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Harbin Bank Co., Ltd.

哈爾濱銀行股份有限公司*

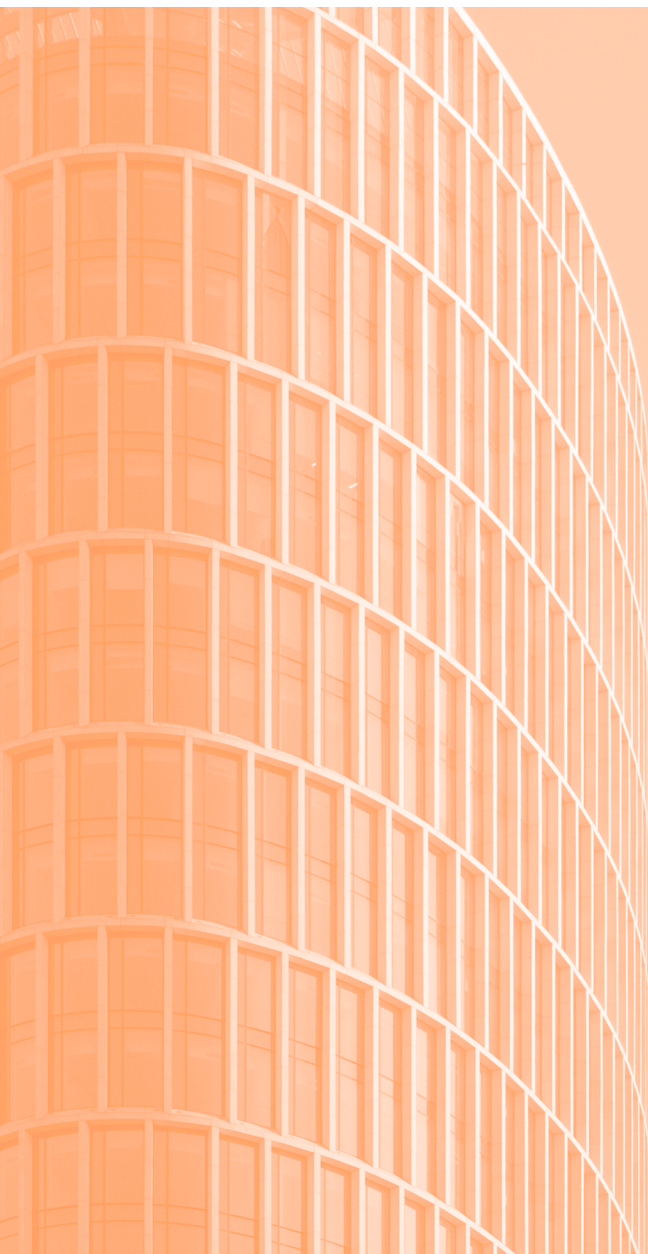
(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 6138)

2020 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of Harbin Bank Co., Ltd. (the “**Bank**”) is pleased to announce the audited annual results of the Bank and its subsidiaries (the “**Group**”) for the year ended 31 December 2020. This results announcement, containing the full text of the 2020 Annual Report of the Bank, complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of annual results. The annual financial statements of the Group for the year ended 31 December 2020 have been audited by Ernst & Young in accordance with International Standard on Review Engagements. Such annual results have also been reviewed by the Board and the Audit Committee of the Bank. Unless otherwise stated, financial data of the Group are presented in Renminbi.

This results announcement is published on the websites of the Bank (www.hrbb.com.cn) and HKExnews (www.hkexnews.hk). The printed version of the 2020 Annual Report of the Bank will be dispatched to the holders of H shares of the Bank and available for viewing on the above websites in April 2021.



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.

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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 |

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| | |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| "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 2020 |
| "SFO" | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| "Supervisor(s)" | the supervisor(s) of the Company |

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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:

Deng Xinquan

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, Dah Sing Financial Centre,
No. 248 Queen's Road East, Wanchai, Hong Kong

Contact Address:

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

Telephone:

86-451-86779933

Facsimile:

86-451-86779829

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ir@hrbb.com.cn

Websites for Publishing this Report:

www.hrbb.com.cn

www.hkexnews.hk

Place Where this Report is Available:

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

Place of Listing, Stock Name and Stock Code:

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

Corporate Unified Social Credit Code:

912301001275921118

Finance Permit Institution Number:

B0306H223010001

Date of Initial Registration:

25 July 1997

Initial Registration Authority:

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

Legal Adviser as to Laws of China:

Beijing Jun He Law Offices

Legal Adviser as to Laws of Hong Kong, China:

Clifford Chance LLP

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

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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 2020, the Group had 389 business outlets with branches and sub-branches across seven administrative regions in China.

As at 31 December 2020, the Bank had total assets of RMB598.6036 billion, total loans and advances to customers of RMB280.5672 billion and total customer deposits of RMB469.280 billion.

In 2020, the Bank was ranked 191st in “2020 Brand Finance Banking 500” published by Brand Finance (a famous UK-based branded business valuation consulting firm), 199th in “Top 1000 World Banks 2020” according to The Banker of United Kingdom and 31st in the “2019 China Banking Top 100 List (2019年中國銀行業100強榜單)” of the China Banking Association. The Bank also received the Best Bank Serving Small and Medium-sized Enterprises for the Year of the 2020 Stars of China Award (2020年“中國之星”年度“最佳中小企業服務銀行”獎), the Small and Medium-sized Bank with the Most Distinguished Features Award of the 3rd Iron-horse Award for Small and Medium-sized Banks (第三屆鐵馬中小銀行“最具業務特色中小銀行”獎) and the 2020 Hi-Tech Bank Award of the 21st Century Asian Financial Competitiveness List (21世紀亞洲金融競爭力評選“2020年度科技銀行”獎). The Sino-Russia Cross-Border E-Commerce Online Payment Platform of the Bank received the “Exemplary Business Model Innovation Award (業態創新示範案例獎)” at the 2020 China International Fair for Trade in Services.

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Major Awards for 2020

List of Major Awards for 2020

| No. | Name of Award | Awarding Party | Time of Award |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 1 | 2019 Responsible Finance Award (2019年度責任金融獎) | 9th China Charity Festival (第九屆中國公益節) | January 2020 |
| 2 | 191st in "2020 Brand Finance Banking 500" | Brand Finance | February 2020 |
| 3 | 2019 Excellent City Commercial Bank for Banking Wealth Management Registration (2019年度銀行業理財登記工作優秀城商行獎) | Banking Wealth Management Registration & Depository Center (銀行業理財登記 託管中心) | March 2020 |
| 4 | 2019 China Banking Top 100 List: ranked 31st | China Banking Association | March 2020 |
| 5 | Top 1000 World Banks 2020: ranked 199th | The Banker of the United Kingdom | July 2020 |
| 6 | Top 10 City Commercial Banks for Inclusive Finance (十佳普惠金融城商行) | National Forum Office for Regional Finance (全國地方金融論壇辦公室) Organizing Committee of China New Financial Institution Forum (中國新型金融機構論壇組委會) | July 2020 |
| 7 | Beijing Huairou Rongxing Village and Township Bank – 9 th Top 10 Village and Township Banks in China (第九屆全國十佳村鎮銀行) | National Forum Office for Regional Finance (全國地方金融論壇辦公室) Organizing Committee of China New Financial Institution Forum (中國新型金融機構論壇組委會) | July 2020 |
| 8 | Outstanding Organization for Data Quality in the Corporate Credit Reference System (企業徵信系統數據質量工作優秀機構) | Credit Reference Center, The People's Bank of China | July 2020 |
| 9 | Outstanding Organization for Data Quality in the Individual Credit Reference System (個人徵信系統數據質量工作優秀機構) | Credit Reference Center, The People's Bank of China | July 2020 |
| 10 | Golden Award of "Social Responsibility Report" of the 34 th World's Best Annual Report Special Award (第34屆世界最佳年度報告特別獎"社會責任報告類"金獎) | ARC AWARD | August 2020 |
| 11 | Cover Design Bronze Award of the 34th World's Best Annual Report (第34屆世界最佳年度報告 封面設計銅獎) | ARC AWARD | August 2020 |
| 12 | Ranked 241st in the 2020 Brand Finance China 500 | Brand Finance | August 2020 |
| 13 | Exemplary Business Model Innovation Award (業態創新示範案例獎) | 2020 China International Fair for Trade in Services | September 2020 |

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| No. | Name of Award | Awarding Party | Time of Award |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 14 | Best Bank Serving Small and Medium-sized Enterprises for the Year of the 13th Stars of China Award (第13屆“中國之星”評選“最佳中小企業服務銀行”獎) | Global Finance | September 2020 |
| 15 | Third Prize of 2019 Banking Technological Development Award | The People's Bank of China | September 2020 |
| 16 | 2019 Harbin International Marathon was awarded the title of “Golden Label Road Race” | Chinese Athletic Association | October 2020 |
| 17 | 2020 Gamma Award of Wealth Management Brand of Small and Medium-sized Banks (2020年度中小銀行理財品牌天璣獎) | Securities Times | October 2020 |
| 18 | 2020 Gamma Award of Investment Banking of Small and Medium-sized Banks (2020年度中小銀行投行業務天璣獎) | Securities Times | October 2020 |
| 19 | Top 10 Banks in Technological Innovation (十佳科技創新銀行) | Forum of National Local Finance | October 2020 |
| 20 | “2020 Hi-Tech Bank Award” of the 21st Century Asian Financial Competitiveness List (21世紀亞洲金融競爭力評選“2020年度科技銀行獎”) | 21st Century Business Herald | November 2020 |
| 21 | “Small and Medium-sized Bank with the Most Distinguished Features Award” of the 3 rd Iron-horse Award for Small and Medium-sized Banks (第三屆鐵馬中小銀行“最具業務特色中小銀行”獎) | Modern Bankers | November 2020 |
| 22 | 2020 Chinese Financial Institutions Gold Medal Awards: Top 10 City Commercial Banks for the Year (2020中國金融機構金牌榜—年度十佳城市商業銀行) | Financial Times | December 2020 |
| 23 | 2020 Best E-Banks in China: Best Personal Mobile Banking Award (2020中國電子銀行金榜獎—最佳個人手機銀行獎) | China Financial Certification Authority (CFCA) | December 2020 |
| 24 | 2020 Recommendations of Global Business Media: Top 10 Inclusive Finance Innovative Institutions (2020全球商業媒體推薦—十佳普惠金融創新機構) | Jointly hosted by Hong Kong Commercial Daily, Hong Kong Financial Development Association (香港金融發展協會), Hong Kong Chamber of Commerce in China and Global News | December 2020 |

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| No. | Name of Award | Awarding Party | Time of Award |
|-----|-----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| 25 | 2020 Recommendations of Global Business Media: Top 10 Inclusive Finance Innovative Products (2020全球商業媒體推薦一十佳普惠金融創新產品) | Jointly hosted by Hong Kong Commercial Daily, Hong Kong Financial Development Association (香港金融發展協會), Hong Kong Chamber of Commerce in China and Global News | December 2020 |
| 26 | 2020 Anti-Pandemic Special Contribution Award in China's Financial Industry (2020中國金融業 抗疫特別貢獻獎) | Jointly hosted by Hong Kong Commercial Daily, Hong Kong Financial Development Association (香港金融發展協會), Hong Kong Chamber of Commerce in China and Global News | December 2020 |
| 27 | Outstanding Contribution Award for UnionPay Credit Card Business (銀聯信用卡業務突出貢獻獎) | China UnionPay | December 2020 |
| 28 | Outstanding Entity for Special Evaluation of Emergency Management Capacity (應急管理能力專項評估優秀單位) | China Banking Association | December 2020 |
| 29 | Library of Qitaihe Branch was awarded the honorary title of "Staff's Book House (職工書屋)" | ALL China Federation of Trade Unions | December 2020 |
| 30 | 2020 Visa's Excellent Partner Award (2020年度 Visa卓越合作夥伴獎) | VISA | December 2020 |
| 31 | "Reputable Credit Award of the Year" Award by the 18th China Finance Billboard (第十八屆 中國財經風雲榜"年度口碑信用卡"獎) | Hexun.com | December 2020 |
| 32 | Best Innovative Cooperation Award | Heilongjiang Branch of China UnionPay Co., Ltd. | December 2020 |

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Major Subsidiaries

The details of major subsidiaries of the Company as at 31 December 2020 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 | 270 | 99.63 | 269 |
| Baiquan Rongxing Village and Township Bank Co., Ltd. | Baiquan, Heilongjiang | 253 | 100.00 | 253 |
| Yanshi Rongxing Village and Township Bank Co., Ltd. | Yanshi, Henan | 50 | 100.00 | 50 |
| Leping Rongxing Village and Township Bank Co., Ltd. | Leping, Jiangxi | 160 | 100.00 | 160 |
| 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 |
| Xin'an Rongxing Village and Township Bank Co., Ltd. | Xin'an, Henan | 33.3 | 90.09 | 30 |

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| 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 |
|-------------------------------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------|--------------------------------------------------------|
| Anyi Rongxing Village and Township Bank Co., Ltd. | Anyi, Jiangxi | 60 | 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 |

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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 | | | | | | |
|------------------------------------------------------------------|-----------|-----------|-------------------------------------|-----------|-----------|-----------|
| | 2020 | 2019 | 2020 vs. 2019 | 2018 | 2017 | 2016 |
| (In RMB million, except percentages) | | | | | | |
| Results of operations | | | Rate of change | | | |
| Net interest income | 12,309.2 | 11,695.2 | 5.25% | 10,127.0 | 11,307.5 | 11,573.3 |
| Net fee and commission income | 880.0 | 1,366.5 | -35.60% | 2,391.4 | 2,444.6 | 2,393.4 |
| Operating income | 14,606.3 | 15,124.4 | -3.43% | 14,325.4 | 14,133.6 | 14,172.0 |
| Operating expenses | (4,896.0) | (5,153.0) | -4.99% | (4,594.3) | (4,343.5) | (4,522.2) |
| Credit impairment losses | (8,301.4) | (5,180.9) | 60.23% | (2,425.9) | (2,662.1) | (3,294.8) |
| Profit before tax | 1,408.9 | 4,790.5 | -70.59% | 7,305.2 | 7,128.0 | 6,445.6 |
| Net profit | 795.8 | 3,635.1 | -78.11% | 5,574.4 | 5,308.9 | 4,962.2 |
| Net profit attributable to shareholders of the Company | 745.7 | 3,558.4 | -79.04% | 5,548.6 | 5,249.1 | 4,876.6 |
| For each share (RMB) | | | Rate of change | | | |
| Net assets per share attributable to shareholders of the Company | 4.48 | 4.53 | -1.10% | 4.21 | 3.75 | 3.32 |
| Earnings per share | 0.07 | 0.32 | -78.13% | 0.50 | 0.48 | 0.44 |
| Profitability indicators | | | Change | | | |
| Return on average total assets ⁽¹⁾ | 0.13% | 0.61% | decreased by 0.48 percentage point | 0.94% | 0.96% | 1.01% |
| Return on average equity ⁽²⁾ | 1.51% | 7.41% | decreased by 5.90 percentage points | 12.68% | 13.50% | 14.01% |
| Net interest spread ⁽³⁾ | 2.18% | 2.02% | increased by 0.16 percentage point | 1.67% | 1.95% | 2.47% |
| Net interest margin ⁽⁴⁾ | 2.20% | 2.10% | increased by 0.10 percentage point | 1.87% | 2.15% | 2.65% |
| Net fee and commission income to operating income ratio | 6.02% | 9.04% | decreased by 3.02 percentage points | 16.69% | 17.30% | 16.89% |
| Cost-to-income ratio ⁽⁵⁾ | 32.06% | 32.71% | decreased by 0.65 percentage point | 30.88% | 29.71% | 28.60% |

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| | As at 31 December | | | | | |
|--------------------------------------------------|-------------------|---------|--------------------------------------|---------|---------|---------|
| | 2020 | 2019 | 2020 vs. 2019 | 2018 | 2017 | 2016 |
| (In RMB million, except percentages) | | | | | | |
| Capital adequacy indicators⁽⁶⁾ | | | Change | | | |
| Core tier 1 capital adequacy ratio | 10.18% | 10.22% | decreased by 0.04 percentage point | 9.74% | 9.72% | 9.34% |
| Tier 1 capital adequacy ratio | 10.20% | 10.24% | decreased by 0.04 percentage point | 9.75% | 9.74% | 9.35% |
| Capital adequacy ratio | 12.59% | 12.53% | increased by 0.06 percentage point | 12.15% | 12.25% | 11.97% |
| Total equity to total assets | 8.54% | 8.86% | decreased by 0.32 percentage point | 7.71% | 7.52% | 6.93% |
| Assets quality indicators | | | Change | | | |
| NPL ratio ⁽⁷⁾ | 2.97% | 1.99% | increased by 0.98 percentage point | 1.73% | 1.70% | 1.53% |
| Impairment coverage ratio ⁽⁸⁾ | 133.26% | 152.50% | decreased by 19.24 percentage points | 169.88% | 167.24% | 166.77% |
| Impairment losses on loans ⁽⁹⁾ | 3.96% | 3.04% | increased by 0.92 percentage point | 2.94% | 2.84% | 2.55% |

