profits	39	**19,544,558**	16,720,480
		49,826,671	46,274,697
Non-controlling interests		**1,814,493**	1,216,820
TOTAL EQUITY		**51,641,164**	47,491,517
TOTAL EQUITY AND LIABILITIES		**583,089,438**	615,588,483

GUO Zhiwen	**LYU Tianjun**	**WANG Haibin**	**CHEN Liyang**
Legal representative	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 2019
(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 1 January 2019	**10,995,600**	**7,638,457**	**351,284**	**3,425,328**	**7,143,548**	**16,720,480**	**1,216,820**	**47,491,517**
Movements in this year	**–**	**24,885**	**(31,358)**	**357,139**	**377,230**	**2,824,078**	**597,673**	**4,149,647**
Total comprehensive income	–	–	(31,358)	–	–	3,558,447	76,630	3,603,719
Capital contributed by owners	–	–	–	–	–	–	549,256	549,256
Profit distribution	–	–	–	357,139	377,230	(734,369)	(3,350)	(3,350)
1. Appropriation to surplus reserves	–	–	–	357,139	–	(357,139)	–	–
2. Appropriation to general and regulatory reserves (i)	–	–	–	–	377,230	(377,230)	–	–
3. Distribution to shareholders	–	–	–	–	–	–	(3,350)	(3,350)
Others	–	24,885	–	–	–	–	(24,863)	22
Balance as at 31 December 2019	**10,995,600**	**7,663,342**	**319,926**	**3,782,467**	**7,520,778**	**19,544,558**	**1,814,493**	**51,641,164**

(i) Includes the appropriation made by subsidiaries in the amount of RMB96,233 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 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.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2019
(In RMB thousands, unless otherwise stated)

		Years ended 31 December	
	Note	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,790,492**	7,305,237
Adjustments for:			
Depreciation and amortisation	10	**760,703**	547,374
Net trading gain	7	**(1,486,496)**	(1,432,138)
Dividend income	8	**(2,173)**	(1,594)
Interest income on financial investments		**(9,142,491)**	(10,104,683)
Credit impairment losses	13	**5,180,902**	2,425,861
Unrealised foreign exchange gain		**(40,387)**	(82,632)
Interest expense on issuance of bonds	5	**3,102,038**	5,005,181
Interest expense on lease liabilities		**28,503**	–
Accreted interest on impaired loans	21	**(78,535)**	(70,831)
Net gain on disposal of financial investments	8	**(430,132)**	(168,189)
Net gain on disposal of property and equipment		**(13,631)**	(28,970)
		2,668,793	3,394,616
Net decrease/(increase) in operating assets:			
Due from the central bank		**1,022,700**	8,636,782
Due from banks and other financial institutions		**3,207,582**	2,890,361
Reverse repurchase agreements		**8,711**	–
Loans and advances to customers		**(11,835,969)**	(8,838,224)
Financial lease receivables		**(1,716,599)**	(6,134,221)
Other assets		**(721,243)**	(310,093)
		(10,034,818)	(3,755,395)
Net increase/(decrease) in operating liabilities:			
Due to the central bank		**429,980**	2,632,590
Borrowings from banks and other financial institutions		**(1,024,272)**	1,695,251
Due to banks		**(16,080,974)**	4,580,995
Repurchase agreements		**15,371,003**	(1,600,000)
Due to customers		**31,081,468**	17,258,406
Other liabilities		**54,765**	1,064,057
		29,831,970	25,631,299
Net cash flows from operating activities before tax		**22,465,945**	25,270,520
Income tax paid		**(1,230,098)**	(2,188,299)
Net cash flows from operating activities		**21,235,847**	23,082,221

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2019
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December 2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other long-term assets		**(806,402)**	(689,627)
Proceeds from disposal of property and equipment		**20,082**	54,395
Cash paid for investments		**(1,853,953,415)**	(1,063,763,007)
Proceeds from sales and redemptions of investments		**1,844,524,446**	1,039,712,048
Return on investments		**10,813,844**	10,585,183
Net cash flows from/(used in) investing activities		**598,555**	(14,101,008)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		**549,278**	50,000
Proceeds from issue of debt securities		**43,514,150**	138,987,146
Payment for redemption of debt securities		**(108,941,897)**	(119,006,723)
Interest and issue expenses paid on debt securities		**(4,477,848)**	(4,004,262)
Dividends paid on ordinary shares		**–**	(548,631)
Payment for lease liabilities		**(227,761)**	–
Distribution of dividends to non-controlling shareholders		**(3,350)**	(1,100)
Net cash flows from/(used in) financing activities		**(69,587,428)**	15,476,430
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(47,753,026)**	24,457,643
Cash and cash equivalents at beginning of the year		**64,157,392**	39,671,469
Effect of exchange rate changes on cash and cash equivalents		**9,666**	28,280
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	41	**16,414,032**	64,157,392
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES INCLUDE:			
Interest received		**18,598,789**	17,030,408
Interest paid		**(13,695,857)**	(12,652,035)

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2019
(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 2019 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 2019
(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.	(i)	8 June 2011	Xin'an, Henan	33,300	90.09	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 2019
(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.	(ii)	24 Jan 2017	Harbin, Heilongjiang	1,500,000	53.00	795,000	Consumer finance

During the years ended 31 December 2019 and 2018, the major changes to the structure of the Group are as follows:

(i) With the approval of Luoyang Banking and Insurance Regulatory Bureau, Xin'an County Fada Construction Investment Group Co., Ltd. made a capital injection of RMB3.3 million into Xin'an Rongxing Village and Township Bank Co., Ltd. ("Xin'an Rongxing"). After the capital injection, the total registered capital of Xin'an Rongxing increased to RMB33.3 million. The Bank's equity interest in Xin'an Rongxing has decreased from 100.00% to 90.09%, but the Bank is still the controlling shareholder of Xin'an Rongxing.

(ii) With the approval of Heilongjiang Banking and Insurance Regulatory Bureau, Du Xiaoman (Chongqing) Technology Co., Ltd. made a capital injection of RMB450 million into Harbin Bank Consumer Finance Co, Ltd ("Harbin Bank Consumer Finance") in May 2019, holding 30.00% of its shares and becoming its second largest shareholder. After the capital injection, the registered capital of Harbin Bank Consumer Finance increased to RMB1,500 million. The Bank's equity interest in Harbin Bank Consumer Finance has decreased from 75.71% to 53.00%, but the Bank is still the controlling shareholder of Harbin Bank Consumer Finance.

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 2019, 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 derivative financial assets, financial assets at fair value through profit or loss, and financial assets at fair value through other comprehensive income. These consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December 2019. 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 Bank 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 Bank'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.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2019
(In RMB thousands, unless otherwise stated)

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

2.1 Basis of Preparation (Continued)

Basis of consolidation (Continued)

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.

2.2 Standards, Amendments and Interpretations Effective in 2019

On 1 January 2019, the Group adopted the following standards, amendments and interpretations.

IFRS 16	*Leases*
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatment*
IAS 19 Amendments	*Plan Amendment, Curtailment or Settlement*
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)	

In January 2016, IASB issued IFRS 16, which replaces IAS 17 and IFRIC 4. Under IFRS 16, the classification of finance lease and operating lease is removed, and lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and leases of low-value assets elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. The Group has adopted IFRS 16 since 1 January 2019. The Group neither restated comparative data nor reassessed lease contracts effective before 1 January 2019. The Group elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and leases that expire within 12 months since the effective date, but recognised profit or loss on a straight-line basis over the lease term.

(In RMB thousands, unless otherwise stated)

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

2.2 Standards, Amendments and Interpretations Effective in 2019 (Continued)

The Group discounted the minimum lease payment for operating leases disclosed in the financial statements of 2018 at the incremental borrowing interest rate. The weighted average interest rate was 4.79%. The reconciliation to the opening balance for lease liabilities in the statement of financial position on January 1, 2019 was as follows:

Minimum lease payment for operating leases as at 31 December 2018	946,086
Less: minimum lease payment with recognition exemption – short-term leases	(9,334)
Less: minimum lease payment with recognition exemption – leases of low-value assets	(126,816)
Less: The impact of discount with weighted average incremental borrowing rate as at 1 January 2019	(99,757)
Lease liabilities on 1 January 2019	710,179
Add: Other adjustments	11,175
Right-of-use assets on 1 January 2019	721,354

IFRIC Interpretation 23 clarifies how the recognition and measurement in IAS 12 Income Taxes apply to income tax treatment with uncertainty. The interpretation addresses four aspects: (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances.

Amendments to IAS 19 address the accounting for a defined benefit plan when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment requires that the entity should adopt updated actuarial assumptions to calculate service costs and net interest in the remaining reporting period. The amendment clarifies how the accounting requirements for amendment, curtailment or settlement of defined benefit plans will affect asset ceiling; however, the amendment does not include an accounting method for "significant market fluctuations" after the plan amendment, curtailment or settlement.

Amendments to IAS 28 clarify that IFRS 9 applies to long-term benefits that are not measured using the equity method but that essentially a net investment in associates and joint ventures. With some exceptions, entities must apply retrospective adjustments when adopting amendments.

IFRS Improvements 2015-2017 were promulgated in December 2017. The improvement affects IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Tax* and IAS 23 *Borrowing Costs*.

The adoption of the above standards, amendments and interpretation announcements have no significant impact on the operating results, financial position and comprehensive income.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2019
(In RMB thousands, unless otherwise stated)

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

2.3 Standards, Amendments and Interpretations that are Not Yet Effective and Have Not Been Early Adopted by the Group in 2019

		Effective from the date/ after the year
IFRS 3 Amendments	*Definition of a Business*	1 January 2020
IAS 1 and IAS 8 Amendments	*Definition of Materiality*	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	*Interest Rate Benchmark Reform*	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

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendment clarifies 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 of the inputs and processes needed to create outputs. The amendment removes 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 acquired substantive processes together significantly contribute to the ability to create outputs. The amendment has 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 amendment provides 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.

IAS 1 and IAS 8 Amendments provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendment clarifies that materiality will depend 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.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendment provides temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. The amendment must be applied retrospectively when adopted. However, any previously unassigned hedging relationship cannot be re-defined when the amendment is applied. Furthermore, hedging relationship cannot be designated based on ex post benefits.

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

2.3 Standards, Amendments and Interpretations that are Not Yet Effective and Have Not Been Early Adopted by the Group in 2019 (Continued)

IFRS 17 *Insurance Contracts* replaces IFRS 4 *Insurance Contracts*. This standard provides a general accounting model and its supplementary methods for insurance contracts: the floating charge method and the premium distribution method, which address recognition, measurement, presentation and disclosure of all types of insurance contracts.

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 amendment requires a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The above standards, amendments and interpretation announcements have no significant impact on the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 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)

3.2 Financial Instruments

3.2.1 Initial Recognition and Measurement

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

At initial recognition, the Group 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 the Group 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 Group shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.

3.2.2 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

Business models refer to how the Group manages its financial assets in order to generate cash flows. That is, the Group'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 Group'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)

3.2 Financial Instruments (Continued)

3.2.2 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.

Financial 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, financial lease receivables, 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Financial Instruments (Continued)

3.2.2 Financial Assets (Continued)

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

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.

Financial 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 statement of profit or loss.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Financial Instruments (Continued)

3.2.3 Financial Liabilities

The Group 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 holds 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.

3.2.4 Financial Assets and Financial Liabilities Held for Trading

The Group shall classify financial assets or liabilities as financial assets or financial liabilities held for trading if the asset or liability:

- 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Financial Instruments (Continued)

3.2.5 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 statement of profit or loss.

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 by issuing other financial instruments. Impairment losses on loan commitment are recognised according to the expected credit loss model.