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| | As at 31 December | | | | | |
|----------------------------------------------------------|-------------------|-----------|----------------------------------------------|-----------|-----------|-----------|
| | 2020 | 2019 | 2020 vs. 2019 | 2018 | 2017 | 2016 |
| (In RMB million, except percentages) | | | | | | |
| Other indicator | | | Change | | | |
| Loan-deposit ratio | 59.79% | 61.92% | decreased by 2.13 percentage points | 64.16% | 62.76% | 58.76% |
| Scale indicators | | | Rate of Change | | | |
| Total assets | 598,603.6 | 583,089.4 | 2.66% | 615,588.5 | 564,255.2 | 539,016.2 |
| Of which: total loans and advances to customers | 280,567.2 | 263,604.1 | 6.44% | 253,762.7 | 237,397.8 | 201,627.9 |
| Total liabilities | 547,494.5 | 531,448.2 | 3.02% | 568,097.0 | 521,846.2 | 501,681.2 |
| Of which: due to customers | 469,280.0 | 425,683.7 | 10.24% | 395,516.8 | 378,258.4 | 343,151.0 |
| Share capital | 10,995.6 | 10,995.6 | – | 10,995.6 | 10,995.6 | 10,995.6 |
| Equity attributable to shareholders of the Company | 49,247.1 | 49,826.7 | -1.16% | 46,274.7 | 41,260.5 | 36,507.8 |
| Non-controlling interests | 1,862.0 | 1,814.5 | 2.62% | 1,216.8 | 1,148.4 | 827.2 |
| Total equity | 51,109.1 | 51,641.2 | -1.03% | 47,491.5 | 42,409.0 | 37,335.0 |

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 parent company 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. According to the Notice of the CBIRC on Phased Adjustment of the Requirements for the Loan Loss Allowance for Small and Medium Commercial Banks (Yin Bao Jian Fa [2020] No. 16), the impairment coverage ratio standard was lowered to 130%.
- (9) Calculated with the allowance for impairment loss on loans divided by the total loans to customers. According to the Notice of the CBIRC on Phased Adjustment of the Requirements for the Loan Loss Allowance for Small and Medium Commercial Banks (Yin Bao Jian Fa [2020] No. 16), the impairment losses on loans ratio standard was lowered to 2%.

Chairman's Statement



Deng Xinquan
Chairman

In 2020, 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, and achieved positive results in various works.

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Over the past year, the Bank's operations continued to remain stable and healthy. As at the end of 2020, the Group had total assets of RMB598,603.6 million. Net profit of the Bank for the year of 2020 amounted to RMB795.8 million. The key regulatory indicators met regulatory standards. Major breakthroughs were achieved in the Company's retail deposits business, and its proportion of retail deposits was among the leading institutions in the market. The proportion of green deposits was further increased, while the structure of deposits was further optimised. HB Leasing maintained a good momentum for its business operation, and vigorously developed the special agricultural machinery business by opening up the resources of first class domestic and overseas agricultural machinery manufacturers. The expansion of agricultural machinery business significantly speeded up its pace. HBCF proactively changed its operational concepts, promoted market-orientated financing, adjusted risk control strategies, and optimised asset structure, thereby achieving stable and healthy operation.

Over the past year, the Bank's featured businesses embraced energetic development. The proportion of retail loan strategic business continued to increase. The Bank fully fulfilled the evaluation indicators on the "Two Increases (兩增)", and excessively completed the regulatory missions of the small enterprise supporting re-lending program. The position of our featured Sino-Russia financial brand continued to strengthen. The Bank successfully obtained the qualification of a direct participating bank of Cross-border Interbank Payment System (CIPS), prepared for the construction of Sino-Russia settlement service centers in new regions, and handled the first NRA account settlement business in the free trade zone. The Bank initiated the innovation and upgrade of product and service models for its microfinance business, and accelerated digitalization transformation. Hence, the scale of small and micro finance business exceeded RMB10 billion, with investments hit record high.

Over the past year, the Bank conducted extensive cooperation externally. The Company proactively participated in the key projects including the "Top Hundred Projects (百大項目)" and the "Bank-Enterprise Cooperation" (百行進萬企) in Heilongjiang Province so as to support regional economic development. Our cross-border e-commerce financial service platform supports more than 10 major payment tools in Russia, as well as online real-time payment, collection and settlement for more than 60 currencies. Agriculture finance set up the first batch of 33 large-scale farmers benefiting clubs, with large-scale farmers represented 60% of total, thus realising full online operation. The Bank set up 71 professional service teams for corporate clients, thereby realising interactive marketing for strategic clients and major projects. The comprehensive financial service capability of teams has improved significantly.

Over the past year, the Bank continued to strengthen its risk management and control. Internal assessment model continued to be optimised and further applied. The Bank enhanced the automation of risk assessment system, and the assessment efficiency has greatly improved. The Bank formulated the risk list for the Group. The risk control capability of the Group was strengthened. The establishment of smart risk control system achieved initial results. With increased efforts in the collection and disposal of non-performing assets, the Bank scored a historical high in the scale of disposal. The Bank implemented asset quality classification, and proactively increased the level of provision.

Chairman's Statement

Over the past year, the Bank actively implemented social responsibilities. 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 enterprises, small and micro enterprises and people's livelihood. The Bank ranked 199th in the Top 1000 World Banks 2020 according to The Banker of United Kingdom, 31st in China's Top 100 in the Banking Industry according to China Banking Association, and 191th in Global Banking Brands Top 500 of 2020 according to Brand Finance.

Over the last year, the Bank proactively fought against the pandemic. By optimising anti-pandemic financial services and implementing policies on resumption of operation and production, the Bank fully played its role in supporting and securing anti-pandemic works through financial services. Focusing on “ensuring stability on the six fronts and security in the six areas (六保六穩)”, and striving to our market positioning of “serving local economy, urban citizens and small and medium-sized enterprises”, the Bank continued to provide greater financial support for micro, small and medium sized enterprises, anti-pandemic enterprises and other key industries during this special period. Throughout the year, the Bank contributed a total of over RMB900 million to the real economy, thereby contributing its financial power for local economic and social recovery and development.

Currently, COVID-19 is continuing to cause damage to people all over the world and affect global economy and the financial market. In 2021, the domestic banking industry will face an even more severe and unfavorable environment for development, as well as more challenges and difficulties in operation. As guided by Chairman Xi Jinping's Thought on Socialism with Chinese Characteristics in the New Era, the Bank will study and implement the gist of the fifth plenary session of the 19th CCCPC and the Central Economic Work Conference in a deep-going way. 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 !



Deng Xinquan
Chairman

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Lyu Tianjun
President

2020 is the final year of the new three-year strategic plan of the Bank. Even though being confronted with the COVID-19 pandemic and revolutionary transformation, the Bank withstood pressure and made concerted efforts, and arranged pandemic prevention and control measures and operation development with a focus on the theme of “steady improvement”. We stabilized the development by marketing our green deposit, contending for high-value customers and facilitating the settlement and collection of non-performing loans. We added momentum to our development by the transformations in designated branches of retail banking, examination and approval of credits and our team service mode for corporation business. With the principle of “steady improvement” as our foundation, we achieved good results in pandemic prevention and control and the revolutionary transformation. Our new three-year strategic plan achieved the most remarkable success in its closing year.

President's Statement

In 2020, the Bank's operating performance improved steadily, and our development was steady and healthy. As of 31 December 2020, the Group achieved total assets of RMB598.6036 billion, representing an increase of RMB15.5142 billion as compared to the end of last year; customer deposits amounted to RMB469.2800 billion, representing an increase of RMB43.5963 billion or 10.2% as compared to the end of last year; total loans amounted to RMB280.5672 billion, representing an increase of RMB16.9631 billion or 6.4% as compared to the end of last year; and the asset quality was deteriorated, with NPL ratio of 2.97% and impairment coverage ratio of 133.26%. In 2020, the Bank recorded an operating income of RMB14.6063 billion and a net profit of RMB795.8 million.

In 2020, the Bank's three major transformations were taken to a higher level, while revolutionary innovation made a breakthrough. Our microcredit strategy was upheld. We strove for transformation in development, and arranged our development in new realms of business in an innovative mode. We transformed our retail financing both in scope and in depth with the essence of "hardness, softness, strength and intelligence" in mind. Both the growth and proportion of our retail deposits were the highest among listed city commercial banks. Our corporate business was streamlined, and our professional abilities were enhanced. We set up a business management mode that features four types of fixed quotas and five types of designated elements, aiming to create a strategic customer service system. We have established a concentrated vertical credit-granting management mode, a paralleled approval mode and an error correction mechanism for decision-making, thus significantly enhancing the efficiency of examination and approval. We have made some breakthroughs in terms of giving small and micro finance, agriculture-benefiting credit and Sino-Russia financing distinguishing features and their digital transformation, thereby achieving smart and professional upgrade.

In 2020, the foundation of the Bank's compliance and internal control was consolidated, and risk management was strengthened in a sustained way. Our comprehensive risk management was taken to a higher level. We took vigorous measures for handling irregularities and the rectification and reformation of supervision and administration. Our risk control and compliance reached a whole new level. We applied the achievements of new capital agreement in depth. An intelligent risk control system was set up, and the management and control of the system was carried out based on big data. Our unified management and control of the Group's risk was strengthened, and resources were concentrated on big data risk control system. We advanced the construction of three lines of defense. Post-credit risk management of all kinds of assets was rigorously carried out, and our ability of active prevention and control was enhanced. The requirements of supervision and administration were rigorously enforced. Our supervision and administration features an all-dimensional coverage, a whole course management and control, participation of the entire bank. Our organizational internal control mechanism integrating the whole procedures was improved. Risks of all fields were dealt with in a concentrated way. All of these measures were taken to ensure operational stability of the Bank.

In 2020, the Bank made an accurate arrangement for fintech, and our technological empowerment was fruitful. We went with the tide of fintech development, focused on strengthening our technological capabilities, and facilitated our digital strategic transformation. We reorganized our technological management system, and our decision-making procedures and rules of procedure in the field of technology was optimized. Fintech, operational maintenance, information safety, structural management and control and independent R&D were improved in an all-round way. The philosophy of "making technology exists everywhere" was established. The new setup featuring a highly efficient coordination of technology and business, a speedy R&D and simultaneous development was formed. We devoted major efforts to carry out management with data, intelligent customer service, intelligent risk control and other major technological empowerment projects and infrastructure management project, thus creating a series of smart banking innovations.

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In 2020, the Bank optimized the organizational system, and the contingent building achieved great success. We continued to improve the management system of our organization and contingents according to business transformation and operational needs. The system covering the selection and appointment of cadres, the appraisal of customer managers, employees' promotion and salary adjustment and the exchange programs featuring serving temporary positions of cadres was optimized. The system covering employees' remuneration and performance review, bonuses, deferred payment, performance claims was enhanced. The transformation of designated retail branches, team service for corporation customers, the dispatch of credit examiners and finance managers and other long term professional talents cultivation mechanisms were improved in a sustained way. We have successively established the talent pool for intern assistants, internal trainers, credit examiners, as well as personnel for fintech, finance, assets and liabilities management.

In 2020, anti-pandemic financing measures were taken in an accurate way, and their stabilization and protection were brought into full play. We overcame the negative effects of the pandemic, strictly implemented the policy of "stability on six fronts (六穩)" and "security in the six areas (六保)", and introduced a series of financing service plans and measures. We proactively supported the development of real economy and fulfilled the requirements of financing services for the resumption of operation and production through product innovation, streamlining procedures, allocating more resources, handling special cases with special methods and other measures. As of 31 December 2020, the balance of inclusive microcredit loans was RMB42.093 billion, representing an increase of RMB4.726 billion as compared to the beginning of the year. The "Stabilization Loans (雙穩貸款)" with a total amount of RMB17.5 billion were granted in 2020. The Bank ranked first in the Stabilization Loans among local financial institutions. We proactively participated in the establishment of the "Top Hundred Projects (百大項目)" and the "Bank-Enterprise Cooperation" (百行進萬企) in Heilongjiang Province, and loans with a total amount of RMB2.8 billion were granted. The real economy enjoyed an expense reduction amounting to over RMB900 million by various methods.

The 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 worked 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.

In 2020, we blazed a way through all manner of obstacles and pushed ourselves forward to navigate through choppy water. In 2021, we will make a fresh start with our mind and power reset. Pursuant to the "14th Five-Year Plan" and a new starting point of the next strategic plan of Harbin Bank, as guided by Chairman Xi Jinping's Thought on Socialism with Chinese Characteristics in the New Era, we will study and implement the gist of the fifth plenary session of the 19th CCCPC and the Central Economic Work Conference in a deep-going way. Adhering to the principle of making progress while ensuring stability, we will implement new concepts, fit ourselves into the new setup, and facilitate our strategic transformation and management improvement. We strive to take our business development and financial services to a much higher level and into a new stage.



LYU Tianjun
President

Report of the Board of Directors

I. Past Economy and Environment and Operation Overview

(I) Past Economy and Environment

In 2020, under the firm leadership of the Party Central Committee headed by Chairman Xi Jinping, the entire party and nation implemented strategies and decisions of the Party Central Committee and the State Council, and achieved significant results in the coordination of pandemic prevention and control as well as economic and social development. As the economic operation continued to recover in a steady pace, China became the first major economy in the world to achieve growth, with its economic aggregate reaching a new milestone of RMB100 trillion. In 2020, the gross domestic product (GDP) amounted to RMB101,598.6 billion, representing a year-on-year increase of 2.3%. On a quarterly basis, the GDP growth from Q1 to Q4 was -6.8%, 3.2%, 4.9% and 6.5%, respectively. A continuous recovery trend has shown in economy, reflecting the strong resilience of Chinese economy. The balance of M2 amounted to RMB218.68 trillion, representing a year-on-year increase of 10.1%; the balance of M1 amounted to RMB62.56 trillion, representing a year-on-year increase of 8.6%, and the balance of M0 amounted to RMB8.43 trillion, representing a year-on-year increase of 9.2%; the balance of RMB loans amounted to RMB178.4 trillion, and the balance of RMB deposits amounted to RMB218.37 trillion. New RMB loans made in the year amounted to RMB19.63 trillion, representing a year-on-year increase of RMB2.82 trillion; and new RMB deposits amounted to RMB19.65 trillion, representing a year-on-year increase of RMB4.28 trillion. Increment of social financing scale for 2020 was RMB284.83 trillion, representing a year-on-year increase of 13.3%.

In 2020, facing the severe domestic and international environment, especially the enormous impacts brought by the COVID-19 pandemic, the people of Heilongjiang Province tenaciously fought back in a concerted effort and turned the declining economy around. Hence, Heilongjiang Province recorded a positive annual economic growth rate, with comprehensive rebound of production demand. The employment and livelihood of people were well protected. Major economic indicators were better than expected. Throughout the year, having experienced a slump in the first quarter, a narrowed decline in the second quarter, a turnaround to positive growth in the third quarter and a more rapid growth in the fourth quarter, the economic operation was gradually regaining its footing. In 2020, the regional gross domestic product (GDP) of Heilongjiang reached RMB1,369.85 billion, representing an increase of 1.0% over the same period of last year based on comparable price calculation. During the year, fixed asset investment made within Heilongjiang increased by 3.6% as compared to last year. Total retail sales of consumer goods decreased by 9.1% as compared to last year, and disposable income per capita of urban and rural residents increased by 0.5% and 7.9% as compared to last year, respectively.

(II) Operation Overview

In 2020, facing the challenges brought by COVID-19 pandemic and the complicated operating environment, the Bank, under the strategic guidance of the Board and the strong 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 “gradual enhancement”. Adhering to the standard of “strategic focus, problem orientation, pursuit of truth and practicability and increase value”, the Bank focused on pandemic prevention and control, performance enhancement and fundamental reshape. The Bank achieved the goals of its strategic plan at the highest standards. The development continued to optimize, with major indicators gradually recovered.

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Steady business scale development

As at 31 December 2020, the Group had total assets of RMB598,603.6 million, representing an increase of RMB15.5142 billion or 2.7% as compared to the end of last year; total loans and advances to customers of the Group amounted to RMB280.5672 billion, representing an increase of RMB16.9631 billion or 6.4% as compared to the end of last year; and due to customers deposits of the Group amounted to RMB469.28 billion, representing an increase of RMB43.5963 billion or 10.2% as compared to the end of last year.