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

3.2.6 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Financial Instruments (Continued)

3.2.7 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 statement of profit or loss.

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

3.2.8 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 Note 49.a for specific information.

3.2.9 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 statement of profit or loss.

3.2.10 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.

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2019
(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 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.

3.4 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.

3.5 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)

3.5 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.

3.6 Right-of-Use Assets (Effective From 1 January 2019)

The Group's right-of-use assets consist of buildings and vehicles.

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

When lease payments change, the Group remeasures lease liabilities and adjusts the book value of right-of-use assets accordingly. If the book value of the right-of-use asset has been reduced to zero, but the lease liability still needs to be further reduced, the Group recognises the remaining amount as profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 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.

3.8 Research and Development Expenses

The Group divides expenditure incurred on projects to develop new products into research expenses and development expenses. All research expenses are charged to the statement of profit or loss as incurred.

Development expenses are capitalised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Development expenses that do not meet these criteria are charged to the statement of profit or loss as incurred.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Business Combinations and Goodwill (Continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as gain on bargain purchase.

3.11 Lease Liabilities (Effective From 1 January 2019)

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term, except short-term leases and leases of low-value assets. In calculating the present value of lease payments, the Group uses internal interest rate, or incremental borrowing rate when internal interest rate is not obtainable. The Group uses fixed interest rate to calculate interest expense on lease liabilities, and recognises profit or loss (or assets if otherwise stipulated). Variable lease payments, not included in lease liabilities, are recognized as profit or loss (or assets if otherwise stipulated) when made.

After the commencement date, the carrying amount of lease liabilities is remeasured if there is a change in lease payments, estimated payable amounts of guarantee residual value, discount rate, or situations that influence the Groups' decision whether to exercise purchase options, extension options, or termination options.

3.12 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)

3.13 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.

3.14 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.

3.15 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)

3.15 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.

3.16 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)

3.17 Recognition of Income and Expense

The "interest income" and "interest expense" in the Group's statement of profit or loss 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 is accrued in accordance with the actual progress. For other services, fee and commission income is 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 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, and the carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(i) Where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Income Tax (Continued)

Deferred income tax (Continued)

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.

3.19 Leases (Effective From 1 January 2019)

Recognition of lease

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to determine whether the contract transfers the right to control the use of the identified assets within a certain period of time, the Group assesses whether the customers in the contract are entitled to receive almost all of the economic benefits arising from the use of the identified assets and have the right to dominate the use of identified assets during the period of use.

Evaluation of lease term

The lease term is the period during which the Group is entitled to use the leased asset and the right is irrevocable. If the Group has the option to renew the lease, that is, it has the right to choose to extend the lease and it is reasonably determined that the option will be exercised, the lease term includes the period covered by the renewal option. If the Group has the option to terminate the lease, that is, has the right to choose to terminate the lease of the asset, but it is reasonably expected that the option will not be exercised, the lease period does not exclude the period covered by the termination lease option.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Leases (Effective From 1 January 2019) (Continued)

Group as a lessee

The general accounting methods of the Group as a lessee are illustrated in note 3.6 and 3.11.

Changes in leases

Changes in lease are the changes in the lease scope, lease consideration, and lease duration. Lease changes include the addition or termination of the right to use one or more leased assets, and the extension or shortening of the lease term in the contract.

When the following conditions are met, the Group regards the change as a separate lease change in the process of accounting treatment.

1) The lease change expands the scope of the lease by adding the right to use one or more leased assets;

2) The increase in consideration is equivalent to the price of the additional part of the lease scope.

If the lease change is not regarded as a separate change, on the effective date of the lease change, the Group re-determines the lease term and calculates the present value of the lease payment to remeasure the lease liability. In the process of calculating the present value of lease payments after the change, the Group refers to the interest rate implicit in lease in the remaining lease period as the discount rate. If the leased interest rate is not available, the Group adopts incremental borrowing rate to calculate the present value of lease payment. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Based on the above lease adjustment, the Group distinguishes the following situations for accounting treatment.

1) If the lease change leads to a short lease term or small lease scope, the Group reduces the book value of right-of-use assets to represent the partial or complete termination of lease. The relevant gain or loss of termination are included in current profits and losses.

2) In terms of other lease changes, the Group adjusts the book value of the right-of-use asset accordingly.

Short-term leases and leases of low-value assets

The Group recognises leases without purchase options that do not exceed 12 months as short-term leases; Leases are regarded as low-value asset leases if the cost of a single leased asset does not exceed RMB30,000. The Group does not recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. In each period of the lease term, the relevant asset costs or expenses are calculated in accordance with the straight-line method, and the contingent rent is included in the current profit and loss when it actually occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Leases (Effective From 1 January 2019) (Continued)

Group as a lessor

A lease that essentially transfers almost all the risks and returns associated with the ownership of the leased asset on the start date of the lease is a finance lease. All other leases are operating leases.

As a lessor of financial leases

Financial lease receivables, the net investment of lease is recorded as the book value of the financial lease receivables. The net lease investment is the sum of the unguaranteed residual value and the present value of the lease receivables at the start of the lease period discounted at interest rate implicit in lease.

The Group calculates and recognises interest income for each period of the lease term at a fixed periodic interest rate. The variable lease payments obtained by the Group which are not included in the measurement of the net lease investment, are recorded in the current profit and loss when they actually occur.

When a financial lease is changed, and the following conditions are simultaneously met, the Group regard the change as a separate lease change:

1) The change expands the scope of lease by adding the right to use one or more leased assets;

2) The change in consideration is equivalent to the separate price of the additional part of the lease scope.

The Group does the following accounting treatments for the changes in finance leases that have not been regarded as separate lease changes:

1) If the lease change takes effect on the start date of lease and the lease is classified as an operating lease, the Group regards it as a new lease investment since the effective date of change and the net lease investment before the effective date of the lease change is used as the book value of the leased asset;

2) If the change takes effect on the lease start date and the lease is classified as a finance lease, the Group conducts accounting treatment in accordance with the regulation of contract modification and renegotiation.

As a lessor of operating leases

Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Variable lease payments that are not included in lease receivables are recorded in the profit or loss for the period when they actually occur.

When an operating lease is changed, the Group will account for it as a new lease from the effective date of the change. The advance payment or receivable related to the lease before the change will be treated as the received amount of the new lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Leases (Effective From 1 January 2019) (Continued)

Sale and leaseback transactions

Group as a lessee

If the asset that transfer in a sale-and-leaseback transaction belongs to the scope of sale, the Group, as the lessee, measures the right-of-use asset formed based on the portion of the original asset's book value related to the use-right obtained from the leaseback. In addition, the Group recognises relevant gains or losses only for rights transferred to the lessor. If the asset transfer in the sale-leaseback transaction is not a sale, the Group as the lessee continues to recognise the transferred asset and simultaneously recognises a financial liability equal to the transfer income.

Group as a lessor

If the asset that transfers in a sale-and-leaseback transaction is the part of sale, the Group, as a lessor, conducts the accounting treatment of the asset purchase and conducts accounting treatment of the recognition of an asset lease in accordance with above-mentioned rules. If the asset that transfers in a sale-and-leaseback transaction is not part of sale, the Group as the lessor does not recognise the transferred asset; but recognises the financial asset with the amount equals to the transferred income.

3.20 Leases (Applicable for the year ended 31 December 2018)

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.

(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(2).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Related Parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(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); or

(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.

Notes to Consolidated Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 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.

3.23 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.

3.24 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 45 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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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 analyse 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 the financial assets. The Group needs to determine a) whether the contractual cash flow only consist of the payment of principal and interest based on outstanding principal; b) whether there is a significant difference between the cash flow after the modification of time value of money and the benchmark cash flow; c) for the financial assets with prepayment terms, whether the fair value of the prepayment term is very small.

4.2 Impairment Losses 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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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.

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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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.

4.7 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 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.

4.9 Lease Terms

Lease terms refer to the irrevocable periods in which the Group has the right to use lease assets. In lease contracts that include extension options that the Group will reasonably exercise, lease terms include the periods covered under the options. The Group applies judgement in evaluating whether to exercise the option to renew the lease, considering all relevant factors that create an economic incentive for it to exercise the renewal, including the expected changes between the commencement date of the contract and exercise date.

4.10 Fair Value of Unlisted Equity Investments

The unlisted equity investments have been valued based on the discounted expected future cash flow of other financial instruments with similar terms and risk characteristics. The valuation requires the Group to make estimates about future cash flow, credit risk, fluctuation, and discount rate.

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5. NET INTEREST INCOME

	Year ended 31 December	
	2019	2018
Interest income on:		
Loans and advances to customers	**16,236,780**	14,933,031
– Corporate loans and advances	**8,288,002**	7,796,911
– Personal loans	**7,895,416**	7,025,761
– Discounted bills	**53,362**	110,359
Reverse repurchase agreements	**344,239**	312,384
Financial assets at fair value through other comprehensive income	**1,396,102**	1,453,853
Financial assets at amortised cost	**7,746,389**	8,650,830
Due from the central bank	**731,505**	746,827
Due from banks and other financial institutions	**354,697**	545,151
Financial lease receivables	**1,611,866**	989,643
Subtotal	**28,421,578**	27,631,719
Interest expense on:		
Due to customers	**(12,142,798)**	(10,243,035)
Repurchase agreements	**(315,921)**	(273,227)
Due to banks	**(867,197)**	(1,379,029)
Debt securities issued	**(3,102,038)**	(5,005,181)
Due to the central bank	**(187,898)**	(43,641)
Borrowings from banks and other financial institutions	**(941,178)**	(560,563)
Lease liabilities	**(28,503)**	N/A
Subtotal	**(17,585,533)**	(17,504,676)
Net interest income	**10,836,045**	10,127,043
Including: Interest income on impaired loans	**78,535**	70,831

	Year ended 31 December	
	2019	2018
Interest income from:		
Listed debt instruments	**2,808,244**	2,681,956
Unlisted debt instruments	**25,613,334**	24,949,763
Subtotal	**28,421,578**	27,631,719

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6. NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2019	2018
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	**521,758**	792,286
Agency and custodian fees	**833,467**	885,230
Including: Non-guaranteed wealth management products	**507,076**	494,167
Bank card fees	**1,074,873**	806,352
Settlement and clearing fees	**34,395**	77,073
Others	**13,048**	25,198
Subtotal	**2,477,541**	2,586,139
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	**(146,980)**	(49,483)
Agency fees	**(3,574)**	(48,569)
Bank card fees	**(37,403)**	(38,542)
Others	**(63,952)**	(58,115)
Subtotal	**(251,909)**	(194,709)
NET FEE AND COMMISSION INCOME	**2,225,632**	2,391,430

7. NET TRADING INCOME

	Year ended 31 December	
	2019	2018
Financial assets at fair value through profit or loss	**1,486,496**	1,420,230
Derivative financial instruments	**–**	11,908
Total	**1,486,496**	1,432,138

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.