Decrease in profitability

The Group recorded a net profit of RMB795.8 million for the year of 2020, representing a year-on-year decrease of RMB2.8393 billion or 78.1%; and a net profit attributable to shareholders of the Company of RMB745.7 million, representing a year-on-year decrease of RMB2.8127 billion or 79.0%, primarily due to the increase in provision for asset impairment losses and greater efforts out in the disposal and write-off of non-performing assets as certain credit customers experienced difficulties in production and operation under the COVID-19 pandemic and the macroeconomic downturn, resulting in decline in solvency. As at 31 December 2020, the return on average total assets of the Group was 0.13%, representing a decrease as compared with 0.61% in 2019; and the return on average equity of the Group was 1.51%, representing a decrease as compared with 7.41% in 2019.

Slight increase in NPLs

As at 31 December 2020, the balance of the Group's NPLs was RMB8.3329 billion, and the NPL ratio was 2.97%; and impairment losses on loans was 3.96%, representing an increase of 0.92 percentage point as compared to the end of last year, showing increased risk resilience.

Stable development of subsidiaries

In 2020, HB Leasing, HBCF and 32 village and township banks controlled by the Company kept on stable and healthy development momentum. As at 31 December 2020, HB Leasing had total assets of RMB25.325 billion, representing an increase of 1.91% as compared to the end of last year; HBCF had total assets of RMB11.393 billion, representing an increase of RMB4.005 billion as compared to the end of last year. Balance of loans amounted to RMB10.597 billion, representing an increase of RMB3.518 billion as compared to the end of last year, with the NPL ratio at less than 2%, far below the industry average. Total assets of the 32 village and township banks controlled by the Company amounted to RMB25.367 billion.

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.

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(III) Analysis of Key Issues

1. *Net interest margin*

In 2020, the net interest spread of the Bank was 2.18%, representing an increase of 0.16 percentage point as compared to last year, and the net interest margin was 2.20%, representing an increase of 0.10 percentage point as compared to last year, mainly attributable to: (1) a relatively loose monetary market in 2020, resulting in a downward market interest rate and a decrease in the cost of interbank liabilities; (2) the active optimisation of the deposit structure and reduction of high-cost liabilities by the Bank, and the customers' cost ratios of deposits decreased year on year. On the other hand, as affected by numerous factors such as actively reducing the financing costs of borrowers, the impact of the COVID-19 pandemic, economic growth slowdown and declining asset quality, the loan yield decreased, which had certain negative effects on the net interest spread and net interest margin. Looking forward to 2021, it is expected that the downward pressure faced by the Chinese 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. 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 2020, under the dual impact of the COVID-19 pandemic and economic slowdown, the balance of the Group's NPLs was RMB8.3329 billion, and the NPL ratio was 2.97%, up from the end of last year.

During the Reporting Period, the Bank made dynamic responses to the impacts of the COVID-19 pandemic on asset quality, proactively took steps to prevent and control the risks, increased efforts in judicial collection and actively resolved existing NPLs, in addition to supporting small and micro enterprises in respond to regulatory policies. As 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.

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 and 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 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.

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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 2020, the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio of the Bank were 10.18%, 10.20% and 12.59%, respectively, representing a decrease of 0.04 percentage point, 0.04 percentage point and an increase of 0.06 percentage point, respectively, as compared to the end of last year. The decrease in the core tier-1 capital adequacy ratio and tier-1 capital adequacy ratio was mainly due to the decline of distribution of cash dividends and net profit, while the increase in the capital adequacy ratio was mainly due to the increase in allowance for impairment loss on loans and the decrease in risk-weighted assets. As at the end of the Reporting Period, risk-weighted assets of the Bank amounted to RMB488,192.7 million, representing a decrease of RMB3.2839 billion, or 0.67% as compared to the end of last year. Looking forward to 2021, 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.

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

As at 31 December 2020, total investment by the Bank in debt financial instruments issued by financial institutions amounted to RMB137,452.5 million, representing a decrease of 17.5% 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 2020, the balance of provision of the Bank’s investment in debt financial instruments issued by financial institutions amounted to RMB4.393 billion, representing an increase of RMB512.5 million as compared to the end of last year, and the coverage ratio was 3.20%, representing an increase of 0.87 percentage point as compared to the end of last year.

5. *Wealth Management Business*

In 2020, the introduction of supplementary regulatory documents including the Rules for the Identification of Standardised Debt Assets (《標準化債權類資產認定規則》), the Arrangement for the Stable Transformation of Asset Management Business during the Transition Period of New Regulations Optimizing Asset Management (《優化資管新規過渡期安排引導資管業務平穩轉型》) and the Interim Measures for the Administration of the Sales of Wealth Management Products of Wealth Management Subsidiaries by Commercial Banks (Draft for Comments) (《商業銀行理財子公司理財產品銷售管理暫行辦法(徵求意見稿)》) has standardized the regulatory standards, promoted fair competition, and effectively provided guidance for banks and their wealth management subsidiaries to operate in compliance of regulatory requirements. In addition, such documents pushed for the launch of compliant new products and the orderly transition between old and new products, which further urged banks to rectify in a reliable and orderly manner and reduce stock assets orderly by taking various measures, thus achieving steady transition.

During the Reporting Period, on the basis of strengthening risk prevention and returning to the basics of business, the Bank comprehensively promoted the compliance transformation of the wealth management business, continuously optimized the product structure and asset allocation, enhanced the construction of various technological systems and channels, strengthened its capabilities in active management and investment and research, and made improvements to the operating management and risk control systems, in order to sufficiently prepare for the net-value transformation of wealth management products and license application of wealth management subsidiaries.

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6. Net Stable Funding Ratio

As of 30 June 2020, the net stable funding ratio of the Bank was 116.26%, which was in compliance with the regulatory standards. The available stable funding (upon translation) was RMB431.905 billion and the required stable funding (upon translation) was RMB371.483 billion.

As of 30 September 2020, the net stable funding ratio of the Bank was 122.44%, which was in compliance with the regulatory standards. The available stable funding (upon translation) was RMB435.039 billion, and the required stable funding (upon translation) was RMB355.297 billion.

As of 31 December 2020, the net stable funding ratio of the Bank was 116.25%, which was in compliance with the regulatory standards. The available stable funding (upon translation) was RMB418.593 billion, and the required stable funding (upon translation) was RMB360.079 billion.

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

| Item | As at 31 December 2020 | As at 30 September 2020 | As at 30 June 2020 |
|-----------------------------------------|------------------------------|-------------------------------|--------------------------|
| (In RMB100 million, except percentages) | | | |
| Net stable funding ratio | 116.25% | 122.44% | 116.26% |
| Available stable funding | 4,185.93 | 4,350.39 | 4,319.05 |
| Required stable funding | 3,600.79 | 3,552.97 | 3,714.83 |

7. Impact of the COVID-19 pandemic on the Bank

Under the influence of the COVID-19 pandemic, economic activities were significantly suppressed in the short term, and there was greater uncertainty in the cash flow of enterprises and individual businesses. Especially in the Northeastern China, due to the repeated epidemic situation, the pace of resumption of work and production was relatively slow, thus the regional economy was shocked more severely. The impact on the Bank was mainly reflected in two aspects, namely operating income and impairment provision.

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For operating income, the Bank actively responded to the call of the national policy and made every effort to do a good job in financial services during the epidemic. For industries, enterprises and individuals that were substantially affected by the epidemic, the Bank implemented measures including preferential interest rates, flexible extensions, adjustments to instalment plans, overdue interest rate reductions and special credits, and cumulatively contributed over RMB900 million to entities, actively supporting small and medium-sized enterprises to resume work and production. Among which, inclusive small and micro enterprises engaging in service industry, wholesale and retail, medicine and medical care, manufacturing and other industries related to the national economy and people's livelihood enjoyed a total expense and fee reduction amounting to RMB494 million for the year.

For impairment provision, as affected by the repeated epidemic situation in the Northeastern China superimposed on the insufficient economic vitality of the region, the credit risk of some industries and customers increased, posing a significant adverse impact on the development of commercial banks in the region. In order to effectively respond to changes in the external situation, the Bank continued to strengthen risk investigation of existing loans, enhance active management of potential risk exposures, identify the nature of risks, effectively estimate expected losses, carefully refine classifications, increase provisions, and improve anti-risk ability. At the same time, multiple measures were taken to accelerate the disposal of non-performing assets. Based on the principle of "writing off all that should be written off", the Bank effectively revitalized the existing assets, further releasing new credit lines to serve the people's livelihood and support the development of entities. Throughout the year, the Bank made provision for assets impairment totaling RMB8.301 billion, representing a year-on-year increase of RMB3.121 billion or 60%.

In 2020, the Bank's liquidity and working capital continued to remain stable and abundant. Since the outbreak of the epidemic, the Bank has continued to strengthen day-to-day liquidity monitoring to ensure a sufficient level of daily reserve funds. The Bank continuously increased the marketing efforts of customer deposits, and actively advanced the marketing and positive promotion of stable deposit products such as large deposit certificates and time deposits, so as to stabilize and increase deposits. It strengthened communication with existing interbank customers, consolidated the foundation of interbank cooperation, and expanded interbank cooperation channels to improve the ability to adjust funds. Paying close attention to the market conditions of high-liquidity bonds such as treasury bonds and policy financial bonds, and increasing the reserves of high-quality liquid assets in a timely manner, the Bank improved its liquidity emergency management capabilities. The Bank strengthened the overall liquidity management of the Group, incorporated the liquidity needs of subsidiaries and village banks into the Group's overall balance, established an emergency forecast mechanism and improved emergency communication channels, and made timely arrangements for the Group's overall liquidity to ensure the safety of the Group's overall liquidity.

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The Bank actively responded to the impact of the COVID-19 epidemic, and comprehensively analyzed and assessed the effect of the epidemic. While fulfilling its corporate social responsibilities, actively implementing various national support policies, and doing a good job in epidemic prevention and control as well as financial services, the Bank adjusted various operating arrangements in a timely manner, and adopted numerous measures to internally tap the potential to reduce costs and increase efficiency, so as to reduce the impact of the epidemic and ensure overall stable operation. Firstly, it established a comprehensive cost control system and implemented dual control over operating expenses and capital costs. The Bank comprehensively consolidated basic financial management, continued to optimize financial management and control as well as resource allocation, and strengthened full-process cost control based on the principle of “cautious planning, cost reduction and efficiency enhancement, and strict saving”. In 2020, the Bank’s operating expenses amounted to RMB4,896.0 million, representing a year-on-year decrease of RMB257.0 million or 5.0%. The Bank actively optimized the deposit structure and strengthened management on cost of debt. Upholding the business development ideas of “developing and boosting the Bank through deposits”, the Bank improved the customer service system through the transformation of retail institutions, increased the absorption of customer deposits, reduced interbank market liabilities ratio, and effectively cut capital costs. Secondly, the current epidemic greatly boosted customers’ dependence on online financial services, posing a profound impact on the future of financial services. Centering on the strategic goal of “creating a domestic digital inclusive finance leader”, the Bank has implemented and promoted smart operation projects such as smart risk, smart customer service and data governance in an orderly manner in recent years, constantly enhancing the financial technology capabilities. In future, the Bank will continue to improve its online, intelligent and automated business operation capabilities, innovate customer service marketing management models, deepen the application of financial technology, and comprehensively promote digital development and transformation.

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II. Analysis on Income Statement

| For the year ended 31 December | | | | |
|-------------------------------------------|-----------------|------------|---------------------|-------------------|
| | 2020 | 2019 | Change in amount | Rate of change |
| (In RMB million, except percentages) | | | | |
| Interest income | 29,003.9 | 29,280.7 | (276.8) | -0.9% |
| Interest expense | (16,694.7) | (17,585.5) | 890.8 | -5.1% |
| Net interest income | 12,309.2 | 11,695.2 | 614.0 | 5.3% |
| Fee and commission income | 1,110.7 | 1,618.4 | (507.7) | -31.4% |
| Fee and commission expense | (230.7) | (251.9) | 21.2 | -8.4% |
| Net fee and commission income | 880.0 | 1,366.5 | (486.5) | -35.6% |
| Net trading income or loss | 1,200.0 | 1,486.5 | (286.5) | -19.3% |
| Financial investments income or loss, net | 216.9 | 432.3 | (215.4) | -49.8% |
| Other operating income or loss, net | 0.2 | 143.9 | (143.7) | -99.9% |
| Operating income | 14,606.3 | 15,124.4 | (518.1) | -3.4% |
| Operating expenses | (4,896.0) | (5,153.0) | 257.0 | -5.0% |
| Credit impairment losses | (8,301.4) | (5,180.9) | (3,120.5) | 60.2% |
| Operating profit | 1,408.9 | 4,790.5 | (3,381.6) | -70.6% |
| Profit before tax | 1,408.9 | 4,790.5 | (3,381.6) | -70.6% |
| Income tax expense | (613.1) | (1,155.4) | 542.3 | -46.9% |
| Net profit | 795.8 | 3,635.1 | (2,839.3) | -78.1% |

In 2020, the Bank recorded a profit before tax of RMB1,408.9 million, representing a year-on-year decrease of 70.6%, and a net profit of RMB795.8 million, representing a year-on-year decrease of 78.1%.

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

In 2020, the Bank recorded a net interest income of RMB12,309.2 million, representing an increase of RMB614 million or 5.3% 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.

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| For the year ended 31 December | | | | | | |
|----------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------|------------------------|-----------------------------------|--------------------|------------------------|
| | 2020 | | | 2019 | | |
| | 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 | 279,821.3 | 17,846.3 | 6.38% | 259,311.8 | 17,096.0 | 6.59% |
| Investments in debt securities ⁽¹⁾ | 184,964.3 | 8,380.9 | 4.53% | 191,939.6 | 9,142.5 | 4.76% |
| Cash and balances with Central Bank Due from banks and other financial institutions ⁽²⁾ | 53,956.5 | 784.9 | 1.45% | 52,522.0 | 731.5 | 1.39% |
| | 17,667.1 | 381.3 | 2.16% | 27,290.2 | 698.9 | 2.56% |
| Long-term receivables | 23,570.3 | 1,610.5 | 6.83% | 25,233.2 | 1,611.8 | 6.39% |
| Total interest-earning assets | 559,979.5 | 29,003.9 | 5.18% | 556,296.8 | 29,280.7 | 5.26% |

| For the year ended 31 December | | | | | | |
|-------------------------------------------|-----------------------------------|---------------------|-----------------------|-----------------------------------|---------------------|-----------------------|
| | 2020 | | | 2019 | | |
| | 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 | 471,934.0 | 13,673.4 | 2.90% | 406,137.4 | 12,142.8 | 2.99% |
| Due to banks ⁽³⁾ | 34,701.7 | 1,299.5 | 3.74% | 50,593.6 | 2,124.3 | 4.20% |
| Debt securities issued and others | 47,014.1 | 1,610.4 | 3.43% | 81,247.4 | 3,130.5 | 3.85% |
| Due to Central Bank | 3,807.9 | 111.4 | 2.92% | 4,855.2 | 187.9 | 3.87% |
| Total interest-bearing liabilities | 557,457.7 | 16,694.7 | 2.99% | 542,833.6 | 17,585.5 | 3.24% |
| Net interest income | | 12,309.2 | | | 11,695.2 | |
| Net interest spread⁽⁴⁾ | | | 2.18% | | | 2.02% |
| Net interest margin⁽⁵⁾ | | | 2.20% | | | 2.10% |

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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 | | |
|-------------------------------------------------|----------------------------------------------|------------------------------|--------------------------------------------|
| | 2020 vs. 2019 | | |
| | Increase/(decrease) Volume ⁽¹⁾ | Interest rate ⁽²⁾ | Net increase/ (decrease) ⁽³⁾ |
| | (In RMB million) | | |
| Interest-earning assets | | | |
| Loans and advances to customers | 1,347.9 | (597.6) | 750.3 |
| Investments in debt securities | (335.1) | (426.5) | (761.6) |
| Cash and balances with the Central Bank | 19.2 | 34.2 | 53.4 |
| Due from banks and other financial institutions | (246.5) | (71.1) | (317.6) |
| Long-term receivables | (105.9) | 104.6 | (1.3) |
| Change in interest income | 679.6 | (956.4) | (276.8) |
| Interest-bearing liabilities | | | |
| Due to customers | 1,961.3 | (430.7) | 1,530.6 |
| Due to banks | (666.3) | (158.5) | (824.8) |
| Debt securities issued and others | (1,320.3) | (199.8) | (1,520.1) |
| Due to Central Bank | (40.4) | (36.1) | (76.5) |
| Change in interest expense | (65.7) | (825.1) | (890.8) |

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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 2020, the Bank realized an interest income of RMB29.0039 billion, representing a decrease of RMB276.8 million or 0.9% year on year. The decrease in the Bank's interest income was primarily due to the decrease of the average yield ratio of interest-earning assets from 5.26% of last year to 5.18% in 2020, which was partially offset by the increase of average balance from RMB556,296.8 million of last year to RMB559,979.5 million in 2020. The decrease in average yield ratio of interest-earning assets was mainly attributable to the decrease in the yield ratio of loans and advances to customers, investments in debt securities and due from banks and other financial institutions in 2020.

1. Interest income from loans and advances to customers

In 2020, the Bank's interest income from loans and advances to customers increased by RMB750.3 million or 4.4% year on year to RMB17,846.3 million, primarily due to the increase in average balance of loans and advances to customers by RMB20.5095 billion, which was partially offset by a 0.21 percentage point decrease in the average yield ratio. The increase in the average balance of loans and advances to customers was mainly attributable to the increase in credit supply by the Bank to actively perform its role in supporting and serving real economy when facing the pandemic this year, resulting in an increase in the size of loans as compared to the same period of last year, while the decrease in the average yield ratio was attributable to the Bank proactively lowering the financing costs of the borrowers in support of the real economy and the decline in asset quality due to slowdown in economic growth under the pandemic.

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 | | | | | |
|----------------------------------------------|--------------------------------|-----------------|---------------------|------------------|-----------------|---------------------|
| | 2020 | | | 2019 | | |
| | Average balance | Interest income | Average yield ratio | Average balance | Interest income | Average yield ratio |
| (In RMB million, except percentages) | | | | | | |
| Corporate loans | 158,977.9 | 9,149.0 | 5.75% | 137,766.6 | 8,288.0 | 6.02% |
| Personal loans | 117,902.2 | 8,515.6 | 7.22% | 120,616.7 | 8,754.6 | 7.26% |
| Discounted bills | 2,941.2 | 181.7 | 6.18% | 928.5 | 53.4 | 5.75% |
| Total loans and advances to customers | 279,821.3 | 17,846.3 | 6.38% | 259,311.8 | 17,096.0 | 6.59% |

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2. *Interest income from investments in debt securities*

In 2020, the Bank's interest income from investments in debt securities decreased by RMB761.6 million or 8.3% to RMB8,380.9 million year on year, mainly attributable to a decrease in the average balance of such business by RMB6,975.3 million and a decrease in the average yield ratio by 0.23 percentage point. The decrease in the average balance of investments in debt securities was mainly attributable to the Bank adjusting its investment structure and reducing the investment scale of debt financial instruments. The decrease in the average yield ratio was mainly attributable to the decline in asset quality due to the slowdown in economic growth as affected by the pandemic, as well as the decline in yield ratio as a result of loosen monetary capital.

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

In 2020, the Bank's interest income from cash and balances with Central Bank increased by RMB53.4 million or 7.3% to RMB784.9 million year on year.

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

In 2020, the Bank's interest income from amounts due from banks and other financial institutions decreased by RMB317.6 million or 45.4% to RMB381.3 million year on year, primarily attributable to a 35.3% decrease of average balance and a 0.4 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 usage of the funds by the Bank to actively serve the financing needs of the real economy, and prioritising funds to support the granting of credit assets, while the decrease in the average yield ratio was primarily attributable to the decline in the market price of capital.

5. *Interest income from long-term receivables*

In 2020, the Bank's interest income from long-term receivables was RMB1,610.5 million, representing a decrease of RMB1.3 million year on year, primarily attributable to a 6.6% decrease in the average balance of long-term receivables, which was partially offset by the 0.44 percentage point increase in the average yield ratio. The decrease in the average balance of such assets was mainly attributable to the reduced business scale due to the pandemic, while the increase in average yield ratio was attributable to the adjustment of pricing policy and improved bargaining power to customers.

(III) Interest Expense

In 2020, the Bank's interest expense decreased by RMB890.8 million or 5.1% to RMB16,694.7 million as compared to the same period of last year. The decrease in interest expense was primarily attributable to the decrease in the average cost ratio of interest-bearing liabilities from 3.24% of last year to 2.99% in 2020, which was partially offset by the increase in the average balance of interest-bearing liabilities from RMB542,833.6 million of last year to RMB557,457.7 million in 2020. The decrease in the average cost ratio of the interest-bearing liabilities was mainly due to the decreases in the average cost ratio of due to customers, due to banks, debt securities issued and others and due to Central Bank in 2020.

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1. Interest expense on due to customers

In 2020, the Bank's interest expense on due to customers increased by RMB1,530.6 million or 12.6% to RMB13,673.4 million year on year, primarily attributable to the increase of 16.2% in the average balance from RMB406,137.4 million for the same period of last year to RMB471,934.0 million for 2020 as a result of the significant growth of customers deposit, which was partially offset by the 0.09 percentage point decrease in the average cost ratio. The decrease in the average cost ratio of due to customers was mainly due to the Bank's initiative to optimise the deposit structure and reduce the scale of high-cost liabilities.

| | For the year ended 31 December | | | | | |
|--------------------------------------|--------------------------------|------------------|--------------------|------------------|------------------|--------------------|
| | 2020 | | | 2019 | | |
| | Average balance | Interest expense | Average cost ratio | Average balance | Interest expense | Average cost ratio |
| (In RMB million, except percentages) | | | | | | |
| Corporate deposits | | | | | | |
| Demand | 109,259.4 | 1,164.7 | 1.07% | 86,475.8 | 748.1 | 0.87% |
| Time | 101,072.9 | 3,706.4 | 3.67% | 134,005.0 | 5,291.4 | 3.95% |
| Subtotal | 210,332.3 | 4,871.1 | 2.32% | 220,480.8 | 6,039.5 | 2.74% |
| Personal deposits | | | | | | |
| Demand | 44,177.7 | 200.3 | 0.45% | 37,450.0 | 133.3 | 0.36% |
| Time | 217,424.0 | 8,602.0 | 3.96% | 148,206.6 | 5,970.0 | 4.03% |
| Subtotal | 261,601.7 | 8,802.3 | 3.36% | 185,656.6 | 6,103.3 | 3.29% |
| Total deposits from customers | 471,934.0 | 13,673.4 | 2.90% | 406,137.4 | 12,142.8 | 2.99% |

2. Interest expense on due to banks

In 2020, the Bank's interest expense on due to banks decreased by RMB824.8 million or 38.8% to RMB1,299.5 million year on year, primarily attributable to the decrease in the average cost ratio of the underlying liabilities from 4.20% for the same period of last year to 3.74% for 2020 and a 31.4% decrease in the average balance of the underlying liabilities from RMB50,593.6 million for the same period of last year to RMB34,701.7 million for 2020. The decrease in average balance of the underlying liabilities was mainly due to the Bank's overall adequate liquidity and decrease of needs of debt financing from other banks, and the decrease in the average cost ratio of the underlying liabilities was mainly due to the relatively ample liquidity in the market and the year-on-year decrease in the price of capital.

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3. Interest expense on debt securities issued and others

In 2020, the Bank's interest expense on debt securities issued and others amounted to RMB1,610.4 million, representing a decrease of RMB1,520.1 million or 48.6% year on year, mainly attributable to a decrease in the average cost ratio of the underlying liabilities from 3.85% for the same period of last year to 3.43% for 2020 and a 42.1% decrease in the average balance of the underlying liabilities from RMB81,247.4 million for the same period of last year to RMB47,014.1 million for 2020. The decrease in the average cost ratio of the underlying liabilities was mainly due to the year-on-year decrease in the market price of capital, while the decrease in the average balance of the underlying liabilities was mainly due to the expiration of certain debt securities of the Bank.

(IV) Net Interest Spread and Net Interest Margin

In 2020, the Bank's net interest spread increased from 2.02% for last year to 2.18% for 2020, and the net interest margin increased from 2.10% for last year to 2.20% for 2020, mainly attributable to a decline in market interest rates due to the looser market liquidity in 2020, and the Bank's initiative to adjust its debt structure to reduce high-cost liabilities, and the decreased cost of funds as compared with the same period of last year.

(V) Non-interest Income

1. Net fee and commission income

In 2020, the Bank's net fee and commission income decreased by RMB486.5 million or 35.6% year on year to RMB880.0 million, primarily attributable to the decrease in the Bank's advisory and consultancy fee income, settlement fee income and agency and custodian fee income.

| For the year ended 31 December | | | | |
|----------------------------------------------------------------|----------------|---------|------------------|----------------|
| | 2020 | 2019 | Change in amount | Rate of change |
| (In RMB million, except percentages) | | | | |
| Fee and commission income | 1,110.7 | 1,618.4 | (507.7) | -31.4% |
| Advisory and consultancy fee | 263.1 | 521.8 | (258.7) | -49.6% |
| Settlement fee | 23.6 | 34.4 | (10.8) | -31.4% |
| Agency and custodian fee | 576.6 | 833.5 | (256.9) | -30.8% |
| Of which: non-principal protected wealth management agency fee | 317.8 | 507.1 | (189.3) | -37.3% |
| Bank card fee | 238.6 | 215.7 | 22.9 | 10.6% |
| Others | 8.8 | 13.0 | (4.2) | -32.3% |
| Fee and commission expense | (230.7) | (251.9) | 21.2 | -8.4% |
| Net fee and commission income | 880.0 | 1,366.5 | (486.5) | -35.6% |

In 2020, the Bank's advisory and consultancy fee income decreased by RMB258.7 million or 49.6% year on year to RMB263.1 million, mainly attributable to the changes in volume of advisory and consultancy business.

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In 2020, the Bank's settlement fee income decreased by RMB10.8 million or 31.4% year on year to RMB23.6 million, mainly attributable to the volume change of the settlement business and the adjustment in relevant pricing policy.

In 2020, the Bank's agency and custodian fee income decreased by RMB256.9 million or 30.8% year on year to RMB576.6 million, mainly attributable to the decrease in scale of the agency and custodian business.

In 2020, the Bank's bank card fee income increased by RMB22.9 million or 10.6% year on year to RMB238.6 million, mainly attributable to the increase in number of customers and business volume resulting from the Bank's great effort in expanding the bank card related intermediary business.

In 2020, the Bank realised other fee and commission income of RMB8.8 million, representing a decrease of RMB4.2 million or 32.3% year on year.

2. Net trading income or loss

In 2020, the Bank's net trading income decreased by RMB286.5 million or 19.3% year on year to RMB1,200.0 million, mainly attributable to the decrease in profit and loss on trading, interest income and profit and loss on changes in fair value of the financial assets measured at fair value through profit or loss.

3. Net gain or loss on financial investments

In 2020, the Bank's net gains on financial investments decreased by RMB215.4 million or 49.8% year on year to RMB216.9 million, mainly attributable to the decrease in gains on disposal of financial assets measured at fair value through other comprehensive income.

4. Net other operating income or loss

In 2020, the Bank's net other operating income decreased by RMB143.7 million or 99.9% year on year to RMB0.2 million, mainly due to the change in exchange rates was partially offset by the increase in rental income.

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(VI) Operating Expenses

In 2020, the Bank's operating expenses decreased by RMB257.0 million or 5.0% year on year to RMB4,896.0 million.

| For the year ended 31 December | | | | |
|--------------------------------------|----------------|----------------|---------------------|-------------------|
| | 2020 | 2019 | Change in amount | Rate of change |
| (In RMB million, except percentages) | | | | |
| Staff costs | 2,427.2 | 2,762.0 | (334.8) | -12.1% |
| Tax and surcharges | 213.8 | 205.3 | 8.5 | 4.1% |
| Depreciation and amortisation | 780.5 | 760.7 | 19.8 | 2.6% |
| Others | 1,474.5 | 1,425.0 | 49.5 | 3.5% |
| Total operating expenses | 4,896.0 | 5,153.0 | (257.0) | -5.0% |

Staff costs are the largest component of the Bank's operating expenses, representing 49.6% and 53.6% of the Bank's total operating expenses for 2020 and 2019, respectively.

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

| For the year ended 31 December | | | | |
|---------------------------------------------|----------------|----------------|---------------------|-------------------|
| | 2020 | 2019 | Change in amount | Rate of change |
| (In RMB million, except percentages) | | | | |
| Staff costs | | | | |
| Salaries, bonuses and allowances | 1,878.3 | 2,099.2 | (220.9) | -10.5% |
| Social insurance | 223.4 | 360.6 | (137.2) | -38.0% |
| Housing fund | 167.2 | 142.7 | 24.5 | 17.2% |
| Staff benefits | 111.8 | 124.5 | (12.7) | -10.2% |
| Labor union expenditure and education costs | 24.3 | 25.3 | (1.0) | -4.0% |
| Early retirement benefits | 22.2 | 9.7 | 12.5 | 128.9% |
| Total | 2,427.2 | 2,762.0 | (334.8) | -12.1% |

In 2020, the staff costs of the Bank were RMB2,427.2 million, representing a decrease of RMB334.8 million or 12.1% year on year, primarily attributable to the social insurance relief enjoyed by the Bank due to the pandemic, as well as the continuous optimization of remuneration structure and increase the correlation between performance and result appraisal.

In 2020, the Bank had to pay tax and surcharges of RMB213.8 million, representing an increase of RMB8.5 million or 4.1% year on year, primarily attributable to the increase in relevant taxes as a result of the development of the Bank's business.

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In 2020, depreciation and amortisation of the Bank were RMB780.5 million, representing an increase of RMB19.8 million or 2.6% year on year, primarily attributable to the increase in the capital expenditure related to the information technology and operating offices of the Bank.

In 2020, the Bank's other operating expenses increased by RMB49.5 million or 3.5% year on year to RMB1,474.5 million.

(VII) Credit Impairment Losses

In 2020, the Bank's credit impairment losses increased by RMB3,120.5 million or 60.2% year on year to RMB8,301.4 million, primarily attributable to the continuing impairment provision for assets on a dynamic basis after taking into comprehensive consideration of the effects of the pandemic and the uncertainties in economic environment, and in accordance with the relevant requirements of the regulatory authorities. Meanwhile, the Bank speeded up the disposal of NPLs, which led to an increase in the write-off amount of NPLs resulting in an increase in impairment losses.

| For the year ended 31 December | | | | |
|------------------------------------------------------------------------|----------------|----------------|------------------|----------------|
| | 2020 | 2019 | Change in amount | Rate of change |
| (In RMB million, except percentages) | | | | |
| Impairment losses on loans and advances to customers at amortised cost | 7,275.8 | 3,686.2 | 3,589.6 | 97.4% |
| Impairment losses on financial assets at amortised cost | 485.4 | 877.5 | (392.1) | -44.7% |
| Impairment losses on financial lease receivables | 350.9 | 350.1 | 0.8 | 0.2% |
| Impairment losses on other assets | 189.3 | 267.1 | (77.8) | -29.1% |
| Total | 8,301.4 | 5,180.9 | 3,120.5 | 60.2% |

(VIII) Income Tax Expenses

In 2020, the Bank's income tax expenses decreased by RMB542.3 million or 46.9% year on year to RMB613.1 million.

| For the year ended 31 December | | | | |
|--------------------------------------|--------------|----------------|------------------|----------------|
| | 2020 | 2019 | Change in amount | Rate of change |
| (In RMB million, except percentages) | | | | |
| Current income tax expenses | 1,643.8 | 1,769.5 | (125.7) | -7.1% |
| Deferred income tax expenses | (1,030.7) | (614.1) | (416.6) | 67.8% |
| Effective income tax expenses | 613.1 | 1,155.4 | (542.3) | -46.9% |

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III. Analysis of Key Items of Financial Position

(I) Assets

As at 31 December 2020, the Bank's total assets increased by RMB15,514.2 million or 2.7% to RMB598,603.6 million as compared to the end of last year, mainly attributable to the Bank's loans and advances to customers, cash and balances with the Central Bank, and due from banks and other financial institutions.

| | As at 31 December | | | |
|---------------------------------------------------------|--------------------------------------|---------------|------------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| | (In RMB million, except percentages) | | | |
| Loans and advances to customers, net | 272,350.6 | 45.5% | 258,496.4 | 44.3% |
| Net investment in securities and other financial assets | 216,849.3 | 36.2% | 231,843.2 | 39.8% |
| Cash and balances with the Central Bank | 62,771.1 | 10.5% | 52,282.3 | 9.0% |
| Due from banks and other financial institutions | 6,206.1 | 1.0% | 3,731.7 | 0.6% |
| Other assets | 40,426.5 | 6.8% | 36,735.8 | 6.3% |
| Total assets⁽¹⁾ | 598,603.6 | 100.0% | 583,089.4 | 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 2020, the Bank's total loans and advances to customers increased by RMB16,963.1 million to RMB280,567.2 million, representing an increase of 6.4% as compared to the end of last year.