8. NET GAIN ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2019	2018
Gain on disposal of financial assets at fair value through other comprehensive income, net	**430,132**	168,189
Dividends from equity investments at fair value through other comprehensive income	**2,173**	1,594
Total	**432,305**	169,783

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9. OTHER OPERATING INCOME, NET

	Year ended 31 December	
	2019	2018
Net gain on sale of property and equipment	**13,631**	28,970
Gain/(loss) from foreign exchange, net	**50,053**	110,912
Leasing income	**27,183**	26,657
Government grants and subsidies	**41,851**	29,291
Others	**11,204**	9,184
Total	**143,922**	205,014

10. OPERATING EXPENSES

	Year ended 31 December	
	2019	2018
Staff costs:		
Salaries, bonuses and allowances	**2,099,178**	1,715,537
Social insurance	**360,674**	256,202
Housing fund	**142,726**	114,032
Staff benefits	**124,450**	138,315
Labour union expenditure and education costs	**25,258**	23,424
Early retirement benefits	**9,676**	21,957
Subtotal	**2,761,962**	2,269,467
General and administrative expenses	**781,795**	690,388
Tax and surcharges	**205,328**	170,883
Depreciation and amortisation	**760,703**	547,374
Leasing expense	**150,442**	356,622
Auditors' remuneration	**7,783**	7,650
Others	**484,993**	551,926
Total	**5,153,006**	4,594,310

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

		Year ended 31 December 2019						
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	–	779	2,220	–	2,999	1,016	1,983
Lyu Tianjun	Executive Director and President	–	581	2,041	12	2,634	990	1,644
Sun Feixia	Executive Director, Vice Chairman, Secretary of the Board and Company Secretary	–	480	1,575	–	2,055	712	1,343
Zhang Taoxuan	Non-executive Director	–	–	–	–	–	–	–
Ma Pao-Lin	Non-executive Director	144	–	–	–	144	–	144
Chen Danyang	Non-executive Director	145	–	–	–	145	–	145
Peng Xiaodong	Non-executive Director	145	–	–	–	145	–	145
Ma Yongqiang	Independent non-executive Director	259	–	–	–	259	–	259
Sun Yan	Independent non-executive Director	285	–	–	–	285	–	285
Zhang Zheng	Independent non-executive Director	274	–	–	–	274	–	274
Hou Bojian (ii)	Independent non-executive Director	117	–	–	–	117	–	117
Yin Jintao (ii)	Independent non-executive Director	286	–	–	–	286	–	286
Jiang Shaozhi (ii)	Independent non-executive Director	266	–	–	–	266	–	266
Deng Xinquan	Chairman of the Board of Supervisors and Employee Supervisor	–	498	868	–	1,366	521	845
Luo Zhonglin	Employee Supervisor	–	433	1,530	9	1,972	642	1,330
Fang Shang	Employee Supervisor	–	476	1,221	13	1,710	434	1,276
Liu Mo	Supervisor	60	–	–	–	60	–	60
Li Dong	External Supervisor	144	–	–	–	144	–	144
Sun Yi (i)	External Supervisor	70	–	–	–	70	–	70
Li Zhaohua (i)	External Supervisor	84	–	–	–	84	–	84
Meng Rongfang (i)	External Supervisor	60	–	–	–	60	–	60
Bai Fan (i)	External Supervisor	50	–	–	–	50	–	50

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 2018 annual general meeting held on 17 May 2019, Mr. Sun Yi and Mr. Li Zhaohua were elected as external supervisor. Ms. Meng Rongfang and Mr. Bai Fan ceased to act as supervisors.

(ii) At the 2018 annual general meeting held on 17 May 2019, Mr. Hou Bojian was elected as Independent Non-executive Director which was effective since 2 September 2019; Mr. Yin Jintao and Mr. Jiang Shaozhi ceased to act as Independent Non-executive Director since October 2019.

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11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

		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 (ii)	Executive Director and President	–	531	2,361	14	2,906	1,181	1,725
Sun Feixia (ii)	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 (ii)	Independent non-executive Director	130	–	–	–	130	–	130
Sun Yan (ii)	Independent non-executive Director	130	–	–	–	130	–	130
Zhang Zheng (ii)	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

(In RMB thousands, unless otherwise stated)

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

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, and Ms. Gao Shuzhen, Mr. Yang Dazhi, Ms. Wang Ying, Ms. Lu Yujuan and Mr. Wang Jiheng ceased to act as supervisors.

(ii) At the 2017 annual general meeting held on 18 May 2018, Mr. Lyu Tianjun, Ms. Sun Feixia, Mr. Ma Yongqiang, Mr. Sun Yan and Mr. Zhang Zheng were elected as Directors.

During the year ended 31 December 2019, Zhang Taoxuan, a non-executive Director of the Bank, agreed to waive remuneration before tax of RMB144 thousand (2018: Zhang Taoxuan, a non-executive Director of the Bank, agreed to waive remuneration before tax of RMB144 thousand).

During the year ended 31 December 2019, 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 (2018: 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 2019 and 2018, the five highest paid individuals of the Group comprised two directors, and three directors of the Bank, respectively, whose emoluments are disclosed in notes 11 and 47(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	
	2019	2018
Salaries, allowances and discretionary bonuses	**16,548**	15,842
Contribution to defined contribution schemes	**12**	35
Total	**16,560**	15,877

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12. FIVE HIGHEST PAID INDIVIDUALS (Continued)

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

	Number of employees Year ended 31 December	
	2019	2018
RMB2,000,001 to RMB3,000,000	**2**	1
RMB3,000,001 to RMB4,000,000	**3**	–
Total	**5**	1

During the year ended 31 December 2019, 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 (2018: Nil).

13. CREDIT IMPAIRMENT LOSSES

	Year ended 31 December	
	2019	2018
Impairment losses on:		
Loans and advances to customers at amortised cost	**3,686,179**	1,632,062
Financial investments at amortised cost	**877,522**	492,361
Financial lease receivables	**350,085**	252,013
Others	**267,116**	49,425
Total	**5,180,902**	2,425,861

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14. INCOME TAX EXPENSE

(a) Income tax

	Year ended 31 December	
	2019	2018
Current income tax	**1,769,516**	1,751,399
Deferred income tax	**(614,101)**	(20,570)
	1,155,415	1,730,829

(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	
	2019	2018
Profit before tax	**4,790,492**	7,305,237
Tax at the PRC statutory income tax rate	**1,197,623**	1,826,310
Effect of different tax rates for certain subsidiaries	**(29,900)**	3,192
Items not deductible for tax purposes	**264,988**	36,272
Non-taxable income (i)	**(270,038)**	(206,588)
Adjustment for income tax from prior years	**(13,614)**	63,827
Others	**6,356**	7,816
Tax expense at the Group's effective income tax rate	**1,155,415**	1,730,829

(i) The non-taxable income mainly represents interest income arising from the PRC government and local government bonds and public fund dividends, which are 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 2019 includes a profit of RMB3,571 million (2018: RMB5,291 million) which has been dealt with in the financial statements of the Bank.

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16. DIVIDENDS

	Year ended 31 December	
	2019	2018
Dividends on ordinary shares declared and paid:		
Final dividend for 2018: did not declare dividend** (2017: RMB0.05 per share*)	**–**	549,780
Dividends on ordinary shares proposed for approval (not recognised as at 31 December):		
Final dividend for 2019: RMB0.1 per share*** (2018: did not distribute any dividend**)	**1,099,560**	–

* 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.

*** Based on the total number of shares as at 31 December 2019 at RMB0.10 per share, distributed in cash.

17. EARNINGS PER SHARE

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

	Year ended 31 December	
	2019	2018
Earnings:		
Profit attributable to owners of the parent	**3,558,447**	5,548,642
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)	**0.32**	0.50

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 2019 and 2018 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.

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18. CASH AND BALANCES WITH THE CENTRAL BANK

	As at 31 December	
	2019	2018
Cash and balances with the central bank:		
Cash	**725,437**	882,033
Mandatory reserves with the central bank (i)	**37,908,758**	39,090,182
Surplus reserves with the central bank (ii)	**13,359,046**	35,706,110
Fiscal deposits with the central bank	**272,522**	107,761
Subtotal	**52,265,763**	75,786,086
Accrued interest	**16,556**	22,593
Total	**52,282,319**	75,808,679

(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 2019 and 2018, 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.

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19. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Nostro accounts:		
Banks operating in Mainland China	**1,788,537**	12,103,323
Other financial institutions operating in Mainland China	**108,664**	120,081
Banks operating outside Mainland China	**301,679**	875,929
Subtotal	**2,198,880**	13,099,333
Accrued interest	**7,312**	47,107
Less: Allowance for impairment losses	**(4,542)**	(2,722)
Subtotal	**2,201,650**	13,143,718
Placements with banks and other financial institutions:		
Banks operating in Mainland China	**662,739**	6,800,000
Other financial institutions operating in Mainland China	**450,000**	950,000
Banks operating outside Mainland China	**413,627**	410,801
Subtotal	**1,526,366**	8,160,801
Accrued interest	**7,835**	32,926
Less: Allowance for impairment losses	**(4,165)**	(3,970)
Subtotal	**1,530,036**	8,189,757
Total	**3,731,686**	21,333,475

As at 31 December 2019 and 31 December 2018, the Group includes nostro accounts and placements with banks and other financial institutions in Stage 1, and measures the impairment losses based on ECLs in the next 12 months.

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20. REVERSE REPURCHASE AGREEMENTS

	As at 31 December	
	2019	2018
Reverse repurchase agreements analysed by counterparty:		
Banks	–	9,691,444
Other financial institutions	–	1,156,064
Subtotal	–	10,847,508
Accrued interest	–	8,711
Allowance for impairment losses	–	(23)
Total	–	10,856,196
Reverse repurchase agreements analysed by collateral:		
Bonds	–	10,847,508
Accrued interest	–	8,711
Allowance for impairment losses	–	(23)
Total	–	10,856,196

21. LOANS AND ADVANCES TO CUSTOMERS

	As at 31 December	
	2019	2018
Measured at amortised cost		
– Corporate loans and advances	**140,578,332**	138,344,261
– Personal loans	**119,083,896**	115,387,827
Subtotal	**259,662,228**	253,732,088
Measured at fair value through other comprehensive income		
– Discounted bills	**3,941,883**	30,609
Total loans and advances to customers	**263,604,111**	253,762,697
Accrued interest	**2,900,609**	2,278,216
Less: Allowance for impairment losses	**(8,008,354)**	(7,469,102)
Loans and advances to customers, net	**258,496,366**	248,571,811

(In RMB thousands, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	As at 31 December 2019			
	Stage 1 (12-month ECL)	**Stage 2 (Lifetime ECL)**	**Stage 3 (Lifetime ECL-impaired)**	**Total**
Total loans and advances at amortised cost	**245,294,842**	**9,115,843**	**5,251,543**	**259,662,228**
Accrued interest	**2,866,210**	**32,641**	**1,758**	**2,900,609**
Allowance for impairment losses at amortised cost	**(2,660,191)**	**(1,746,632)**	**(3,601,531)**	**(8,008,354)**
Loans and advances to customers at amortised cost, net	**245,500,861**	**7,401,852**	**1,651,770**	**254,554,483**

	As at 31 December 2018			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (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

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21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

Group	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2019	2,145,122	2,175,810	3,148,170	7,469,102
Exchange difference	–	–	7	7
Impairment loss charge for the year	277,493	290,119	3,118,567	3,686,179
Stage conversion	237,576	(719,297)	481,721	–
Converted to Stage 1	556,302	(535,960)	(20,342)	–
Converted to Stage 2	(248,487)	262,718	(14,231)	–
Converted to Stage 3	(70,239)	(446,055)	516,294	–
Write-offs and transferred	–	–	(3,103,616)	(3,103,616)
Recoveries of loans and advances previously written off	–	–	35,217	35,217
Accreted interest on impaired loans	–	–	(78,535)	(78,535)
As at 31 December 2019	2,660,191	1,746,632	3,601,531	8,008,354

During the year ended 31 December 2019, the Group adjusted the five-level classification and customer rating of loans and advance to customers. The loan principal transferred from stage 1 to stage 2 and stage 3 was RMB8,328 million, and corresponding impairment provision increased by RMB2,741 million. The loan principal transferred from stage 2 to stage 3 was RMB2,206 million, impairment provision increasing by RMB862 million. The loan principal transferred from stage 2 to stage 1 was RMB2,321 million, impairment provision decreasing by RMB447 million. The loan principal transferred from stage 3 to stage 1 and stage 2 was not significant.