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

| | As at 31 December | | | |
|----------------------------------------------|--------------------------------------|---------------|------------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| | (In RMB million, except percentages) | | | |
| Corporate loans | 158,551.8 | 56.5% | 140,578.3 | 53.3% |
| Personal loans | 120,174.3 | 42.8% | 119,083.9 | 45.2% |
| Discounted bills | 1,841.1 | 0.7% | 3,941.9 | 1.5% |
| Total loans and advances to customers | 280,567.2 | 100.0% | 263,604.1 | 100.0% |

(1) Corporate loans

As at 31 December 2020, the Bank's corporate loans increased by RMB17,973.5 million to RMB158,551.8 million, representing an increase of 12.8% as compared to the end of last year, mainly attributable to the 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 | | | |
|------------------------------------------------------------|--------------------------------------|---------------|------------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| | (In RMB million, except percentages) | | | |
| Loans to small enterprises ⁽¹⁾ | 58,946.3 | 37.2% | 59,357.8 | 42.2% |
| Other corporate loans excluding loans to small enterprises | 99,605.5 | 62.8% | 81,220.5 | 57.8% |
| Total corporate loans | 158,551.8 | 100.0% | 140,578.3 | 100.0% |

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Note:

- (1) Loans to small enterprises include corporate loans to small enterprises and micro enterprises as defined in the SME Classification Standards. According to the SME Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but less than 1,000 employees and generating more than RMB3 million in operating income in a year are classified as small enterprises, while enterprises having more than 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 2020, the Bank's loans to small enterprises decreased by RMB411.5 million to RMB58,946.3 million, representing an decrease of 0.7% as compared to the end of last year. As at 31 December 2020 and 31 December 2019, the Bank's loans to small enterprises accounted for 37.2% and 42.2% of the Bank's total corporate loans, respectively.

(2) Personal loans

As at 31 December 2020, the Bank's personal loans increased by RMB1,090.4 million to RMB120,174.3 million, representing an increase of 0.9% as compared to the end of last year, mainly attributable to the increase in loans to farmers by RMB2,450.2 million or 19.3% 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 | | | |
|--------------------------------------|-------------------|---------------|-----------|------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Loans to small enterprise owners | 36,890.1 | 30.7% | 38,300.0 | 32.2% |
| Personal consumption loans | 68,146.3 | 56.7% | 68,096.2 | 57.1% |
| Loans to farmers | 15,137.9 | 12.6% | 12,687.7 | 10.7% |
| Total personal loans | 120,174.3 | 100.0% | 119,083.9 | 100.0% |

As at 31 December 2020, loans to small enterprise owners decreased by 3.7% as compared to the end of last year. Personal consumption loans were basically stable as compared to last year. Loans to farmers increased by 19.3% as compared to the end of last year.

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2. Investment in securities and other financial assets

As at 31 December 2020, the total amount of the Bank's investment in securities and other financial assets was RMB218,763.4 million, representing a decrease of RMB14,933.8 million or 6.4% as compared to the end of last year. The decrease in such assets in 2020 mainly attributable to the Bank adjusting its investment structure and proactively reducing the investment scale of certain debt financial instruments.

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 | | | |
|----------------------------------------------------------------------------|-------------------|---------------|------------------|-------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Financial assets measured at fair value through profit or loss | 53,515.3 | 24.5% | 59,418.8 | 25.4% |
| Financial assets measured at amortised cost | 145,479.9 | 66.5% | 148,023.1 | 63.4% |
| Financial assets measured at fair value through other comprehensive income | 19,768.2 | 9.0% | 26,255.3 | 11.2% |
| Total investment in securities and other financial assets | 218,763.4 | 100.0% | 233,697.2 | 100% |

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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 | | | |
|----------------------------------------------------------------------|-------------------|---------------|------------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Debt investments: | | | | |
| Bond investments | 80,782.7 | 36.9% | 66,729.5 | 28.6% |
| Debt instruments issued by financial institutions ⁽¹⁾ | 137,452.5 | 62.9% | 166,599.5 | 71.2% |
| Subtotal | 218,235.2 | 99.8% | 233,329.0 | 99.8% |
| Equity investment | 528.2 | 0.2% | 368.2 | 0.2% |
| Total investment in securities and other financial assets | 218,763.4 | 100.0% | 233,697.2 | 100.0% |

Note:

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

As at 31 December 2020, the Bank's total investment in debt instruments issued by financial institutions was RMB137,452.5 million, representing a decrease of RMB29,147.0 million or 17.5% 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 decreased from 71.2% as at 31 December 2019 to 62.9% as at 31 December 2020.

| | As at 31 December | | | |
|----------------------------------------|-------------------|---------------|-----------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Government bonds | 36,031.2 | 44.6% | 29,680.9 | 44.5% |
| Bonds issued by financial institutions | 1,642.9 | 2.0% | 3,296.4 | 4.9% |
| Corporate bonds | 22,833.1 | 28.3% | 18,491.1 | 27.7% |
| Bonds issued by policy banks | 20,275.5 | 25.1% | 15,261.1 | 22.9% |
| Total bond investments | 80,782.7 | 100.0% | 66,729.5 | 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, and (ii) due from banks and other financial institutions.

As at 31 December 2020, the Bank's cash and balances with the Central Bank increased by RMB10,481.0 million to RMB62,746.8 million, representing an increase of 20.1% as compared to the end of last year.

As at 31 December 2020, the Bank's due from banks and other financial institutions increased by RMB2,486.1 million to RMB6,211.4 million, representing an increase of 66.7% as compared to the end of last year, mainly because the Bank adjusted the proportion of such assets based on its capital and changes in liquidity in the market.

(II) Liabilities

As at 31 December 2020, the Bank's total liabilities were RMB547,494.5 million, representing an increase of RMB16,046.3 million or 3.0% as compared to the end of last year.

| | As at 31 December | | | |
|----------------------------------------|-------------------|---------------|------------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Due to customers | 476,333.1 | 87.0% | 431,361.7 | 81.2% |
| Due to banks ⁽¹⁾ | 25,769.4 | 4.7% | 25,617.8 | 4.8% |
| Repurchase agreements | 1,499.4 | 0.3% | 18,361.7 | 3.5% |
| Debt securities issued | 33,575.1 | 6.1% | 45,962.8 | 8.6% |
| Due to Central Bank | 3,639.2 | 0.7% | 3,603.6 | 0.7% |
| Other liabilities ⁽²⁾ | 6,678.3 | 1.2% | 6,540.6 | 1.2% |
| Total liabilities⁽³⁾ | 547,494.5 | 100.0% | 531,448.2 | 100.0% |

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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 2020, the Bank's total due to customers increased by RMB43,596.3 million to RMB469,280.0 million, representing an increase of 10.2% as compared to the end of last year, primarily attributable to the strengthening of pricing management, improvement of services and strengthening of marketing capabilities by the Bank.

| | As at 31 December | | | |
|--------------------------------------|-------------------|---------------|------------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Corporate deposits | | | | |
| Demand deposits | 101,577.4 | 21.7% | 104,455.1 | 24.5% |
| Time deposits | 88,371.2 | 18.8% | 91,669.2 | 21.5% |
| Subtotal | 189,948.6 | 40.5% | 196,124.3 | 46.0% |
| Personal deposits | | | | |
| Demand deposits | 57,215.4 | 12.2% | 44,577.7 | 10.5% |
| Time deposits | 222,116.0 | 47.3% | 184,981.7 | 43.5% |
| Subtotal | 279,331.4 | 59.5% | 229,559.4 | 54.0% |
| Total due to customers | 469,280.0 | 100.0% | 425,683.7 | 100.0% |

2. Due to banks

As at 31 December 2020, the Bank's due to banks balance increased by RMB278.7 million to RMB25,481.8 million, representing an increase of 1.1% as compared to the end of last year. The changes in due to banks 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 2020, the Bank's repurchase agreement was RMB1,470.2 million, representing a decrease of RMB16,853.0 million or 92.0% as compared to the end of last year. The changes in the Bank's repurchase agreement reflected the adjustments to the scale of such kind of liability by the Bank in accordance with market liquidity and the Bank's capital needs.

4. Debt securities issued

As at 31 December 2020, the Bank's debt securities issued were RMB33,329.9 million, representing a decrease of RMB12,258.6 million or 26.9% 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 2020, the Bank's total shareholders' equity decreased by RMB532.1 million to RMB51,109.1 million, representing a decrease of 1.0% as compared to the end of last year. As at 31 December 2020, total equity attributable to shareholders of the parent company decreased by RMB579.6 million to RMB49,247.1 million, representing a decrease of 1.2% as compared to the end of last year. The decrease in shareholders' equity was mainly attributable to the cash dividend distribution in 2020 and the decline in net profit.

| | As at 31 December | | | |
|----------------------------------------------------|-------------------|---------------|-----------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Share capital | 10,995.6 | 21.5% | 10,995.6 | 21.3% |
| Reserves | 19,195.3 | 37.6% | 19,286.5 | 37.3% |
| Undistributed profits | 19,056.2 | 37.3% | 19,544.6 | 37.9% |
| Equity attributable to shareholders of the Company | 49,247.1 | 96.4% | 49,826.7 | 96.5% |
| Non-controlling interests | 1,862.0 | 3.6% | 1,814.5 | 3.5% |
| Total equity | 51,109.1 | 100.0% | 51,641.2 | 100.0% |

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IV. Off-balance Sheet Commitments

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

| | As at 31 December | |
|--------------------------------------|-------------------|-----------------|
| | 2020 | 2019 |
| | (In RMB million) | |
| Credit commitments: | | |
| Bank bills acceptance | 15,514.0 | 19,489.6 |
| Issued letters of guarantee | 1,570.6 | 1,705.2 |
| Issued letters of credit | 929.6 | 2,634.1 |
| Credit limit of credit card | 21,837.3 | 19,056.8 |
| Subtotal | 39,851.5 | 42,885.7 |
| Capital expenditure commitments | 203.2 | 321.3 |
| Treasury bond redemption commitments | 2,517.0 | 3,333.0 |
| Total | 42,571.7 | 46,540.0 |

In addition, as at 31 December 2020, the amount involved in the significant outstanding legal proceedings against the Group (as defendant or third-party defendant) with a dispute amount of over RMB10 million was RMB21 million. There's little possibility of compensating the damages by the Group and hence no provision of impairment will be needed to be made. As at the date of this report, the Bank has no significant contingent liabilities. Details of off-balance sheet commitment contracts are disclosed in "Commitments and Contingent Liabilities" in the notes to financial statements of this report.

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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 2020, the NPL ratio was 2.97%.

(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 | | | |
|------------------------------------------------|-------------------|---------------|------------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Pass | 259,989.5 | 92.7% | 249,448.6 | 94.6% |
| Special mention | 12,244.8 | 4.4% | 8,904.0 | 3.4% |
| Substandard | 3,648.6 | 1.3% | 2,766.9 | 1.0% |
| Doubtful | 4,076.9 | 1.4% | 1,750.8 | 0.7% |
| Loss | 607.4 | 0.2% | 733.8 | 0.3% |
| Total loans to customers | 280,567.2 | 100.0% | 263,604.1 | 100.0% |
| NPLs amount and NPL ratio⁽¹⁾ | 8,332.9 | 2.97% | 5,251.5 | 1.99% |

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.

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(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 at 31 December | | | | | |
|---------------------------------------------------------------|-------------------|----------------|--------------|------------------|----------------|--------------|
| | 2020 | | | 2019 | | |
| | Loan amount | NPLs amount | NPL ratio | Loan amount | NPLs amount | NPL ratio |
| (In RMB million, except percentages) | | | | | | |
| Corporate loans | | | | | | |
| Loans to small enterprises | 58,946.3 | 2,364.1 | 4.01% | 59,357.8 | 1,283.1 | 2.16% |
| Other corporate loans excluding loans to small enterprises | 99,605.5 | 2,636.6 | 2.65% | 81,220.5 | 1,376.3 | 1.69% |
| Subtotal | 158,551.8 | 5,000.7 | 3.15% | 140,578.3 | 2,659.4 | 1.89% |
| Personal loans | | | | | | |
| Loans to small enterprise owners | 36,890.1 | 1,246.9 | 3.38% | 38,300.0 | 1,270.3 | 3.32% |
| Personal consumption loans | 68,146.3 | 985.3 | 1.45% | 68,096.2 | 916.2 | 1.35% |
| Loans to farmers | 15,137.9 | 1,100.0 | 7.27% | 12,687.7 | 405.6 | 3.20% |
| Subtotal | 120,174.3 | 3,332.2 | 2.77% | 119,083.9 | 2,592.1 | 2.18% |
| Discounted bills | 1,841.1 | — | — | 3,941.9 | — | — |
| Total | 280,567.2 | 8,332.9 | 2.97% | 263,604.1 | 5,251.5 | 1.99% |

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In 2020, 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.

Due to the duet effects of the COVID-19 pandemic and the economic downturn, the NPL ratios of Bank's corporate loans and personal loans have increased, primarily attributable to: firstly, the fact that some state-owned borrowers which were outstanding in the past defaulted, and the number of the companies involved in 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 COVID-19 pandemic and the slowdown in economic growth. At the same time, loans to farmers were severely affected by the COVID-19 pandemic and acts of god, resulting in sharp decline in income and increase in NPLs.

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, and increased the comprehensive application of AI and big data and credit ratings published by the PBOC. It enhanced its fraud risk management, and completed the establishment of anti-fraud system and customer portrait system. Furthermore, the Bank 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.

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

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

| | As at 31 December | | | | | | | |
|------------------------------------------------------------------------------|-------------------|---------------|----------------|--------------|------------------|---------------|----------------|--------------|
| | 2020 | | | | 2019 | | | |
| | Loan amount | % of total | NPLs amount | NPL ratio | Loan amount | % of total | NPLs amount | NPL ratio |
| (In RMB million, except percentages) | | | | | | | | |
| Agriculture, forestry, husbandry and fishery | 1,624.3 | 0.6% | 199.7 | 12.29% | 1,741.0 | 0.7% | 137.2 | 7.88% |
| Mining | 124.2 | 0.0% | 2.0 | 1.61% | 99.9 | 0.0% | 3.0 | 3.00% |
| Manufacturing | 6,277.8 | 2.2% | 950.0 | 15.13% | 7,789.2 | 3.0% | 880.7 | 11.31% |
| Production and supply of electricity, heating, gas and water | 4,920.1 | 1.8% | 63.0 | 1.28% | 2,292.8 | 0.9% | 62.7 | 2.73% |
| Construction | 10,919.8 | 3.9% | 775.0 | 7.10% | 7,734.0 | 2.9% | 444.7 | 5.75% |
| Transportation, storage and postal services | 3,389.7 | 1.2% | 99.9 | 2.95% | 3,958.6 | 1.5% | 126.9 | 3.21% |
| Information transmission, software and information technology services | 406.8 | 0.1% | 24.7 | 6.07% | 398.4 | 0.2% | 0.1 | 0.03% |
| Wholesale and retail | 30,656.7 | 10.9% | 2,009.2 | 6.55% | 34,834.8 | 13.2% | 575.7 | 1.65% |
| Accommodations and catering | 3,639.7 | 1.3% | 58.1 | 1.60% | 3,675.1 | 1.4% | 52.4 | 1.43% |
| Finance | 60.0 | 0.0% | — | — | 820.7 | 0.3% | 1.0 | 0.12% |
| Real estate | 35,201.6 | 12.6% | 168.8 | 0.48% | 29,666.0 | 11.3% | 152.6 | 0.51% |
| Leasing and commercial services | 49,221.8 | 17.6% | 500.3 | 1.02% | 35,644.3 | 13.3% | 106.6 | 0.30% |
| Scientific research and technological services | 327.1 | 0.1% | 2.8 | 0.86% | 187.9 | 0.1% | 4.7 | 2.50% |
| Water conservation, environment and public utility management | 10,454.3 | 3.7% | 119.5 | 1.14% | 10,061.2 | 3.8% | 103.5 | 1.03% |
| Residential, repair and other services | 172.1 | 0.1% | 11.0 | 6.39% | 148.0 | 0.1% | 7.6 | 5.14% |
| Education | 195.4 | 0.1% | 7.4 | 3.79% | 277.2 | 0.1% | — | — |
| Health and social work | 637.0 | 0.2% | 3.5 | 0.55% | 941.2 | 0.4% | — | — |
| Culture, sports and entertainment | 323.4 | 0.1% | 5.8 | 1.79% | 308.0 | 0.1% | — | — |
| Total corporate loans | 158,551.8 | 56.5% | 5,000.7 | 3.15% | 140,578.3 | 53.3% | 2,659.4 | 1.89% |
| Total personal loans | 120,174.3 | 42.8% | 3,332.2 | 2.77% | 119,083.9 | 45.2% | 2,592.1 | 2.18% |
| Discounted bills | 1,841.1 | 0.7% | — | — | 3,941.9 | 1.5% | — | — |
| Total | 280,567.2 | 100.0% | 8,332.9 | 2.97% | 263,604.1 | 100.0% | 5,251.5 | 1.99% |

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As at 31 December 2020, the NPLs of corporate loans of the Bank concentrated in wholesale and retail and manufacturing, with NPLs of RMB2,009.2 million and RMB950.0 million, respectively. The high NPL ratio was mainly because most of the customers in the wholesale and retail industries are small enterprise customers as the Bank adhered to a microcredit strategy. The COVID-19 pandemic has had a greater impact on wholesale and retail industries in 2020. Enterprises experienced shortage of cash flow, resulting increase in NPLs. In addition, arising from the COVID-19 pandemic, the regional travel restrictions and the postponement of opening of court session and other circumstances affected the recovery and disposal of outstanding NPLs to a certain extent, resulting in greater proportion of NPLs in the above industries. 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 | | | | | | | |
|--------------------------------------|-------------------|---------------|----------------|--------------|------------------|---------------|----------------|--------------|
| | 2020 | | | | 2019 | | | |
| | Loan amount | % of total | NPLs amount | NPL ratio | Loan amount | % of total | NPLs amount | NPL ratio |
| (In RMB million, except percentages) | | | | | | | | |
| Heilongjiang region | 124,181.5 | 44.3% | 3,060.2 | 2.46% | 106,676.6 | 40.5% | 2,553.2 | 2.39% |
| Other regions in | | | | | | | | |
| Northeastern China | 38,928.0 | 13.9% | 1,003.8 | 2.58% | 41,994.8 | 15.9% | 535.7 | 1.28% |
| Southwestern China | 57,043.3 | 20.3% | 1,154.9 | 2.02% | 52,226.7 | 19.8% | 731.4 | 1.40% |
| Northern China | 40,689.8 | 14.5% | 2,691.8 | 6.62% | 42,702.9 | 16.2% | 1,267.5 | 2.97% |
| Other regions | 19,724.6 | 7.0% | 422.2 | 2.14% | 20,003.1 | 7.6% | 163.7 | 0.82% |
| Total | 280,567.2 | 100.0% | 8,332.9 | 2.97% | 263,604.1 | 100.0% | 5,251.5 | 1.99% |

As at 31 December 2020, due to the duet effects of the COVID-19 pandemic and the economic downturn, the NPL level of the Bank in all regions increased. During the year, due to the increase in defaults by large and medium enterprises in certain regions of Northern China, the NPL level in Northern China experienced greater increase. The Bank continued to optimise the loan resources allocation in different regions, strengthened centralised management of approval, 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 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.

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(V) The Distribution of Loans and NPLs by Collateral

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

| | As at 31 December | | | | | | | |
|--------------------------------------|-------------------|---------------|----------------|--------------|------------------|---------------|----------------|--------------|
| | 2020 | | | | 2019 | | | |
| | Loan amount | % of total | NPLs amount | NPL ratio | Loan amount | % of total | NPLs amount | NPL ratio |
| (In RMB million, except percentages) | | | | | | | | |
| Unsecured loans | 52,491.1 | 18.7% | 1,262.5 | 2.41% | 45,981.7 | 17.4% | 723.6 | 1.57% |
| Guaranteed loans | 78,765.2 | 28.0% | 3,403.3 | 4.32% | 67,935.4 | 25.8% | 2,050.1 | 3.02% |
| Collateralised loans | 131,004.9 | 46.8% | 3,571.4 | 2.73% | 128,209.9 | 48.7% | 2,343.2 | 1.83% |
| Pledged loans | 18,306.0 | 6.5% | 95.7 | 0.52% | 21,477.1 | 8.1% | 134.6 | 0.63% |
| Total | 280,567.2 | 100.0% | 8,332.9 | 2.97% | 263,604.1 | 100.0% | 5,251.5 | 1.99% |

During the Reporting Period, the Bank made dynamic responses to effects of the COVID-19 pandemic and the economic downturn. On one hand, the Bank raised the controllability of ultimate risk on loan, and continued to increase collateralised and pledged loans. Hence, there was an increase in collateralized and pledged loans. On the other hand, the Bank, in proactive response to regulatory policies, put greater investments in inclusive loans to small and micro enterprises and the stabilization loans, and supported the real economy. Hence, there was an increase in unsecured loans and guaranteed loans. To prevent risk exposures effectively, 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. At the same time, the Bank set up a differentiated risk pricing system based on clients' value 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.

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(VI) Concentration of Borrowers

As of 31 December 2020, 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 2020, 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 2020 | | |
|--------------------------------------|-------------------------------------------------------------------|------------------------|------------------|------------------|
| Industry | | Loan balance | % of total loans | % of net capital |
| (In RMB million, except percentages) | | | | |
| Borrower A | L – Leasing and commercial services | 3,360.1 | 1.20% | 5.47% |
| Borrower B | K – Real estate | 2,995.0 | 1.07% | 4.87% |
| Borrower C | N – Water conservation, environment and public utility management | 2,312.8 | 0.82% | 3.76% |
| Borrower D | F – Wholesale and retail | 2,081.0 | 0.75% | 3.39% |
| Borrower E | K – Real estate | 1,695.0 | 0.60% | 2.76% |
| Borrower F | L – Leasing and commercial services | 1,662.5 | 0.59% | 2.70% |
| Borrower G | K – Real estate | 1,602.7 | 0.57% | 2.61% |
| Borrower H | E – Construction | 1,600.0 | 0.57% | 2.60% |
| Borrower I | L – Leasing and commercial services | 1,550.0 | 0.55% | 2.52% |
| Borrower J | L – Leasing and commercial services | 1,486.0 | 0.53% | 2.42% |
| Total | | 20,345.1 | 7.25% | 33.10% |

(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 | | | | |
|--------------------------------------|--|------------------|---------------|-------------------|
| | | 2020 | | 2019 |
| | | Amount | % of total | Amount % of total |
| (In RMB million, except percentages) | | | | |
| Current loans | | 255,038.9 | 90.9% | 249,863.5 94.8% |
| Loans past due: ⁽¹⁾ | | | | |
| For 1 to 90 days | | 12,285.9 | 4.4% | 8,574.6 3.3% |
| For 91 days to 1 year | | 8,801.1 | 3.1% | 3,292.5 1.2% |
| For 1 year and above | | 4,441.3 | 1.6% | 1,873.5 0.7% |
| Subtotal | | 25,528.3 | 9.1% | 13,740.6 5.2% |
| Total loans to customers | | 280,567.2 | 100.0% | 263,604.1 100.0% |

Note:

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

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As at 31 December 2020, the overdue loans accounted for 9.1% of the total loans. In 2020, due to the duet effects of the COVID-19 pandemic and the economic downturn, numerous enterprises experienced postponement in operations, and the capital turnover was slow, resulting in the capital chain tension from the borrower side. In the second half of 2020, despite the eased pandemic situation in China, the pandemic was still spreading across the world, and the economic downturn trend has yet been effectively controlled. Enterprises needed to take a period of time to resume normal operation. There was an increase in temporary overdue loans. On one hand, the Bank proactively responded to regulatory policies and offered special credit policies for enterprises affected by the pandemic. On the other hand, the Bank put greater efforts in management of renewal of existing loans and settlement of transferred loans. 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.

(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 2020, impairment losses on loans amounted to RMB11,104.7 million, which increased by RMB3,096.3 million as compared to the end of last year. The impairment losses on loans ratio was 3.96%, which increased by 0.92 percentage point as compared to the end of last year.

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

| Items | As at 31 December | |
|---------------------------------------------------------|-------------------|----------------|
| | 2020 | 2019 |
| | (In RMB million) | |
| Balance at the beginning of the period | 8,008.4 | 7,469.1 |
| Exchange difference | (0.2) | 0.0 |
| Charged during the year | 7,275.8 | 3,686.2 |
| Accreted interest on impaired loans | (351.5) | (78.5) |
| Write-offs and transferred | (3,976.4) | (3,103.6) |
| Recoveries of loans and advances previously written off | 148.6 | 35.2 |
| Balance at the end of the period | 11,104.7 | 8,008.4 |

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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 province; |
| 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 province; |
| 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 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 |
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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 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) |
| Credit 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 at 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 |

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 | | | | |
|--------------------------------------|-----------------|---------------|-----------------|---------------|
| 2020 | | 2019 | | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Heilongjiang region | 9,188.3 | 62.9% | 8,872.6 | 58.8% |
| Other regions in Northeastern China | 1,652.8 | 11.3% | 1,699.9 | 11.2% |
| Southwestern China | 2,133.4 | 14.6% | 2,543.9 | 16.8% |
| Northern China | 1,254.0 | 8.6% | 1,577.1 | 10.4% |
| Other regions | 377.8 | 2.6% | 430.9 | 2.8% |
| Total operating income | 14,606.3 | 100.0% | 15,124.4 | 100.0% |

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(II) Business Segment Report

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

| | For the year ended 31 December | | | |
|---------------------------------|--------------------------------------|---------------|-----------------|---------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| | (In RMB million, except percentages) | | | |
| Corporate finance business | 6,936.3 | 47.5% | 6,065.5 | 40.1% |
| Retail finance business | 3,671.7 | 25.1% | 4,408.0 | 29.2% |
| Financial institutions business | 3,988.0 | 27.3% | 4,585.5 | 30.3% |
| Other businesses | 10.3 | 0.1% | 65.4 | 0.4% |
| Total operating income | 14,606.3 | 100.0% | 15,124.4 | 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 2020, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 10.18%, 10.20% and 12.59%, respectively, which were in line with the regulatory requirements provided in the Measures for the Administration of Capital of Commercial Banks (for Trial Implementation) issued by the CBIRC. The core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio decreased by 0.04 percentage point, 0.04 percentage point and increased by 0.06 percentage point, respectively, as compared to the end of last year. In particular, the decrease in core tier 1 capital adequacy ratio and tier 1 capital adequacy ratio was mainly due to the distribution of cash dividends and the decrease of net profit, while the increase in capital adequacy ratio was due to the increase in provision for loan impairment losses and the decrease in risk-weighted assets.

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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 | |
|---------------------------------------|--------------------------------------|-------------|
| | 2020 | 2019 |
| | (In RMB million, except percentages) | |
| Core capital | 50,073.4 | 50,527.3 |
| Core Tier 1 Capital deductible items: | | |
| Full deductible items | (397.9) | (306.7) |
| Net core tier 1 capital | 49,675.5 | 50,220.6 |
| Net other tier 1 capital | 110.2 | 93.3 |
| Net tier 1 capital | 49,785.7 | 50,313.9 |
| Net tier 2 capital | 11,676.1 | 11,277.3 |
| Net capital | 61,461.8 | 61,591.2 |
| Credit risk-weighted assets | 456,293.3 | 456,457.3 |
| Market risk-weighted assets | 4,397.6 | 7,814.3 |
| Operational risk-weighted assets | 27,501.8 | 27,205.0 |
| Total risk-weighted assets | 488,192.7 | 491,476.6 |
| Core tier 1 capital adequacy ratio | 10.18% | 10.22% |
| Tier 1 capital adequacy ratio | 10.20% | 10.24% |
| Capital adequacy ratio | 12.59% | 12.53% |

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 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.

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In 2020, the retail finance business of the Bank continued to improve its pricing mechanism and system construction in order to build a comprehensive service system that centers on customer, expand business channels, improve risk pricing capabilities, and promote the overall and steady development of retail finance business. During the Reporting Period, the retail finance services of the Bank recorded an operating income of RMB3.6717 billion, representing a decrease of 16.7% as compared to the same period of last year and accounting for 25.1% 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 charity 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. In response to the severe environment of pandemic prevention and control, the Bank implemented beneficial policies such as auto-extension of time deposits and free cross-bank withdrawals in Hubei Province. The Bank also continued to provide heart-warming value-added services such as establishing channels for the online handling of medical insurance payment, enquiry and notice in Harbin. As at 31 December 2020, the Company had 13.6517 million retail deposit customers, representing an increase of 492.8 thousand or 3.74% 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 854,900, representing an increase of 100.3 thousand or 13.30% 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 2020, the total retail deposits of the Bank (in RMB and other currencies) amounted to RMB279,331.4 million, representing an increase of RMB49,772.0 million or 21.7% as compared to the end of last year. The average balance of retail deposits (in RMB and other currencies) amounted to RMB261,601.7 million, representing an increase of RMB75,945.1 million or 40.9% as compared to the end of last year. Demand deposits accounted for 20.5% 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 18.9% as at the end of the Reporting Period, ranking first in the regional market for the second year in a row and first in the regional market in terms of the increase in retail deposits for the third year in a row.

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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), scenario-based customer groups and existing customer groups with high loyalty. The Bank optimized and upgraded the operation model of “touch net” based on the “full life cycle” demand of customers, realised a full-product online 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 and third-party platforms docking. The Bank also introduced the use of artificial intelligence and big data to strengthen the ability of anti-fraud and risk identification, early warning and prevention and control. The Bank also deepened the application of retail internal assessment results in the whole business process 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 2020, the balance of the Bank’s personal loans reached RMB120,174.3 million, representing a year-on-year increase of 0.9% and 42.8% of the Bank’s total loans to customers, of which the balance of loans to small and medium enterprise owners, personal consumption loans and loans to farmers amounted to RMB36,890.1 million, RMB68,146.3 million and RMB15,137.9 million, respectively, and accounted for 30.7%, 56.7% and 12.6%, 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. With steady progress in the construction of the credit card business system and management structure, there was rapid development in the credit card business and steady increase in the number of debit card clients. In 2020, through tireless exploration, the credit card business of the Bank moved from the original “fair balance between issuance and operation” into the stage of “refined customer management and operation”, continuously adhering to the customer-oriented concept and promoting and optimising innovative credit card products. Leveraging on big data, customer portraits and other technologies, the Bank launched various marketing activities in a targeted and paced manner in order to improve customer loyalty, maintain customer stickiness and deepen customers’ impression of the brand. By deepening the joint marketing activities, the Bank effectively increased the customer conversion rate with the simultaneous issue of both types of cards. Meanwhile, the Bank continued to target at customer group that keen on sports events and specific customer group within the region, and issued the joint debit and credit cards themed on Chengdu Marathon and Chongqing Marathon. In earnest response to the policies of the Heilongjiang Provincial Government aiming at promoting post-pandemic economic development, the Bank participated in the government coupon event in Heilongjiang, acting as the sole point of entrance to the event besides the official channel. The Bank continued to explore routes to cross-sector cooperation, and became the first bank in Northeastern China to jointly issue credit cards with Meituan.

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As at 31 December 2020, the total number of issued credit cards reached 1,277.5 thousand, representing an increase of 19.5% as compared to the end of last year, of which 208,800 were newly issued during the Reporting Period, representing a decrease of 35.0% as compared to the number of new cards issued in the same period of last year, due to the impact of the COVID-19 pandemic. The credit card asset balance amounted to RMB14.998 billion, representing an increase of 8.8% as compared to the same period of last year.

As at 31 December 2020, the number of debit cards issued by the Company recorded a steady increase. The total number of issued debit cards reached 17.1940 million, of which 623.6 thousand were newly issued during the Reporting Period, representing an increase of 3.76% as compared to the end of last year.

Wealth management business

The wealth management business of the Company 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 2020, the Company realised total sales of personal wealth management products of RMB109.596 billion.

(II) Corporate Finance Business

Since 2020, in the face of the severe challenges brought by the COVID-19 pandemic and under the enormous pressure of the macroeconomic situation, the Bank's corporate finance business closely focused on the theme of "steady improvements" with "restructuring and transformation" as its main goal. The Company actively implemented the service philosophy of being "customer-oriented", realized the optimization and upgrade of the corporate deposit marketing mechanism, and further deepened the basis for customer cooperation. The Company put more efforts in supporting companies during the pandemic, supported the development of the local real economy, and created a customer comprehensive financial service system with full life cycle, forming an integrated and comprehensive financial service pattern with "quick response to customer needs, service plans with collaborated design, and coordinated advancement of financial services".

During the Reporting Period, the corporate finance business of the Bank recorded an operating income of RMB6,936.3 million, representing an increase of 14.4% as compared to the same period of last year and accounting for 47.5% of the operating income of the Bank.