Group	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (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 1	158,150	(144,133)	(14,017)	–
Converted to Stage 2	(318,190)	322,964	(4,774)	–
Converted to Stage 3	(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 RMB thousands, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

During the year ended 31 December 2018, the Group adjusted the five-level classification and customer rating of loans and advance to customers. The loan principal transferred from stage 1 to stage 2 and stage 3 was RMB7,539 million, and corresponding impairment provision increased by RMB2,336 million. The loan principal transferred from stage 2 to stage 3 was RMB1,607 million, impairment provision increasing by RMB676 million. The loan principal transferred from stage 2 to stage 1 was RMB654 million, impairment provision decreasing by RMB120 million. The loan principal transferred from stage 3 to stage 1 and stage 2 was not significant.

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instruments related to interest rate, currency rate and price of precious metal, 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 interest rates, currency rates, and prices of precious metal 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					
	2019			2018		
	Contractual/ notional amount	**Fair value Assets**	**Fair value Liabilities**	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Interest rate swap	**400,000**	**1,640**	**–**	100,000	107	–
FX forward	**–**	**–**	**–**	1,183,816	13,252	(14,608)
FX swap	**–**	**–**	**–**	138,461	2,889	–
Option contract	**970,390**	**26,881**	**(26,881)**	–	–	–
	1,370,390	**28,521**	**(26,881)**	1,422,277	16,248	(14,608)

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23. FINANCIAL INVESTMENTS

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

	As at 31 December	
	2019	2018
Government debt securities	**1,479,488**	863,013
Financial institution debt securities	**1,176,588**	1,716,670
Corporate debt securities	**1,854,198**	22,971
Funds (i)	**7,749,767**	2,433,782
Trust fund plans and asset management plans (ii)	**46,879,785**	33,161,374
Subtotal	**59,139,826**	38,197,810
Equity instruments	**278,997**	–
Accrued interest	**188,143**	190,822
Total	**59,606,966**	38,388,632

(i) The Group's fund investments were debt instruments and could not pass the SPPI testing.

(ii) The Group classified the trust fund plans and asset management plans that could not pass the 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	
	2019	2018
Government debt securities	**12,570,326**	9,142,340
Policy bank debt securities	**4,873,713**	10,812,006
Financial institution debt securities	**2,043,137**	7,202,208
Corporate debt securities	**6,678,878**	7,117,882
Subtotal	**26,166,054**	34,274,436
Equity investments	**89,251**	81,368
Accrued interest	**471,991**	612,515
Net balance	**26,727,296**	34,968,319

As at 31 December 2019, RMB68,557 thousand debt securities at fair value through other comprehensive income of the Group were in Stage 3, and the Group's accumulated allowance for impairment losses on the above-mentioned debt instruments amounted to RMB60,000 thousand. Other debt securities at fair value through other comprehensive income were in Stage 1, and the corresponding accumulated allowance for impairment losses amounted to RMB12,701 thousand. As at 31 December 2018, all debt securities at fair value through other comprehensive income of the Group were in Stage 1, and the Group's accumulated allowance for impairment losses on the debt instruments at fair value through other comprehensive income amounted to RMB7,457 thousand. The Group will no longer accrue impairment losses for investments in equity instruments measured at fair value through other comprehensive income.

(In RMB thousands, unless otherwise stated)

23. FINANCIAL INVESTMENTS (Continued)

(c) Financial assets at amortised cost

	As at 31 December	
	2019	2018
Government debt securities	**15,631,128**	10,496,748
Policy bank debt securities	**9,364,146**	12,598,758
Financial institution debt securities	**1,099,910**	1,393,220
Corporate debt securities	**9,958,037**	6,531,175
Subtotal	**36,053,221**	31,019,901
Trust fund plans and Asset management plans	**111,969,901**	122,431,479
Accrued interest	**1,481,159**	1,188,075
Allowance for impairment losses (i)	**(3,995,315)**	(3,117,793)
Net balance	**145,508,966**	151,521,662

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

	Stage 1 (12-month ECL)	**Stage 2 (Lifetime ECL)**	**Stage 3 (Lifetime ECL-impaired)**	**Total**
As at 1 January 2019	**809,586**	**179,993**	**2,128,214**	**3,117,793**
Impairment loss charge for the year	**(149,226)**	**81,553**	**945,195**	**877,522**
As at 31 December 2019	**660,360**	**261,546**	**3,073,409**	**3,995,315**

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (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	(69,111)	(276,393)	837,865	492,361
Write-offs and transferred	–	–	(165,373)	(165,373)
As at 31 December 2018	809,586	179,993	2,128,214	3,117,793

(In RMB thousands, unless otherwise stated)

24. FINANCE LEASE RECEIVABLES

	As at 31 December	
	2019	2018
Finance lease receivables	**26,679,871**	24,870,156
Less: Unearned finance lease income	**(2,846,897)**	(2,683,460)
Finance lease receivables, net	**23,832,974**	22,186,696
Accrued interest	**253,744**	183,423
Less: Allowance for impairment losses	**(962,329)**	(612,244)
Net balance	**23,124,389**	21,757,875

The Group divided finance lease receivables into Stage 1, Stage 2 and Stage 3. As of 31 December 2019, the carrying amounts were RMB22,951,236 thousand, RMB253,137 thousand, and RMB628,601 thousand respectively, and allowances for impairment losses were RMB404,406 thousand, RMB53,832 thousand, and RMB504,091 thousand, respectively. As of 31 December 2018, the carrying amounts were RMB20,733,936 thousand, RMB1,093,128 thousand, and RMB359,632 thousand respectively, and allowances for impairment losses were RMB182,388 thousand, RMB205,847 thousand, and RMB224,009 thousand, respectively.

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

	As at 31 December					
	2019			2018		
	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	**11,132,304**	**(956,524)**	**10,175,780**	9,273,984	(1,148,359)	8,125,625
1 year to 2 years	**7,865,747**	**(836,471)**	**7,029,276**	6,951,711	(757,726)	6,193,985
2 years to 3 years	**4,325,268**	**(618,659)**	**3,706,609**	5,009,902	(519,153)	4,490,749
3 years to 5 years	**3,266,370**	**(426,615)**	**2,839,755**	3,440,541	(245,047)	3,195,494
More than 5 years	**90,182**	**(8,628)**	**81,554**	194,018	(13,175)	180,843
	26,679,871	**(2,846,897)**	**23,832,974**	24,870,156	(2,683,460)	22,186,696

(In RMB thousands, unless otherwise stated)

25. PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Cost:							
At 1 January 2019	6,205,096	2,565,194	559,067	1,990,775	73,819	314,398	11,708,349
Additions	97,596	267,531	41,418	135,173	4,044	–	545,762
Transfers from construction in progress	476,409	(478,442)	–	2,033	–	–	–
Transfers to right-of-use assets	–	–	(483)	–	–	–	(483)
Disposals	(4,230)	–	–	(28,655)	(7,134)	–	(40,019)
At 31 December 2019	6,774,871	2,354,283	600,002	2,099,326	70,729	314,398	12,213,609
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
Accumulated depreciation:							
At 1 January 2019	979,984	–	421,570	1,339,118	55,001	59,736	2,855,409
Depreciation charge for the year	179,192	–	54,545	190,263	5,512	14,934	444,446
Disposals	(77)	–	–	(26,892)	(6,599)	–	(33,568)
At 31 December 2019	1,159,099	–	476,115	1,502,489	53,914	74,670	3,266,287
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
Net carrying amount:							
At 31 December 2019	5,615,772	2,354,283	123,887	596,837	16,815	239,728	8,947,322
At 31 December 2018	5,225,112	2,565,194	137,497	651,657	18,818	254,662	8,852,940

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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	
	2019	2018
Held in China		
Over 50 years	**1,649,752**	1,707,641
10 to 50 years	**3,932,830**	3,455,726
Less than 10 years	**33,190**	61,745
	5,615,772	5,225,112

As at 31 December 2019, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,192 million (31 December 2018: RMB2,236 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.

(In RMB thousands, unless otherwise stated)

26. DEFERRED INCOME TAX ASSETS

(a) Analysed by nature

	As at 31 December			
	2019		2018	
	Deductible temporary differences	**Deferred income tax assets/ (liabilities)**	Deductible temporary differences	Deferred income tax assets
Deferred income tax assets:				
Allowance for impairment losses	**11,028,217**	**2,734,247**	8,532,553	2,119,603
Contingent liabilities	**66,813**	**16,703**	96,351	24,088
Salaries, bonuses, allowances and subsidies payable	**118,847**	**28,321**	62,226	15,556
Early retirement benefits	**28,638**	**7,160**	33,898	8,475
Deferred revenue	**107,476**	**26,869**	190,460	47,615
Deductible losses	**45,090**	**11,272**	–	–
Others	**20,793**	**5,198**	–	–
Subtotal	**11,415,874**	**2,829,770**	8,915,488	2,215,337
Deferred income tax liabilities:				
Changes in fair value of financial assets at fair value through profit or loss	**(410,435)**	**(102,609)**	(344,027)	(86,007)
Changes in fair value of financial assets at fair value through other comprehensive income	**(353,867)**	**(88,467)**	(460,758)	(115,190)
Change in fair value of derivative financial instruments	**(1,640)**	**(410)**	(1,640)	(410)
Subtotal	**(765,942)**	**(191,486)**	(806,425)	(201,607)
Total	**10,649,932**	**2,638,284**	8,109,063	2,013,730

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26. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements in deferred income tax

At 31 December 2019

	At 1 January 2019	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	At 31 December 2019
Deferred income tax assets:				
Allowance for impairment losses	2,119,603	614,644	–	2,734,247
Contingent liabilities	24,088	(7,385)	–	16,703
Changes in fair value of financial assets at fair value through profit or loss	(86,007)	(16,602)	–	(102,609)
Changes in fair value of financial assets at fair value through other comprehensive income	(115,190)	–	26,723	(88,467)
Allowance for impairment losses on the financial assets at fair value through other comprehensive income	–	16,270	(16,270)	–
Changes in fair value of derivatives	(410)	–	–	(410)
Salaries, bonuses, allowances and subsidies payable	15,556	12,765	–	28,321
Early retirement benefits	8,475	(1,315)	–	7,160
Deferred revenue	47,615	(20,746)	–	26,869
Deductible losses	–	11,272	–	11,272
Others	–	5,198	–	5,198
Total	2,013,730	614,101	10,453	2,638,284

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26. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements in deferred income tax (Continued)

At 31 December 2018

	At 1 January 2018	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

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27. OTHER ASSETS

	As at 31 December	
	2019	2018
Interest receivables (a)	**279,660**	181,281
Right-of-use assets (b)	**600,788**	–
Land use rights (c)	**4,630**	4,817
Advance payments	**190,235**	323,733
Settlement and clearing accounts	**455,879**	462,190
Intangible assets (d)	**306,709**	181,279
Other receivables	**404,333**	307,249
Input VAT carried forward	**12,355**	58,584
Others	**1,889**	9,356
Subtotal	**2,256,478**	1,528,489
Impairment loss	**(259,155)**	(29,573)
Total	**1,997,323**	1,498,916

(a) On 31 December 2019, the carrying amounts of the Group's overdue interest receivables in Stage 1, 2 and 3 were RMB32,502 thousand, RMB180,534 thousand and RMB42 thousand, respectively. The impairment losses were RMB2,139 thousand, RMB54,054 thousand and RMB24 thousand, respectively. 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. The impairment losses were RMB7,837 thousand, RMB21,290 thousand and RMB441 thousand, respectively.

(In RMB thousands, unless otherwise stated)

27. OTHER ASSETS (Continued)

(b) Right-of-use assets

	2019		
	Building	Means of transportation	Total Original value
At 1 January 2019	645,858	75,496	721,354
Additions	67,761	53,478	121,239
Decrease during the year	(2,349)	(4,239)	(6,588)
At 31 December 2019	711,270	124,735	836,005
Accumulated depreciation			
At 1 January 2019	–	–	–
Additions	188,078	47,139	235,217
At 31 December 2019	188,078	47,139	235,217
Net value			
At 1 January 2019	645,858	75,496	721,354
At 31 December 2019	523,192	77,596	600,788

(c) Land use rights

	As at 31 December	
	2019	2018
Located in Mainland China		
10 to 50 years	4,630	4,817

(d) Intangible assets

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

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28. DUE TO THE CENTRAL BANK

	As at 31 December	
	2019	2018
Medium-term lending facility	**2,700,000**	2,000,000
Small enterprises supporting re-lending	**452,000**	380,000
Agriculture supporting re-lending	**378,000**	773,700
Poverty alleviation re-lending	**35,010**	–
Subtotal	**3,565,010**	3,153,700
Interest payable	**38,524**	19,854
Total	**3,603,534**	3,173,554

29. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Unsecured borrowings	**12,703,530**	14,212,583
Pledged borrowings	**74,934**	280,759
Subtotal	**12,778,464**	14,493,342
Interest payable	**275,106**	184,500
Total	**13,053,570**	14,677,842

As at 31 December 2019 and 31 December 2018, the pledged borrowings of RMB75 million and RMB281 million were secured by the finance lease receivables of RMB100 million and RMB384 million, respectively.

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30. DUE TO BANKS

	As at 31 December	
	2019	2018
Deposits:		
Banks operating in Mainland China	**8,513,414**	27,482,788
Banks operating outside Mainland China	**31,328**	10,068
Subtotal	**8,544,742**	27,492,856
Interest payable	**122,929**	436,399
Subtotal	**8,667,671**	27,929,255
Placements:		
Banks operating in Mainland China	**3,879,898**	710,202
Subtotal	**3,879,898**	710,202
Interest payable	**16,703**	5,789
Subtotal	**3,896,601**	715,991
Total	**12,564,272**	28,645,246

31. REPURCHASE AGREEMENTS

	As at 31 December	
	2019	2018
Repurchase agreements analysed by counterparty:		
Central Bank	**–**	2,990,000
Banks operating in Mainland China	**14,884,615**	–
Other financial institutions operating in Mainland China	**3,438,576**	–
Interest payable	**38,551**	739
Total	**18,361,742**	2,990,739
Repurchase agreements analysed by collateral:		
Bonds	**18,323,191**	2,990,000
Interest payable	**38,551**	739
Total	**18,361,742**	2,990,739

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32. DUE TO CUSTOMERS

	As at 31 December	
	2019	2018
Demand deposits		
Corporate deposits	**104,455,135**	88,853,444
Personal deposits	**44,577,670**	41,152,722
Subtotal	**149,032,805**	130,006,166
Fixed time deposits		
Corporate deposits	**91,669,194**	164,354,975
Personal deposits	**184,981,670**	101,155,662
Subtotal	**276,650,864**	265,510,637
Subtotal	**425,683,669**	395,516,803
Interest payable	**5,677,996**	4,763,394
Total	**431,361,665**	400,280,197

33. DEBT SECURITIES ISSUED

	As at 31 December	
	2019	2018
Financial bonds issued	**5,997,055**	6,994,628
Tier 2 capital bonds issued	**8,000,000**	7,999,766
Negotiable certificates of deposit issued	**31,591,418**	97,385,295
Subtotal	**45,588,473**	112,379,689
Interest payable	**374,350**	386,691
Total	**45,962,823**	112,766,380

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33. DEBT SECURITIES ISSUED (Continued)

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 2016. These bonds were traded in the inter-bank bond market. The Group has not had any defaults of principal or interest or other financial bonds issued during the year ended 31 December 2019 (2018: Nil). The relevant information on these financial bonds is set out below:

Name	Issue date	Issued price (RMB)	Coupon rate	Value date	Maturity date	Issue amount (RMB)
16 Harbin Bank tier 2 capital bonds	14 June 2016	100	4.00%	16 June 2016	16 June 2026	8,000 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 2019 and 2018, the Group issued 108 tranches and 382 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 2019 and 31 December 2018, 61 tranches and 190 tranches of negotiable certificates of deposit issued by the Group have not yet expired, the balances of the 61 tranches were RMB31.59 billion and the interval of annual interest rate was between 2.45% and 5.20%, the balances of the 190 tranches were RMB97.39 billion and the interval of annual interest rate was between 4.05% and 5.23%, both with a time limit of 1 month to 1 year.

34. OTHER LIABILITIES

	As at 31 December	
	2019	2018
Wealth management products payable	**4,539**	4,465
Settlement and clearing accounts	**1,026,688**	964,669
Accounts payable from agency services	**159,980**	1,133,133
Salaries, bonuses, allowances and subsidies payable (a)	**679,541**	556,841
Sundry tax payables	**214,440**	212,501
Deferred revenue (b)	**236,895**	299,001
Dividends payable	**28,979**	29,838
Accrued expenses	**72,133**	71,019
Lease guarantee fee	**2,064,929**	1,237,441
Contingent liabilities	**66,813**	96,351
Lease liabilities	**510,921**	–
Other payables	**617,538**	652,168
	5,683,396	5,257,427

34. OTHER LIABILITIES (Continued)

(a) Salaries, bonuses, allowances and subsidies payable

	As at 31 December	
	2019	2018
Salaries, bonuses and allowances	**623,657**	497,536
Social insurance	**11,342**	10,630
Housing fund	**7,005**	6,365
Staff benefits	**39**	–
Labour union expenditure and education costs	**8,860**	8,412
Early retirement benefits	**28,638**	33,898
	679,541	556,841

(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	
	2019	2018
Intermediary services	**236,895**	299,001

35. SHARE CAPITAL

	As at 31 December			
	2019		2018	
	Number of shares (thousands)	**Nominal value**	Number of shares (thousands)	Nominal value
Opening balance	**10,995,600**	**10,995,600**	10,995,600	10,995,600
Shares issued	**–**	**–**	–	–
Closing balance	**10,995,600**	**10,995,600**	10,995,600	10,995,600

(In RMB thousands, unless otherwise stated)

36. CAPITAL RESERVE

	Share premium	Other capital reserve	Total
At 1 January 2018	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
Increase during the year	–	24,885	24,885
At 31 December 2019	**7,624,993**	**38,349**	**7,663,342**

37. SURPLUS RESERVES

	Statutory surplus reserve	Discretionary surplus reserve	Total
At 1 January 2018	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
Appropriation during the year	357,139	–	357,139
At 31 December 2019	**3,756,281**	**26,186**	**3,782,467**

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.

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38. GENERAL AND REGULATORY RESERVES

	Year ended 31 December	
	2019	2018
Balance as at the beginning of the year	**7,143,548**	6,805,820
Increase during the year	**377,230**	337,728
Balance as at the end of the year	**7,520,778**	7,143,548

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.

39. UNDISTRIBUTED PROFITS

	Year ended 31 December	
	2019	2018
Balance as at the end of the previous year	**16,720,480**	13,452,019
Impact of adopting IFRS 9	**–**	(863,528)
Balance as at the beginning of the year	**16,720,480**	12,588,491
Profit for the year attributable to owners of the parent	**3,558,447**	5,548,642
Net of:		
Appropriation to surplus reserves	**(357,139)**	(529,145)
Appropriation to general and regulatory reserves	**(377,230)**	(337,728)
Dividends	**–**	(549,780)
Balance as at the end of the year	**19,544,558**	16,720,480

As approved by the equity holders of the Group at the Annual General Meeting held in May 2019，the Bank did not distribute any cash dividends for the year ended 31 December 2018.

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.

(In RMB thousands, unless otherwise stated)

40. 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	
	2019	2018
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	**7,882**	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	**116,702**	739,620
Allowance for impairment losses on the debt instruments at fair value through other comprehensive income	**65,080**	(1,116)
Transfer to the statement of profit or loss arising from disposal	**(231,475)**	365,805
Income tax effect	**10,453**	(284,134)
	(31,358)	852,402

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

	1 January 2019	**Changes during the year**	**31 December 2019**
Gains/(losses) on debt instruments at fair value through other comprehensive income	**308,798**	**(37,270)**	**271,528**
Gains/(losses) on equity instruments at fair value through other comprehensive income	**42,486**	**5,912**	**48,398**
	351,284	**(31,358)**	**319,926**

	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

(In RMB thousands, unless otherwise stated)

41. 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	
	2019	2018
Cash on hand (note 18)	**725,437**	882,033
Balances with the central bank (note 18)	**13,359,046**	35,706,110
Due from banks and other financial institutions	**2,329,549**	16,721,741
Reverse repurchase agreements	**–**	10,847,508
	16,414,032	64,157,392

During the years ended 31 December 2019 and 2018, the Group was not involved in non-cash investing and financing activities.

42. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

The Group had capital commitments as follows:

	As at 31 December	
	2019	2018
Contracted, but not provided for	**321,257**	714,542

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

(In RMB thousands, unless otherwise stated)

42. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Credit commitments (Continued)

	As at 31 December	
	2019	2018
Bank bill acceptances	**19,489,664**	74,246,821
Letters of guarantee issued	**1,705,175**	3,135,418
Letters of credit	**2,634,109**	7,871,395
Undrawn credit card limits	**19,056,773**	14,066,245
	42,885,721	99,319,879

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

	As at 31 December	
	2019	2018
Financial guarantees and credit related commitments	**10,117,936**	16,359,187

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.

(c) Legal proceedings

As at 31 December 2019 and 2018, significant legal proceedings exceeding RMB10,000 thousand outstanding against the Group (for itself or as a third party) amounted to RMB40,637 thousand and RMB30,000 thousand, respectively. Management expects that there will be no loss caused by these litigations and no provisions need to be made.

(d) 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 2019, the Bank had underwritten and sold bonds with an accumulated amount of RMB3,333 million (31 December 2018: RM2,645 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.

(In RMB thousands, unless otherwise stated)

43. FIDUCIARY ACTIVITIES

	As at 31 December	
	2019	2018
Designated funds	**3,224,299**	4,704,794
Designated loans	**3,224,299**	4,704,794

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.

44. 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 continues 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 2019 and 2018, 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 2019, 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 RMB245,865 thousand and RMB385,714 thousand as at 31 December 2019 and 2018, respectively, which also approximates to the Group's maximum exposure to loss.

45. 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:

45.1 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 2019, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB65,657 million (31 December 2018: RMB67,348 million). For the year ended 31 December 2019, fee and commission income included commission and custodian fee and management fee income from the wealth management business that amounted to RMB507,076 thousand (2018: RMB494,167 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 2019, the Group did not provide any financing to the unconsolidated wealth management products (2018: 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 2019 (2018: Nil).

45.2 Structured entities sponsored by other financial institutions

The Group has invested in some structured entities which are issued or managed by other institutions and are out of the consolidation scope, and the Group recognises 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 2019 and 2018, the Group has not provided liquidity support for those kinds of structured entities.

(In RMB thousands, unless otherwise stated)

45. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

45.2 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 2019			
	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	**46,879,785**	**111,969,901**	**158,849,686**	**154,969,139**
Funds	**7,749,767**	**–**	**7,749,767**	**7,749,767**

	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

46. ASSETS PLEDGED AS SECURITY

Financial assets of the Group including securities and finance lease receivables have been pledged as security for liabilities or contingent liabilities, and mainly arise from repurchase agreements, time deposit agreements, due to the central bank and borrowings from banks and other financial institutions. As at 31 December 2019, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB30,110 million (31 December 2018: RMB20,000 million).