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Corporate customers

By leveraging the Bank's strengths in cross-regional operation and outlet resources and closely following the direction of the national strategy, the Bank adhered to customer-orientation and practicably satisfied the financing demand of customers during the pandemic, continuously improved product innovation and comprehensive service capabilities and actively strengthened the cross-selling service model, realising precise marketing to core customers and comprehensive financial service management. Comprehensively implementing the Business and Employment Stabilisation (穩企穩崗) policy of the Heilongjiang Province, the Bank served nearly 50,000 customers under such policy and provided omnichannel online/offline financial support. The Bank stressed its active marketing efforts in the "Top Hundred Projects (百大項目)" and the "Bank-Enterprise Cooperation (百行進萬企)" projects, including visiting customers, in its all-out support of the regional economic development. The Bank optimized the strategic customer management mechanism and service system, consolidated the customer base, and deepened the customer service model of "professional team, professional solutions, special products and exclusive process", thus continuously enhancing its service capacity, optimizing customer structure and comprehensively increasing customer value. As at 31 December 2020, the Company had 87 thousand corporate deposits customers.

Corporate deposits

During the Reporting Period, the Bank proactively carried out green deposit marketing, continued to optimise its debt structure, and enhanced deposit stability. The Bank improved its institutional customer service system, strengthened business cooperation with governments at various levels, and continuously increased the scale of institutional deposits by seizing key customers and focusing on grassroots. The Bank also put greater efforts to grow its customer base, and cultivated core customers in debt. It strengthened the promotion of key products, and improved settlement deposit precipitation by optimizing trade functions and creating scenario. The Bank improved its online service capabilities, and met various settlement needs of customers through its online channels during the pandemic. As at 31 December 2020, the average daily balance of corporate deposits of the Bank amounted to RMB210,332.3 million, of which time deposits and demand deposits accounted for 48.1% and 51.9% respectively. In particular, the average daily balance of demand deposits increased by 26.3% year on year, with proportion to total corporate deposits increased by 12.7 percentage points year on year. The deposit interest rate has further decline, while the deposit stability has further enhanced.

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 16.8% of corporate deposits in the local market, ranking first in this region.

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Corporate loans

During the Reporting Period, in the face of the sudden pandemic, the Bank firmly insisted the business philosophy of “Inclusive Finance, Harmonious Co-enrichment (普惠金融、和諧共富)” by establishing an emergency financial service team in the first place, organising a corporate business financial services designated team, and launching innovative measures such as the “Anti-pandemic Online Services Plan” and “Seven Financial Measures to Fight the Pandemic Together”. The Bank introduced a series of policies and guiding opinions, and formulated and published the “Compendium of Financial Policies Regarding Pandemic Control”. By optimising anti-pandemic financial services and implementing policies for resuming work and production, the Bank gave full play to the role of financial support and protection in the fight against the pandemic. Focusing on “ensuring stability on the six fronts and security in the six areas (六保六穩)”, and striving to our market positioning of “serving local economy, urban citizens and small and medium-sized enterprises”, the Bank actively promoted the implementation of a series of policy measures such as the PBOC’s small enterprises supporting re-lending program, and the top hundred projects and the business and employment stabilisation in Heilongjiang Province. The Bank continued to provide greater financial support to micro, small and medium-sized enterprises, pandemic prevention and control guarantee enterprises and other key industries. In addition, the Bank duly performed its corporate social responsibilities, thus contributing financial power for local economic and social recovery and development, as well as playing a positive role in pandemic control and maintaining financial stability. As at 31 December 2020, the total corporate loans of the Bank amounted to RMB158,551.8 million, representing an increase of RMB17,973.5 million as compared to the beginning of the year and accounting for 56.5% of total loans.

Intermediary services

During the Reporting Period, the Bank continued to strengthen its management of intermediary business by combining market environment with policy guidance, focusing on the diverse financial service needs of customers, actively promoting the construction of corporate payment and settlement product systems and platforms, and improving corporate online banking, mobile banking, treasury management platforms and bill pool product function. The Bank strived to build a comprehensive financial service system integrating payment, settlement, cash management and value-added service, and continuously improved the Bank’s customer service capabilities.

During the Reporting Period, the corporate finance business of the Bank recorded non-interest income of RMB239.5 million, representing a year-on-year decrease of 60.1%.

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(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 member of the underwriting syndicate of financial bonds of China Development Bank and Agricultural Development Bank of China, a member of the underwriting syndicates of local government bonds of Heilongjiang Province, Sichuan Province, Liaoning Province, Tianjin, Dalian and Chongqing, 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 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 RMB3,988.0 million with a year-on-year decrease of 13.0%, accounting for 27.3% of the operating income of the Bank.

Bond Investments and Transactions

During the Reporting Period, due to the spread of COVID-19 pandemic across the world and the changes in fiscal and monetary policies of the Central Bank, the interbank bond market got out of the “V-shape” trend. In the beginning of the year, bond yield has slumped as a result of the implementation of easing monetary policy by the Central Bank in respond to the pandemic. In early May, bond yield began to rise, and the bond market promptly shifted from bull market to bear market. Amid the unfavourable environment, the Bank accurately predicted the upcoming market shift, timely took profit from trading bonds, and optimized its bond portfolio simultaneously. Under the bear market, the Bank realized band income of RMB200 million.

In 2020, the Bank’s aggregate cash exchange in the interbank market exceeded RMB6.97 trillion. The Bank was awarded the 2020 Top 300 RMB Market Transaction and the 2020 Interbank RMB Market Active Trader of the National Inter-bank Lending Center and ranked 15th among the city commercial banks. The Bank actively participated in innovative trading varieties of the National Inter-bank Lending Center, such as X-bond and X-lending. The Bank received the title of X-Lending Active Trader for 12 consecutive months throughout the year, and received the title of X-Lending Star in August 2020. In 2020, the Bank’s transaction volume of bond lending amounted to RMB262,000 million, ranking third 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

During the Reporting Period, the Bank closely monitored the changes in economic environment and market, and closely followed the national policies and regulatory guidelines. During the pandemic, the Bank put greater efforts in supporting the real economy, and continued to optimize customer and product structure based on the New Three-Year Development Strategy and the Annual Plan. The Bank continuously increased the investment in standardised products, and rationally deployed asset allocation. As at 31 December 2020, total investment in debt instruments issued by financial institutions amounted to RMB137,452.5 million, thus effectively supported the real economy in overcoming difficulties during the pandemic.

In January and September 2020, the investment banking business of the Bank continued to gain market recognition for its remarkable performance, winning the Debt Financing Plan Business “Forge Ahead Award” of Beijing Financial Assets Exchange (北京金融資產交易所債權融資計劃“銳意進取”獎) and the “2020 Tianji Award of Small and Medium-Sized Investment Bank” of Securities Times (證券時報“2020年度中小銀行投行業務天璣獎”).

Wealth management business

During the Reporting Period, the Bank issued 257 wealth management products, raising funds amounting to RMB112,968 million in total. As at the end of the Reporting Period, the balance of non-principal protected wealth management products amounted to RMB52,986 million, among which the balance of the existing net-value wealth management products amounted to RMB22,126 million, all of them were non-cash net-value wealth management products. The Bank recorded stable growth in the number of wealth management customers, which reached 945.8 thousand as at the end of the Reporting Period, representing an increase of 16.12% as compared to the end of last year.

The Bank strictly complied with the requirements of the latest asset management regulations and wealth management regulations and other regulatory systems, and continued to promote the transformation of its wealth management business. In respect of product transformation, the balance of net-value products represented 41.8% of the total balance of all wealth management products, representing an increase of 21 percentage points as compared to the end of last year. Interbank wealth management products dropped to zero, while wealth management products held by retail customers accounted for 98.86% of the total. In respect of product innovation, while developing “pure fixed income” products, the Bank created and issued medium-to-long term “fixed income +” multi-strategy net-value wealth management products in order to meet the diversified investment demands of segmented customer groups with enriched fundamental asset allocation. In respect of sales transformation, the Bank continued to enhance investor education, promote the acceptance level of customers on net-value wealth management products, and educated investors about the concept of long-term rational investment. The balance of net-value wealth management products that had a term of more than 1 year accounted for 41.85% of the total.

During the Reporting Period, the Bank was awarded the “2019 Excellent City Commercial Bank for Banking Wealth Management Registration (2019年度銀行業理財登記工作優秀城商行獎)” issued by the National Banking Wealth Management Registration & Depository Center (全國銀行業理財登記託管中心). The Bank has been awarded by the National Banking Wealth Management Registration & Depository Center for four consecutive years. In the “2020 Tianji Award of Best Bank of China (2020(第二屆)中國區銀行業天璣獎)” organized by Securities Times, the Bank won the “2020 Tianji Award of Small and Medium-Sized Bank for Wealth Management Product (2020年度中小銀行理財品牌天璣獎)”.

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(IV) Key Featured Businesses

1. Microcredit business

During the Reporting Period, the Bank, adhering to the business philosophy of “Inclusive Finance, Harmonious Co-enrichment”, with a focus on customer-orientation and the guiding philosophy of microcredit strategy, accelerated the financial technology application and digitalisation transformation, comprehensively improved service capacity and innovated the business model and management mechanism. The Bank established a comprehensive financial service system that integrates online and offline businesses, continued to drive the implementation of microcredit strategy and built up its characteristic microcredit brand. As at 31 December 2020, the balance of the Bank’s microcredit loans reached RMB179,120.6 million, representing an increase of RMB678.9 million as compared to the end of last year and accounting for 63.8% 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 | | | |
|-------------------------------------------|-------------------|---------------|-----------|------------|
| | 2020 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| (In RMB million, except percentages) | | | | |
| Loans to small enterprises | 58,946.3 | 32.9% | 59,357.8 | 33.3% |
| Personal loans | 120,174.3 | 67.1% | 119,083.9 | 66.7% |
| Total balance of microcredit loans | 179,120.6 | 100.0% | 178,441.7 | 100.0% |

Small and micro enterprise finance business

During the Reporting Period, under the guidance of the microcredit strategy and the “customer-oriented” principle, the Bank opened up the “online + offline” product and service layout for microfinance, built a professional microfinance team, accelerated the digitalisation transformation of microfinance, provided microfinance customers with a full range of financial services that integrate “professional team, exclusive solutions, and dedicated channels”, and continued to improve its small and micro financial client service capabilities.

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.

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During the Reporting Period, the Bank deepened its product and service innovation, launched the “anti-pandemic loans for small and micro enterprises (小微抗疫贷)” financial products and strengthened financial service protections during special periods to fulfil its corporate social responsibilities, practiced the inclusive finance philosophy of providing “warmth and emotional support (有温度、有情怀)”, and further enhanced the influence of its small and micro financial brand.

As at 31 December 2020, the Bank’s loans to small enterprises amounted to RMB58,946.3 million, representing a decrease of 0.69% as compared to the end of last year. The balance of NPLs for the small enterprises was RMB2,364.1 million and the NPL ratio was 4.01%.

Consumer finance business

During the Reporting Period, the Company continued to carry out the philosophy of “Inclusive Finance” by establishing an all-rounded comprehensive consumer finance service (product) system, and expanded the platform for quality business cooperation, enriched product lines and improved customer experience. By centering on strategic planning and accelerating the integration of internet big data technology and traditional financial services, the Company integrated online and offline and expanded the inclusiveness of consumer finance services so as to improve the coverage of consumer finance scenarios and customers. With its connection to external quality channels and data, the Company further optimised its existing risk management model and approaches in order to improve the overall risk management of its consumer finance business and control the overall business risk. During the Reporting Period, the Company significantly improved its core competencies in consumer finance business, including big data risk control, intelligent operation capabilities and refined management capabilities, further accelerating the process of digitalisation transformation.

As at 31 December 2020, the balance of the Bank’s personal consumption loans amounted to RMB68,146.3 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. Owing to its innovation and breakthrough results in Sino-Russia financial services, the Company won the 2020 Iron-horse Award for Small and Medium-sized Bank with the Most Distinguished Features by Modern Bankers

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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. There were 35 founding members, and the number of members has grown to 73 during the Reporting Period. The Council is committed to improving the Sino-Russian cross-border financial cooperation mechanism, upgrading the cross-border financial cooperation model, and enhancing the participation of financial institutions of the two countries in large-scale cross-border industrial projects; promoting the innovation and improvement of Russian financial services, and further improving the service level and influence of the Sino-Russian financial market. Due to its contribution to the promotion of Sino-Russian cross-border financial cooperation, the Sino-Russia Financial Council has been included in Article 10 of 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) issued by China and Russia for the first time. The Article states “China and Russia welcome the financing support provided by the Sino-Russia Financial Council for Sino-Russian project cooperation to promote Sino-Russian cross-border financial cooperation”, which is a high recognition toward the Sino-Russia Financial Council by both Chinese and Russian authorities.

During the Reporting Period, the members of the Sino-Russia Financial Council organized by the Company realized full withdrawal of cross-border RMB syndicated loans with Russia’s second largest private bank, Credit Bank of Moscow, as the borrower, and realized the withdrawal under the Cross-border RMB Interbank Lending Agreement entered into with VEB.RF, a Russian state development corporation. The funds were used to support Sino-Russian economic and trade exchanges under the “Belt and Road Initiative”. The Company cooperated with Russian commercial banks in Rouble deposit interbank business, which has broadened the scope of cooperation between the Company and the systematic important banks and mainstream commercial banks in the Russian Federation, and enriched Rouble capital allocation channels. In addition, the Company opened a Euro settlement account with the Russian chairman unit of the Sino-Russia Financial Council and the largest state-owned commercial bank of the Russian Federation, Sberbank of Russia, to open up a direct channel for Euro settlement with Russia. The Company also signed more than 20 business cooperation agreements, including the “Renminbi Purchase and Sale Business Cooperation Agreement”, the “Custody and Payment Agreement” and the “Cooperation Agreement of Cross-border Cash Transportation” with over 10 Russian members of the Sino-Russia Financial Council, thus expanding and deepening the cooperation with Russian banks. As at 31 December 2020, the total interbank credit granted by the Company to Russian banks amounted to approximately RMB8 billion, and the Company had 24 Russia accounting banks with domestic and foreign currency settlement network covering the entire of the Russian Federation, which played an important role in the development of Sino-Russia financial cooperation.

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During the Reporting Period, the Company further assisted the development of the Heilongjiang Pilot Free Trade Zone, facilitated the cross-border transportation of cash to Russia in the Free Trade Zone, took the lead in opening Heilongjiang Provinces' first overland cross-border Rouble cash transportation channel to Russia, and realized the first cross-border cash transportation from the Suifenhe Port in Heilongjiang Province to Russia, which were of great significance to promoting the legal inflow of Rouble cash in China and local economic and trade exchanges with Russia. At the same time, the Company entered into the "Cooperation Agreement of Cross-border Cash Transportation" with Russia's second largest state-owned commercial bank, VTB Bank, to further expand the scope of cash transportation services to Russia, innovatively provide counterparties with cash transportation access to many inland cities in Russia, and enrich the types of the Company's cross-border cash transportation services to Russia. As at 31 December 2020, the Company handled a total of 25 cross-border transportation of RMB cash, totalling RMB362 million, and its cross-border transportation of Rouble cash handled totalled RUB7.1 billion.

During the Reporting Period, the Company successfully obtained the qualification of a direct participating bank of CIPS (cross-border RMB payment system), becoming the third city commercial bank obtained such business qualification after the Bank of Shanghai and the Bank of Jiangsu. This is also another key business qualification of the Bank after obtaining the qualifications of a Rouble market maker and foreign exchange derivative transactions. With the qualification of a direct participating Company of CIPS, the Bank is expected to become a hub for the cross-border RMB settlements of Russian banks and Chinese enterprises, which will help solve the problem of poor settlement channels with Russia due to sanctions and accelerate the "de-dollarization" progress of Sino-Russian cross-border settlements.

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During the Reporting Period, the Company handled the first NRA account settlement business in the Heilongjiang Pilot Free Trade Zone; was among the first batch of top ten innovative practice cases in Heilongjiang Province; was the first to launch featured exchange rate hedging products including the T+1/T+2 settlement and sale of Rouble exchange, Rouble forward and Rouble optional forward products; completed the construction of Sino-Russia settlement service center in Harbin New Area to establish a “one-stop” comprehensive financial service platform for enterprises towards Russia , integrating services and functions of cross-border settlement, cross-border financing, cross-border e-commerce online payment, cross-border transportation of RMB and Rouble cash, as well as the development of featured products. Specialized counters and dedicated service teams were set up, a green channel for Sino-Russia settlements was opened up, and the service of self-service Rouble exchange machines was launched. The Sino-Russia settlement service center can provide various Chinese economic and trade entities with cross-border financial services integrating domestic and foreign currencies, domestic and foreign trade, offshore and onshore services and commercial and investment banking, assisting New Area to comprehensively enhance its capabilities of Sino-Russia financial services and facilitating the innovation of financial services in the Free Trade Zone. In addition, during the pandemic, the Company leveraged its financial advantages with Russia to open up cross-border financial green channels for enterprises, provide financial convenience for the international settlement of pandemic prevention supplies import and export as well as the pandemic prevention donation funds business etc., and provide discounts such as favourable rate of the settlement and sale of exchange and the reductions and exemptions of commission fee for anti-pandemic supplies procurement companies, making every effort to help foreign trade companies fight against the pandemic and resume work, production and market in a timely manner.