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47. 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	**2019 %**	2018 %
Harbin Economic Development and Investment Company	**29.63**	19.65
Heilongjiang Financial Holding Group Company Limited	**18.51**	–
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
Heilongjiang Xin Yongsheng Trading Company Limited	**–**	5.82
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**–**	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)

47. 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*

Interest expense on due to customers

	Year ended 31 December			
	2019		2018	
Name	**Amount**	**Interest rate**	Amount	Interest rate
Heilongjiang Financial Holding Group Company Limited	**3,952**	**1.38-3.00%**	N/A	N/A
Harbin Economic Development and Investment Company	**87,887**	**0.42-1.95%**	16,167	1.38-1.95%
Heilongjiang Xin Yongsheng Trading Company Limited	**N/A**	**N/A**	12	0.42%
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**N/A**	**N/A**	10	1.38%

Interest income on loans and advances to customers

	Year ended 31 December			
	2019		2018	
Name	**Amount**	**Interest rate**	Amount	Interest rate
Heilongjiang Financial Holding Group Company Limited	**3,243**	**4.75%**	N/A	N/A

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

	Year ended 31 December			
	2019		2018	
Transaction	**Amount**	**Interest rate**	Amount	Interest rate
Interest income	**840**	**3.43-6.55%**	1,386	3.43-9.65%
Interest expense	**487**	**0.01-5.23%**	221	0.01-5.23%

(In RMB thousands, unless otherwise stated)

47. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

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

(iii) Transactions between the Bank and its subsidiaries

	Year ended 31 December			
	2019		2018	
Transaction	**Amount**	**Interest rate**	Amount	Interest rate
Interest income	**424,848**	**2.90-5.10%**	342,306	0.72-5.61%
Interest expense	**64,154**	**0.35-5.05%**	62,448	0.72-5.64%

(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

Interest expense on due to customers

	Year ended 31 December			
	2019		2018	
Name	**Amount**	**Interest rate**	Amount	Interest rate
Dalian Port Company Limited	**N/A**	**N/A**	1,481	0.42-4.8%
Sino Russian Financial Union (Harbin)	**28**	**0.42%**	18	0.42%

Fee and commission income

	Year ended 31 December	
Name	**2019**	2018
Da Cheng Fund Management Company Limited	**N/A**	6,673

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

Operating expenses

	Year ended 31 December	
Name	**2019**	2018
Beijing Zhongwen Law Firm	**169**	N/A

(In RMB thousands, unless otherwise stated)

47. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

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

(v) Transactions with other related parties

Transaction	Year ended 31 December 2019	2018
Emoluments of key management personnel and their close family members	**40,018**	38,145

In the opinion of the management of the Group, the transactions above with 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

Due to customers

Name	31 December 2019 Balance	31 December 2019 Interest rate	31 December 2018 Balance	31 December 2018 Interest rate
Heilongjiang Financial Holding Group Company Limited	**29,899**	**1.38-3.00%**	N/A	N/A
Harbin Economic Development and Investment Company	**–**	**–**	4,346,831	1.38-1.95%
Heilongjiang Xin Yongsheng Trading Company Limited	**N/A**	**N/A**	89	0.42%
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	**N/A**	**N/A**	168	1.38%

Loans and advances to customers

Name	31 December 2019 Balance	31 December 2019 Interest rate	31 December 2018 Balance	31 December 2018 Interest rate
Heilongjiang Financial Holding Group Company Limited	**751,301**	**4.75%**	N/A	N/A

(In RMB thousands, unless otherwise stated)

47. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

2. *Balances with related parties (Continued)*

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

	31 December 2019		31 December 2018	
Transaction	**Balance**	**Interest rate**	Balance	Interest rate
Loans and advances to customers	**17,152**	**3.43-6.55%**	29,826	3.43-9.65%
Due to customers	**24,159**	**0.01-5.23%**	19,130	0.01-5.23%

(iii) *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*

Due to customers

	31 December 2019		31 December 2018	
Name	**Balance**	**Interest rate**	Balance	Interest rate
Dalian Port Company Limited	**N/A**	**N/A**	100,042	0.42-4.80%
Sino Russian Financial Union (Harbin)	**5,825**	**0.42%**	8,429	0.42%

As at 31 December 2019, RMB400,000 thousand of "2014 Huaxia subordinated bond" issued by Huaxia Life Insurance Company Limited and purchased by the Group's unconsolidated non-guaranteed wealth management products have been duly paid at maturity.

(iv) *Balances between the Group and its subsidiaries*

	31 December 2019		31 December 2018	
Transaction	**Balance**	**Interest rate**	Balance	Interest rate
Due from banks and other financial institutions	**11,182,388**	**3.11-4.80%**	8,935,974	2.75-5.50%
Due to banks	**5,622,725**	**0.72-3.75%**	3,514,808	0.05-5.05%
Due to customers	**1,127,104**	**0.42-0.99%**	7,548	0.72-0.99%

48. 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)

48. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
Year ended 31 December 2019					
External net interest income	3,364,197	1,400,473	6,099,878	(28,503)	10,836,045
Internal net interest income/(expense)	2,100,864	1,979,859	(4,080,723)	–	–
Net fee and commission income	600,465	1,027,710	597,457	–	2,225,632
Other income, net (i)	–	–	1,968,854	93,869	2,062,723
Operating income	6,065,526	4,408,042	4,585,466	65,366	15,124,400
Operating expenses	(1,666,062)	(1,419,749)	(1,991,291)	(75,904)	(5,153,006)
Credit impairment losses on:					
Loans and advances to customers	(2,022,696)	(1,663,483)	–	–	(3,686,179)
Others	(355,826)	(4,720)	(930,995)	(203,182)	(1,494,723)
Operating profit	2,020,942	1,320,090	1,663,180	(213,720)	4,790,492
Profit before tax	2,020,942	1,320,090	1,663,180	(213,720)	4,790,492
Income tax expense					(1,155,415)
Profit for the year					3,635,077
Other segment information:					
Depreciation and amortisation	244,236	208,127	306,169	2,171	760,703
Capital expenditure	258,908	220,631	324,562	2,301	806,402
As at 31 December 2019					
Segment assets	193,299,193	147,598,782	241,854,144	337,319	583,089,438
Segment liabilities	201,822,177	233,789,028	94,524,097	1,312,972	531,448,274
Other segment information:					
Credit commitments	23,828,948	19,056,773	–	–	42,885,721

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

(In RMB thousands, unless otherwise stated)

48. 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	712,926	823,997	854,507	–	2,391,430
Other income, net (i)	–	–	1,703,796	103,139	1,806,935
Operating income	4,036,426	4,120,025	6,065,818	103,139	14,325,408
Operating expenses	(1,419,529)	(1,174,476)	(1,919,339)	(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	1,475,581	2,202,790	3,604,693	22,173	7,305,237
Profit before tax	1,475,581	2,202,790	3,604,693	22,173	7,305,237
Income tax expense					(1,730,829)
Profit for the year					5,574,408
Other segment information:					
Depreciation and amortisation	167,815	138,845	238,916	1,798	547,374
Capital expenditure	211,428	174,929	301,005	2,265	689,627
As at 31 December 2018					
Segment assets	207,345,772	142,022,358	265,591,120	629,233	615,588,483
Segment liabilities	258,087,441	144,976,977	162,925,216	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.

48. 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.

(In RMB thousands, unless otherwise stated)

48. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

	Mainland China					
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	Total
Year ended 31 December 2019						
External net interest income	7,314,642	484,425	1,196,493	1,423,222	417,263	10,836,045
Internal net interest income/(loss)	(2,453,860)	1,179,138	1,157,888	101,035	15,799	–
Net fee and commission income	1,958,033	34,108	185,486	51,131	(3,126)	2,225,632
Other income, net (i)	2,053,850	2,218	4,031	1,662	962	2,062,723
Operating income	8,872,665	1,699,889	2,543,898	1,577,050	430,898	15,124,400
Operating expenses	(3,726,000)	(365,538)	(591,939)	(246,195)	(223,334)	(5,153,006)
Credit impairment losses on:						
Loans and advances to customers	(1,687,258)	(702,508)	(487,521)	(670,146)	(138,746)	(3,686,179)
Others	(1,454,982)	(2,740)	(29,477)	(3,448)	(4,076)	(1,494,723)
Operating profit	2,004,425	629,103	1,434,961	657,261	64,742	4,790,492
Profit before tax	2,004,425	629,103	1,434,961	657,261	64,742	4,790,492
Income tax expense						1,155,415
Profit for the year						3,635,077
Other segment information:						
Depreciation and amortisation	566,282	42,692	119,693	13,593	18,443	760,703
Capital expenditure	473,166	90,549	135,407	84,012	23,268	806,402
As at 31 December 2019						
Segment assets	430,680,372	42,908,091	54,775,651	44,646,969	10,078,355	583,089,438
Segment liabilities	407,681,586	32,769,339	41,197,431	41,256,339	8,543,579	531,448,274
Other segment information:						
Credit commitments	23,711,345	4,139,225	9,195,910	5,208,951	630,290	42,885,721

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

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48. 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.

49. 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.

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49. 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 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage 2: 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 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the financial reporting date are included in Stage 3, 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 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 an impairment loss or gain in profit on each financial reporting date.

49. 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 financial assets
- Models and parameters for measuring ECLs
- 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.

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49. 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.

49. 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 1) or lifetime (stage 2 and stage 3). The weighted average credit loss above is calculated by multiplying the ECLs for each scenario by the weight of the corresponding scenario.

49. 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.

Corporate loans are mainly collateralised by properties or other assets. As at 31 December 2019, the carrying value of corporate loans covered by collateral amounted to RMB80,461 million (31 December 2018: RMB76,414 million).

Personal loans are mainly collateralised by residential properties. As at 31 December 2019, the carrying value of personal loans covered by collateral amounted to RMB65,285 million (31 December 2018: RMB65,272 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.

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49. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Collateral (Continued)

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 49(a)(iii).

The credit business management department monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

(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	
	2019	2018
Balances with the central bank	**51,556,882**	74,926,646
Due from banks and other financial institutions	**3,731,686**	21,333,475
Reverse repurchase agreements	**–**	10,856,196
Loans and advances to customers	**258,496,366**	248,571,811
Derivative financial assets	**28,521**	16,248
Financial investments		
– Financial assets at fair value through profit or loss	**59,327,969**	38,388,632
– Financial assets at fair value through other comprehensive income	**26,638,045**	34,886,951
– Financial assets at amortised cost	**145,508,966**	151,521,662
Finance lease receivables	**23,124,389**	21,757,875
Others	**880,717**	921,147
	569,293,541	603,180,643
Credit commitments	**42,885,721**	99,319,879
Total maximum credit risk exposure	**612,179,262**	702,500,522

(In RMB thousands, unless otherwise stated)

49. 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 49(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	
	2019	2018
Corporate loans and advances		
Agriculture, forestry, animal husbandry and fishing	**1,740,981**	2,135,824
Mining	**99,890**	157,576
Manufacturing	**7,789,212**	11,451,194
Production and supply of electricity, heating, gas and water	**2,292,813**	2,767,379
Construction	**7,734,028**	12,168,208
Commercial trade	**34,834,845**	29,781,675
Transportation, storage and postal services	**3,958,554**	3,801,888
Lodging and catering	**3,675,118**	3,451,540
Information transmission, software and information technology services	**398,395**	817,100
Finance	**820,700**	734,900
Real estate	**29,665,983**	21,385,659
Leasing and commercial services	**35,644,303**	37,357,311
Scientific research and technological services	**187,936**	384,229
Water, environment and public utility management	**10,061,229**	9,362,503
Resident services and other services	**147,951**	337,989
Education	**277,227**	338,097
Health and social affair	**941,167**	1,143,290
Culture, sports and entertainment	**308,000**	345,905
Public administration, social security and social organisations	**–**	421,994
Subtotal	**140,578,332**	138,344,261
Discounted bills	**3,941,883**	30,609
Personal loans		
Personal business	**38,300,001**	32,865,168
Mortgages	**16,665,280**	18,119,564
Personal consumption	**51,430,941**	51,495,667
Loans to farmers	**12,687,674**	12,907,428
Subtotal	**119,083,896**	115,387,827
Total	**263,604,111**	253,762,697

(In RMB thousands, unless otherwise stated)

49. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Risk concentrations (Continued)

By geographical distribution

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

	As at 31 December	
	2019	2018
Heilongjiang region	**106,676,648**	104,044,301
Northeastern China excluding Heilongjiang	**41,994,814**	40,015,670
Northern China	**42,702,850**	41,089,253
Southwestern China	**52,226,748**	50,694,460
Other regions	**20,003,051**	17,919,013
Total	**263,604,111**	253,762,697

By manners of guarantees

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

	As at 31 December	
	2019	2018
Unsecured loans	**45,981,746**	39,731,356
Guaranteed loans	**67,935,353**	72,315,349
Loans secured by mortgages	**128,209,922**	125,073,584
Pledged loans	**21,477,090**	16,642,408
Total	**263,604,111**	253,762,697

(In RMB thousands, unless otherwise stated)

49. 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	
	2019	2018
Corporate loans and advances		
– Neither past due nor impaired	**136,289,563**	132,553,307
– Past due but not impaired	**5,571,184**	4,319,965
– Impaired	**2,659,468**	1,501,598
Subtotal	**144,520,215**	138,374,870
Personal loans		
– Neither past due nor impaired	**113,509,033**	110,350,743
– Past due but not impaired	**2,982,788**	2,142,110
– Impaired	**2,592,075**	2,894,974
Subtotal	**119,083,896**	115,387,827
Total	**263,604,111**	253,762,697

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 2019		
	Pass	**Special Mention**	**Total**
Corporate loans and advances	**132,459,971**	**3,829,592**	**136,289,563**
Personal loans	**113,310,539**	**198,494**	**113,509,033**
Total	**245,770,510**	**4,028,086**	**249,798,596**

	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)

49. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers (Continued)

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 2019			
Overdue days	**Within 1 month**	**1 – 3 months**	**Over 3 months**	**Total**
Corporate loans and advances	**3,158,692**	**2,412,492**	**–**	**5,571,184**
Personal loans	**1,405,668**	**1,577,120**	**–**	**2,982,788**
Total	**4,564,360**	**3,989,612**	**–**	**8,553,972**

	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 2019, the fair values of collateral that the Group holds relating to corporate loans which are past due but not impaired amounted to RMB7,766,948 thousand (31 December 2018: RMB8,400,114 thousand), and the fair values of collateral that the Group holds relating to personal loans which are past due but not impaired amounted to RMB3,203,172 thousand (31 December 2018: RMB2,672,169 thousand).

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	
	2019	2018
Corporate loans and advances	**2,659,468**	1,501,598
Personal loans	**2,592,075**	2,894,974
Total	**5,251,543**	4,396,572

(In RMB thousands, unless otherwise stated)

49. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers (Continued)

Impaired (Continued)

As at 31 December 2019, the fair values of collateral that the Group holds relating to loans individually determined to be impaired amounted to RMB3,317,628 thousand (31 December 2018: RMB1,537,052 thousand). The collateral mainly consists of land, buildings, equipment and others.

	31 December 2019			
	Stage 1 (12-month ECL)	**Stage 2 (Lifetime ECL)**	**Stage 3 (Lifetime ECL-impaired)**	**Total**
Pass	**249,236,725**	**211,881**	**–**	**249,448,606**
Special mention	**–**	**8,903,962**	**–**	**8,903,962**
Substandard	**–**	**–**	**2,766,953**	**2,766,953**
Doubtful	**–**	**–**	**1,750,771**	**1,750,771**
Loss	**–**	**–**	**733,819**	**733,819**
Total	**249,236,725**	**9,115,843**	**5,251,543**	**263,604,111**

	31 December 2018			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (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 2019, the gross value of the loans and advances rescheduled held by the Group amounted to RMB6,693 million (31 December 2018: RMB4,240 million).

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(In RMB thousands, unless otherwise stated)

49. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Finance lease receivables

	As at 31 December	
	2019	2018
Finance lease receivables, net		
Neither past due nor impaired	**23,204,373**	21,665,982
Past due but not impaired	**–**	161,082
Impaired	**628,601**	359,632
	23,832,974	22,186,696
Less: Allowance for impairment losses	**(962,329)**	(612,244)
Net amount	**22,870,645**	21,574,452

(v) Financial assets

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

Financial assets at fair value through other comprehensive income

	As at 31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
AAA	**6,594,070**	**–**	**–**	**6,594,070**
AA- to AA+	**5,689,246**	**–**	**–**	**5,689,246**
A+ or below	**–**	**–**	**68,557**	**68,557**
Unrated	**13,814,181**	**–**	**–**	**13,814,181**
Total	**26,097,497**	**–**	**68,557**	**26,166,054**

	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

(In RMB thousands, unless otherwise stated)

49. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Financial assets (Continued)

Financial assets at amortised cost

	As at 31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
AAA	**12,964,358**	**–**	**–**	**12,964,358**
AA- to AA+	**5,545,505**	**–**	**500,000**	**6,045,505**
A+ or below	**–**	**–**	**60,000**	**60,000**
Unrated	**120,278,058**	**2,747,367**	**5,927,834**	**128,953,259**
Total	**138,787,921**	**2,747,367**	**6,487,834**	**148,023,122**
Allowance for impairment losses	**(660,360)**	**(261,546)**	**(3,073,409)**	**(3,995,315)**
Net balance	**138,127,561**	**2,485,821**	**3,414,425**	**144,027,807**

	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

(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)

49. 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 2019

	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	–	14,101,039	–	–	–	–	–	38,181,280	52,282,319
Due from banks and other financial institutions	–	1,809,522	450,082	542,737	667,325	261,638	382	–	3,731,686
Loans and advances to customers	8,756,099	–	21,740,603	16,612,601	69,854,927	66,801,316	74,730,820	–	258,496,366
Derivative financial assets	–	–	7,314	–	21,207	–	–	–	28,521
Financial investments	4,322,121	7,749,767	452,356	5,156,843	44,494,692	128,487,657	40,811,544	–	231,474,980
Finance lease receivables	135,682	–	947,116	1,727,695	6,790,527	13,442,367	81,002	–	23,124,389
Other financial assets	223,443	35,266	366,855	49,476	139,686	56,431	9,560	–	880,717
Total financial assets	13,437,345	23,695,594	23,964,326	24,089,352	121,968,364	209,049,409	115,633,308	38,181,280	570,018,978
Financial liabilities:									
Due to the central bank	–	–	31,003	105,786	3,466,745	–	–	–	3,603,534
Borrowings from banks and other financial institutions	–	–	2,868,457	6,097,415	4,087,698	–	–	–	13,053,570
Due to banks	–	41,292	1,484,787	4,597,832	6,440,361	–	–	–	12,564,272
Derivative financial liabilities	–	–	7,314	–	19,567	–	–	–	26,881
Repurchase agreements	–	–	11,252,093	5,731,737	1,377,912	–	–	–	18,361,742
Due to customers	–	154,254,544	23,656,151	40,839,830	129,387,442	82,442,860	780,838	–	431,361,665
Debt securities issued	–	–	1,517,305	26,919,146	7,529,257	1,997,115	8,000,000	–	45,962,823
Other financial liabilities	–	1,382,916	72,714	436,305	1,894,956	601,475	97,341	–	4,485,707
Total financial liabilities	–	155,678,752	40,889,824	84,728,051	154,203,938	85,041,450	8,878,179	–	529,420,194
Net position	13,437,345	(131,983,158)	(16,925,498)	(60,638,699)	(32,235,574)	124,007,959	106,755,129	38,181,280	40,598,784

(In RMB thousands, unless otherwise stated)

49. 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 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)

49. 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 2019

	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	14,101,039	–	–	–	–	–	38,181,280	52,282,319
Due from banks and other financial institutions	1,809,522	458,447	557,232	679,216	262,686	382	–	3,767,485
Loans and advances to customers	–	23,201,272	19,310,525	79,764,568	92,458,509	107,332,438	10,239,377	332,306,689
Financial investments	7,749,767	1,345,185	6,858,893	51,122,422	146,384,699	47,408,589	4,324,014	265,193,569
Finance lease receivables	–	1,025,423	1,866,814	7,414,220	14,384,888	901,687	124,510	25,717,542
Other financial assets	35,266	366,855	49,476	139,686	56,431	9,560	–	657,274
Total financial assets	23,695,594	26,397,182	28,642,940	139,120,112	253,547,213	155,652,656	52,869,181	679,924,878

(In RMB thousands, unless otherwise stated)

49. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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

31 December 2019

	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 (continued)								
Financial liabilities:								
Due to the central bank	–	40,654	123,963	3,503,094	–	–	–	3,667,711
Borrowings from banks and other financial institutions	–	2,927,015	6,155,577	4,134,304	–	–	–	13,216,896
Due to banks (*)	42,842	12,788,763	10,417,625	7,953,724	–	–	–	31,202,954
Due to customers	154,254,544	24,509,168	42,281,135	134,092,954	88,225,095	777,919	–	444,140,815
Debt securities issued	–	1,520,000	27,100,000	7,851,700	3,429,800	8,640,000	–	48,541,500
Other financial liabilities	1,382,916	72,714	436,305	1,894,956	601,475	97,341	–	4,485,707
Total financial liabilities	155,680,302	41,858,314	86,514,605	159,430,732	92,256,370	9,515,260	–	545,255,583
Net position	(131,984,708)	(15,461,132)	(57,871,665)	(20,310,620)	161,290,843	146,137,396	52,869,181	134,669,295
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	–	133,721	–	1,265,190	–	–	–	1,398,911
Total outflow	–	133,721	–	1,263,550	–	–	–	1,397,271
Credit commitments	19,056,773	1,117,457	3,086,191	18,115,018	1,510,282	–	–	42,885,721

(*) Includes repurchase agreements

(In RMB thousands, unless otherwise stated)

49. 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
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

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49. 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
Non-derivative cash flows								
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

49. 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.

(In RMB thousands, unless otherwise stated)

49. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

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.

		Effect on profit before tax	
		As at 31 December	
Currency	Change in rate	**2019**	2018
USD	-1%	**(11,449)**	(17,691)
HKD	-1%	**192**	138
RUB	-1%	**(208)**	(423)

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)

49. 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 2019

	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	52,234,354	34,123	915	11,096	1,831	52,282,319
Due from banks and other financial institutions	2,557,872	1,065,468	17,439	19,244	71,663	3,731,686
Loans and advances to customers	258,276,148	220,165	–	–	53	258,496,366
Derivative financial assets	27,966	–	–	–	555	28,521
Financial investments	231,399,954	75,026	–	–	–	231,474,980
Finance lease receivables	23,124,389	–	–	–	–	23,124,389
Other financial assets	880,717	–	–	–	–	880,717
Total financial assets	568,501,400	1,394,782	18,354	30,340	74,102	570,018,978
Financial liabilities:						
Due to the central bank	3,603,534	–	–	–	–	3,603,534
Borrowings from banks and other institutions	13,053,570	–	–	–	–	13,053,570
Due to banks	12,554,621	3,118	–	6,533	–	12,564,272
Derivative financial liabilities	26,326	–	–	–	555	26,881
Repurchase agreements	18,361,742	–	–	–	–	18,361,742
Due to customers	431,059,463	246,751	1,059	3,056	51,336	431,361,665
Debt securities issued	45,962,823	–	–	–	–	45,962,823
Other financial liabilities	4,449,208	–	36,499	–	–	4,485,707
Total financial liabilities	529,071,287	249,869	37,558	9,589	51,891	529,420,194
Net position	39,430,113	1,144,913	(19,204)	20,751	22,211	40,598,784
Credit commitments	42,531,636	354,085	–	–	–	42,885,721

(In RMB thousands, unless otherwise stated)

49. 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 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	601,717,413	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

49. 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 financial assets measured at fair value through other comprehensive income 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)

49. 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	
	2019	2018	**2019**	2018
+100 basis points	**(743,095)**	35,268	**(725,601)**	(952,411)
−100 basis points	**743,095**	(35,268)	**775,867**	1,027,687

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)

49. 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 2019

	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	51,540,327	–	–	–	741,992	52,282,319
Due from banks and other financial institutions	2,793,081	661,438	261,638	382	15,147	3,731,686
Loans and advances to customers	128,567,877	53,687,227	46,207,937	18,503,842	11,529,483	258,496,366
Derivative financial assets	–	–	–	–	28,521	28,521
Financial investments	4,790,712	42,517,716	89,623,242	40,528,805	54,014,505	231,474,980
Finance lease receivables	20,146,466	735,280	1,863,832	557	378,254	23,124,389
Other financial assets	–	–	–	–	880,717	880,717
Total financial assets	207,838,463	97,601,661	137,956,649	59,033,586	67,588,619	570,018,978
Financial liabilities:						
Due to the central bank	136,680	3,428,330	–	–	38,524	3,603,534
Borrowings from banks and other financial institutions	8,758,770	4,019,694	–	–	275,106	13,053,570
Due to banks	6,046,242	6,378,398	–	–	139,632	12,564,272
Derivative financial liabilities	–	–	–	–	26,881	26,881
Repurchase agreements	16,954,591	1,368,600	–	–	38,551	18,361,742
Due to customers	215,190,913	127,770,807	80,459,552	774,626	7,165,767	431,361,665
Debt securities issued	28,436,451	7,154,907	1,997,115	8,000,000	374,350	45,962,823
Other financial liabilities	–	–	–	–	4,485,707	4,485,707
Total financial liabilities	275,523,647	150,120,736	82,456,667	8,774,626	12,544,518	529,420,194
Total interest sensitivity gap	(67,685,184)	(52,519,075)	55,499,982	50,258,960	N/A	N/A

(In RMB thousands, unless otherwise stated)

49. 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 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

49. 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%.

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(In RMB thousands, unless otherwise stated)

49. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

	As at 31 December	
	2019	2018
Core capital		
Qualified part of share capital	**10,995,600**	10,995,600
Qualified part of capital reserve	**7,663,342**	7,638,457
Surplus reserve and general reserves	**11,303,245**	10,568,876
Undistributed profits	**19,544,558**	16,720,480
Qualified part of non-controlling interests	**700,603**	570,105
Other comprehensive income	**319,926**	351,284
Core tier 1 capital deductible items:		
Fully deductible items	**(306,710)**	(181,279)
Net core tier 1 capital	**50,220,564**	46,663,523
Net other tier 1 capital	**93,344**	76,014
Net tier 1 capital	**50,313,908**	46,739,537
Net tier 2 capital	**11,277,333**	11,477,169
Net capital	**61,591,241**	58,216,706
Total risk-weighted assets	**491,476,578**	479,159,934
Core tier 1 capital adequacy ratio	**10.22%**	9.74%
Tier 1 capital adequacy ratio	**10.24%**	9.75%
Capital adequacy ratio	**12.53%**	12.15%

50. 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.

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50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

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

31 December 2019

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	–	28,521	–	28,521
Financial assets at fair value through profit or loss				
Debt securities	–	4,510,274	–	4,510,274
Funds	–	7,749,767	–	7,749,767
Trust investments and asset management plans	–	46,879,785	–	46,879,785
Equity instrument	–	278,997	–	278,997
Subtotal	–	59,418,823	–	59,418,823
Financial assets at fair value through other comprehensive income				
Debt securities	–	26,166,054	–	26,166,054
Equity investments	–	89,251	–	89,251
Subtotal	–	26,255,305	–	26,255,305
Total	–	85,702,649	–	85,702,649
Financial liabilities at fair value				
Derivative financial liabilities	–	26,881	–	26,881
Financial assets disclosed at fair value				
Financial assets at amortised cost				
Debt securities	–	36,040,740	–	36,040,740
Trust investments and asset management plans	–	108,089,354	–	108,089,354
Certificate treasury bonds	–	105,655	–	105,655
Total	–	144,235,749	–	144,235,749
Financial liabilities disclosed at fair value				
Financial bonds issued	–	6,033,420	–	6,033,420
Tier 2 capital bonds issued	–	7,920,000	–	7,920,000
Negotiable certificates of deposit issued	–	30,917,170	–	30,917,170
Total	–	44,870,590	–	44,870,590

(In RMB thousands, unless otherwise stated)

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

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

31 December 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
Subtotal	–	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
Subtotal	–	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

50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

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.

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) A portion of 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 Tier 2 capital bonds, financial bonds, negotiable certificates of deposit and a portion of debt instruments at amortised cost 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

51. SUBSEQUENT EVENTS

1. As approved at the Board of Directors' meeting held on 30 March 2020, the profit distribution plan of 2019 was as follows:

   (1) 10% of 2019 net profit amounting to RMB357,139 thousand is appropriated to the statutory surplus reserve;

   (2) Based on the number of total shares of 10,995,600 thousand issued as at 31 December 2019, a cash dividend of RMB0.1 per share amounting to RMB1,099,560 thousand was approved, and is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting.

2. Since the outbreak of the novel coronavirus pneumonia ("the epidemic") nationwide in January 2020, China has been in the process of epidemic prevention and control. The Bank will implement the regulations of epidemic prevention and control and increase the expenditure accordingly. The current situation shows that the epidemic will have an impact on the domestic economic environment and affect the quality and the return level of the Bank's credit assets and financial investments. The degree of the impact will depend on the development and the duration of the epidemic, and the implementation of regulatory policies.

   The Bank will continue to pay close attention to the development of the epidemic and evaluate its impact on the Bank's financial position and operating results. As of the audit report date, the evaluation is still in progress.

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

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52. 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	
	2019	2018
ASSETS		
Cash and balances with the central bank	**50,653,561**	73,983,246
Due from banks and other financial institutions	**13,971,605**	27,719,114
Reverse repurchase agreements	**–**	10,856,196
Loans and advances to customers	**238,494,263**	229,274,911
Derivative financial assets	**28,521**	16,248
Financial investments	**231,843,228**	224,878,613
– financial assets at fair value through profit or loss	**59,606,966**	38,388,632
– financial assets at fair value through other comprehensive income	**26,727,296**	34,968,319
– financial assets at amortised cost	**145,508,966**	151,521,662
Investments in subsidiaries	**4,117,420**	4,117,420
Property and equipment	**8,486,227**	8,390,333
Deferred income tax assets	**2,243,194**	1,798,207
Other assets	**1,468,181**	809,510
TOTAL ASSETS	**551,306,200**	581,843,798
LIABILITIES		
Due to the central bank	**3,077,553**	2,371,211
Due to banks	**18,186,023**	32,159,128
Derivative financial liabilities	**26,881**	14,608
Repurchase agreements	**18,361,742**	2,990,739
Due to customers	**414,916,689**	385,193,251
Income tax payable	**654,149**	176,144
Debt securities issued	**44,926,588**	110,719,231
Other liabilities	**3,140,824**	3,743,827
TOTAL LIABILITIES	**503,290,449**	537,368,139
EQUITY		
Share capital	**10,995,600**	10,995,600
Capital reserve	**7,639,362**	7,639,362
Other comprehensive income	**319,926**	351,223
Surplus reserves	**3,782,467**	3,425,328
General and regulatory reserves	**6,922,570**	6,641,573
Undistributed profits	**18,355,826**	15,422,573
TOTAL EQUITY	**48,015,751**	44,475,659
TOTAL EQUITY AND LIABILITIES	**551,306,200**	581,843,798

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)

52. 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 1 January 2019	**10,995,600**	**7,639,362**	**351,223**	**3,425,328**	**6,641,573**	**15,422,573**	**44,475,659**
Movements in this year	**–**	**–**	**(31,297)**	**357,139**	**280,997**	**2,933,253**	**3,540,092**
Total comprehensive income	**–**	**–**	**(31,297)**	**–**	**–**	**3,571,389**	**3,540,092**
Profit distribution	**–**	**–**	**–**	**357,139**	**280,997**	**(638,136)**	**–**
1. Appropriation to surplus reserves	**–**	**–**	**–**	**357,139**	**–**	**(357,139)**	**–**
2. Appropriation to general and regulatory reserves	**–**	**–**	**–**	**–**	**280,997**	**(280,997)**	**–**
Balance as at 31 December 2019	**10,995,600**	**7,639,362**	**319,926**	**3,782,467**	**6,922,570**	**18,355,826**	**48,015,751**
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
Changes in accounting policies – 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

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2020.

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2019
(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	
	2019	2018
RMB current assets to RMB current liabilities	**42.82%**	86.10%
Foreign currency current assets to foreign currency current liabilities	**129.01%**	288.96%

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 2019					
Spot assets	**1,394,782**	**18,354**	**30,340**	**74,102**	**1,517,578**
Spot liabilities	**(249,869)**	**(37,558)**	**(9,589)**	**(51,891)**	**(348,907)**
Option contracts	**–**	**–**	**–**	**105,493**	**105,493**
Net long/(short) position	**1,144,913**	**(19,204)**	**20,751**	**127,704**	**1,274,164**
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

(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, excluding 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 2019			
Asia Pacific excluding Mainland China	**81,743**	**–**	**81,743**
– of which attributed to Hong Kong	**26,468**	**–**	**26,468**
Europe	**473,643**	**–**	**473,643**
North America	**159,920**	**–**	**159,920**
Total	**715,306**	**–**	**715,306**
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

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2019
(In RMB thousands, unless otherwise stated)

(D) LOANS AND ADVANCES TO CUSTOMERS

(i) Overdue loans and advances to customers

	31 December 2019				
Overdue days	**Within 90 days**	**91 days to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Unsecured loans	**838,203**	**560,724**	**111,200**	**2,744**	**1,512,871**
Guaranteed loans	**2,755,462**	**1,325,906**	**691,544**	**16,944**	**4,789,856**
Loans secured by mortgages	**4,934,939**	**1,368,470**	**940,313**	**14,995**	**7,258,717**
Pledged loans	**46,042**	**37,419**	**95,793**	**–**	**179,254**
Total	**8,574,646**	**3,292,519**	**1,838,850**	**34,683**	**13,740,698**

	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

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

	As at 31 December	
	2019	2018
Heilongjiang region	**5,500,668**	4,140,180
Northeastern China excluding Heilongjiang	**2,045,445**	2,453,154
Northern China	**2,958,444**	1,558,452
Southwestern China	**2,491,299**	2,044,058
Other regions	**744,842**	592,451
	13,740,698	10,788,295

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2019
(In RMB thousands, unless otherwise stated)

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

As at 31 December 2019 and 2018, 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 2019 and 2018, 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	
	2019	2018
On-balance sheet exposure	**282,068,594**	272,525,222
Off-balance sheet exposure	**42,885,721**	99,319,879

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