During the Reporting Period, the Company maintained its activity in Rouble transactions and repeatedly ranked first in the ranking of the best Rouble price quotes in the interbank foreign exchange market. On the first day of the launch promotion of Rouble lending in the inter-bank foreign exchange market, the Company successfully handled the first Rouble lending transaction in the market on the first day, providing Rouble liquidity for the market and establishing a good image as a Rouble market maker.

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Cross-border E-commerce payment and settlement

The cross-border E-commerce financial business of the Company maintained its robust development and constantly enriched the variety of Sino-Russia online settlement products. It can now support more than ten mainstream payment tools in Russia, such as MIR, YANDEX and WALLET ONE, and the online real-time payment, collection and settlement of more than 60 currencies with international credit cards such as MASTERCARD and JCB. During the Reporting Period, the volume of transaction settlement increased by RMB1,058 million, and the aggregate transaction settlement volume reached RMB15.3 billion. During the year, the platform accelerated the comprehensive cooperation with the Russian World Card channel, and the Bank became the first bank that was granted the licensed use of the trademark of the Russian World Card in China. The Bank was elected as the 2020 Demonstration Case of Business Type Innovation by China International Fair for Trade in Services, and received the “Best Risk Control Performance of the Year Award” and the “Outstanding Contribution of the Year Award” granted by MasterCard International, as well as the “Best Cooperation Efficiency Award of the Year Award” granted by JCB International Credit Card. The platform project continued to be included under the management of the National Major Construction Project Repository of the National Development and Reform Commission as a major construction project of “the Belt and Road Initiative”, and received financial support of RMB1,919.9 thousand from the special fund of the central government for foreign economic and trade development.

3. *Agriculture-benefiting finance business*

During the Reporting Period, the Company adhered to the thorough implementation of the national strategic direction of rural revitalization. Through innovating the service model of agriculture-benefiting finance and improving the service standards of agriculture-benefiting finance, the Bank continuously provided internal growth drivers for the accelerated transformation of agricultural industry modernization, effectively assisting in the development of high-quality and efficient agriculture and villages suitable for living and businesses, as well as creating affluent and prosperous life for farmers.

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During the Reporting Period, the Company's development space for agriculture-benefiting business was effectively expanded, achieving full coverage of 17 branches within and outside the province for the first time. The optimization of the agriculture-benefiting business structure achieved outstanding results with the innovative implementation of white list management and full-cycle service mechanisms for large-scale farmers. As the main force of agricultural modernization, the size of the new agricultural customer group doubled, and the entire group of agriculture-benefiting customers transformed from small-scale farmers to large-scale farmers. The comprehensive financial service system was basically constructed. Leveraging the Group's resource advantages, the Bank built a comprehensive service platform based on 33 thousand-people large-scale farmers benefiting clubs, and created a combination of products and services of "agriculture-benefiting loans + wealth management, agriculture-benefiting loans + financial lease", continuously strengthening the advantages of featured agriculture-benefiting services. Breakthrough was made in scientific and technological agriculture-benefiting projects. With the launch of Agricultural Flash Loan 2.0 (農閃貸2.0) and the introduction of agricultural big data in the project, nationwide online smart operation of agriculture finance was truly realized. Significant steps were taken in the construction of agriculture-benefiting team. By efficiently integrating the retail team resources in the province, the Bank deepened the establishment of an all-rounded team for agriculture-benefiting finance, which significantly strengthened the internal growth drivers for the development of agriculture-benefiting finance. During the pandemic, the Bank introduced agriculture-benefiting finance supporting policies and held over a hundred harvest festival promotional activities, effectively increased its influence 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 2020, the balance of the agricultural loans of the Company amounted to RMB32,560.2 million, and the balance of the loans to farmers amounted to RMB15,137.9 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 Chengdu, Chongqing, Shenyang, Tianjin and Dalian outside Heilongjiang Province. The Bank greatly promoted the economic development and the prosperity of rural financial markets in the counties of Heilongjiang Province, and supported the rural areas to achieve comprehensive revitalisation.

(V) Information on Controlling Subsidiaries

1. Village and township banks

As at 31 December 2020, the Company had a controlling interest in 32 village and township banks and 46 village and township sub-branches, which were mainly located in the eastern, central and western regions of China. As at 31 December 2020, the total assets of the 32 village and township banks amounted to RMB25,367 million, of which the total amount of loans amounted to RMB13,109 million, representing a year-on-year decrease of 2.94% and the balance of deposit amounted to RMB20,147 million, representing a year-on-year increase of 24.2%.

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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 2020, the total assets of HB Leasing amounted to RMB25,325 million. The accumulated leased amount during the year amounted to RMB11,334 million.

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 corporate goals 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, puts great efforts into developing the agricultural machinery leasing business, and successfully launched its “contactless leasing service model” according to regulatory guidelines. It continues to build and optimise the agricultural machinery leasing and retail business model under the empowerment of science and technology. Through the leasing of special products and business innovation, 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 Harbin Bank has accumulated across over a decade of in-depth operation in micro credit business, and leveraging the shareholders’ resource advantages in big data, internet finance and diverse business scenarios, HBCF delves deep into the consumption scenarios, and targets at customers who are young and ambitious, have consumption credit needs, relatively stable jobs, a certain degree of debt repayment ability and certain growth and development potential in the future, as well as the customers of small and micro businesses with certain consumption power and profitability, whose short-term consumption credit needs not related to housing and cars will be met. As at 31 December 2020, the total assets of HBCF amounted to RMB11,393 million, representing a year-on-year increase of 54.21%.

HBCF actively implements the development philosophy of “Inclusive Finance”, and is committed to creating a consumer financial company providing “warmth(有温度)” by applying cutting-edge technologies such as financial technology, big data and cloud computing, while striving to build the company into a domestic first-class consumer financial company with sound risk quality, good economic benefits and high market reputation.

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(VI) Distribution Channels

1. *Physical Network*

As at 31 December 2020, the Company had a total of 311 branch outlets, including 17 branches, 292 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, 46 village and township sub-branches, 1 consumer finance company and 1 financial leasing company

2. *Electronic banking*

The Bank has 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 2020, the replacement rate of business transactions through the Bank's electronic banking reached 95%, and that of mobile banking reached 67%, representing an increase of 2 percentage points and 6 percentage points as compared to the end of last year respectively.

(1) *Self-service banking*

The Bank has provided various convenient services to customers through self-service terminals, including deposit and withdrawal, account inquiry, passbook updating, bill payment, wealth management, QR code withdrawal, passcode changing and transfer services. While enriching the equipment functions, the Bank made scientific arrangement and assignment of the use of self-service terminals of customers, thus enhancing the management efficiency of all self-service terminals of the Bank. As at 31 December 2020, the Bank had 1,297 self-service terminals, including 478 BCDMs, 269 ATMs, 236 smart cabinets, 212 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, 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 2020, a total of 3,926.6 thousand customers maintained their online banking accounts with the Bank, representing an increase of 23.76% 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. In 2020, the telephone banking customer service centre recorded a total of 2.40 million business calls, representing a decrease of 8.97% as compared to the same period of last year.

The Bank provides services including credit card consultancy, complaint and advice, reporting for loss and instalment through the unified national customer service hotline for credit card 4006695537. In 2020, the credit card customer service centre recorded a total of 1.83 million business calls, representing a decrease of 2.70% as compared to the same period of last year.

(4) *Mobile phone banking*

The Bank actively carried out the smart upgrade of mobile phone banking, and released the brand new 4.0 version of the mobile phone banking. While providing customers with basic services such as account management, investment and wealth management, transfers and remittance, living payment and credit card etc., the Bank also focused on featured businesses such as microfinance and agriculture-benefiting finance. The Bank provided guidance and constructed relevant scenarios for mobile banking customers, and launched personalized and customized services for special customer groups such as social security customers and elderly customers. It put people-benefit services into practice and constructed a life channel in mobile phone banking, achieving the online and offline integration of financial services. As at 31 December 2020, the Bank had 2,686.5 thousand active mobile banking users, representing an increase of 38.25% as compared to the same period of last year.

(5) *WeChat banking*

The Bank continued to upgrade the customer service and marketing capabilities of WeChat banking, and launched a business hall mini program on WeChat platform offering a variety of financial services including wealth management, deposits, loans and insurance. At the same time, it provided diversified value-added daily-life services such as online medical insurance payment, medical insurance application, and provident fund inquiry and withdrawal. As at 31 December 2020, WeChat banking had over 3,098.9 thousand followers, representing an increase of 21.65% as compared to the same period of last year.

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(VII) Information Technology

In 2020, the Bank promoted the digital transformation of its businesses with financial technologies, and accelerated the application and promotion of new technologies. During the Reporting Period, various key information technology systems operated smoothly. Steady enhancement was achieved in technological management, technological support and technological innovative service capabilities.

1. *Continuously promoting infrastructure construction and improving support for business continuity*

During the Reporting Period, the Bank attached great importance to the daily management of business continuity and continued to carry out the construction of business continuity resources for the three centres in two regions. During the Reporting Period, the Bank's application-level disaster backup coverage rate of key information technology systems of the same city reached 100%. Actual takeover of business scenarios, the disaster recovery and emergency drill of the same city with different places of core systems, second-generation payment system, mobile phone banking, online banking and other systems were carried out, meeting regulatory authorities' relevant requirements for business continuity of small and medium banks.

2. *Steady system operation with continuous enhancement in management capability*

During the Reporting Period, the major information systems of the Bank operated steadily. The average stable operation rate of major business systems was 99.997%. The transaction processing efficiency was steadily improved, in particular, the successful transaction rate of the core systems was 99.995%. The Bank continued to improve its abilities of system operation monitoring, and the application-level monitoring coverage rate of major information systems was 100%.

3. *Continuously strengthening technology management*

During the Reporting Period, with the goal of continuously enhancing IT service capabilities, the Bank continued to promote the construction of an information technology governance system and deepened the rules of procedure for the IT Management Committee. The Bank established an evaluation and decision-making mechanism of "business first, service first (業務優先・服務優先)", organically integrated key business matters with technological strategic planning, and highlighted business strategic directions and key tasks. It simultaneously improved the framework of science and technology system, with a total of 2 systems added, 1 system revised, 7 systems abolished and 1 system removed throughout the year, further improving the pertinence and applicability of the system.

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

During the Reporting Period, the Bank constructed an open, flexible, safe, stable and efficient IT framework system by facilitating structural transformation. It continued to enrich its service channels and improve the supply of financial products, continuously enhancing its financial technology support capabilities. The Bank won a number of awards including the “2020 Banking Technology Development Award” and the “Silver Award of Integrated Smart Platform” at the 2020 China Fintech Innovation Competition for its efforts in promoting innovative applications of financial technology.

5. *Continuously promoting data management*

During the Reporting Period, the Bank accelerated the Group’s digital transformation and safeguarded system construction with the support of systems, procedures, methods and tools. The Bank focused on the areas of regulatory data reporting and data mining, deepened big data application, and greatly improved the efficiency of data services. In particular, the Bank’s credit information system was awarded by the People’s Bank of China as an excellent institution for data quality work. The EAST reporting quality ranked high among the 33 institutions in the province. With the collaboration of business and data mining technology, innovations in customer loss alert, credit card marketing and the recommendation of products with interest payable on a monthly basis were accelerated.

6. *Constantly enhancing data security capability*

During the Reporting Period, the Bank continued to promote the construction of an information security protection system, established a complete life cycle security management mechanism for information system, and realized the whole-process security management of the information system from the processes of demand, development, testing, production and launching, operation to exiting. Covering physical and environmental, host, network, application, data, access control and other security dimensions, the Bank normalized and carried out system-level protection, loophole scanning, code security tests, penetration tests, etc., providing reliable technical guarantee for information technology risk prevention and data security.

IX. Risk Exposure and Management

In 2020, in the face of the sudden COVID-19 pandemic, while taking into account development and growth, the Bank put more emphasis on the stability of asset quality, firmly established the core concept of “risk management creates value”, and insisted on returning to the basics and sticking to the nature of the Bank. It insisted on giving priority to customer value contribution, continued to deepen the precise management and rigid control of risks, focused on the concept of proactive risk management and risk operation, and made full use of financial technology to continuously optimise smart risk control system. The Bank focused on the in-depth application of risk management in the management of customers’ whole life cycle to ensure stable asset quality, achieving sustainable business development under the premise of overall controllability of risks.

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(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 built a smart risk engine system and a credit risk anti-fraud system with comprehensive and active management philosophy to enhance the digitalisation, automation, process, specialisation and centralisation of the risk management process.

The Bank actively expanded the source of external data, introduced external high-quality data, and realized the implementation of big data risk control. It promoted the optimisation of retail models, allocated various retail business risk control rules and strategies in a differentiated way, put into production an internet loan risk control decision-making system, integrated internal and external big data, established machine learning models and champion/challenger strategies to build complex network relationships, improved customer anti-fraud rules and strategies, and improved fraud and credit risk identification capabilities. In addition, it continued to optimise the non-retail internal assessment model to improve the risk identification capabilities and application coverage of the internal assessment system, continued to strengthen the construction of the collateral risk valuation system and the collateral risk value assessment work, independently established an in-line collateral risk valuation database and continuously improved the database iteration speed. The Bank built an evaluation model for agricultural loan land management rights and continuously improved the automated evaluation capabilities by independently developing an automated valuation model for office buildings and an automated evaluation model for commercial buildings. 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.

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(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.

During the Reporting Period, the Bank strictly followed its risk preferences and ensured that it had sufficient funds under normal operations and under pressure, so as to provide a stable operating environment for its continued operations. The Bank actively adjusted the structure of assets and liabilities, continued to increase the absorption of customer deposits and interbank debt funds, broadened and stabilized the source of debt funds, paid close attention to the movements of the Central Bank and the local governments, fully implemented re-lending and rediscount monetary policies, and actively participated in the tenders for time deposits and fiscal deposits of central and local treasury. The Bank continued to improve the refined and precise risk management strategies, strengthened and raised the requirements for management and reporting of domestic and foreign currency capital positions, and enhanced day-time position monitoring to ensure overall safety of liquidity. The Bank accurately measured liquidity gaps through technical means such as stress testing, and increased the allocation of high-quality liquid assets in a timely manner to ensure that qualified and high-quality liquid assets are sufficient and the 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 2020 | | | | | | | | |
|-----------------------------|------------------------|------------------------|-------------------|------------------|-----------------------|-----------------|-----------------|------------|------------------|
| | 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 | 26,089.6 | 27,084.6 | 31,379.0 | 20,973.9 | 131,233.4 | 183,863.2 | 115,978.6 | 47,562.6 | 584,164.9 |
| Total financial liabilities | – | 162,452.4 | 20,838.6 | 67,560.5 | 172,475.7 | 113,999.7 | 8,099.6 | – | 545,426.5 |
| Net position | 26,089.6 | (135,367.8) | 10,540.4 | (46,586.6) | (41,242.3) | 69,863.5 | 107,879.0 | 47,562.6 | 38,738.4 |

(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.

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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 continually improved the market risk quota system, optimised the setting up of market risk quota system, and improved risk management level. The Bank diversified its measurement means of market risks, and conducted sensitivity analysis, duration analysis and PVBP analysis to market risk and position with reference to actual situation, keeping the market risks of the Bank under effective prevention and control and ensuring its overall interest rate risk level within the acceptable scope. As to the bank book interest rate risk, during the Reporting Period, the Bank continued to increase the research and judgment on trends of the market interest rate, measured the Bank's book interest rate risk through reasonable use of gap analysis, scenario simulation, stress testing 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 2020, 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 2020 | | | | | | |
|-----------------------------|--------------------|-----------------------|-----------------|-----------------|-----------------------------|-----------|
| | 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 | 194,189.5 | 90,791.1 | 142,537.4 | 73,738.6 | 82,908.3 | 584,164.9 |
| Total financial liabilities | 247,409.2 | 167,228.0 | 110,936.5 | 8,000.0 | 11,852.8 | 545,426.5 |
| Interest rate | | | | | | |
| sensitivity gap | (53,219.7) | (76,436.9) | 31,600.9 | 65,738.6 | 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. The Bank used foreign exchange exposure 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 2020.

| As at 31 December 2020 | | | | | | |
|-----------------------------------------------------|-----------|-----------------------------|-----------------------------|-----------------------------|---------------------------------------------|------------------------------|
| | 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 | 582,244.3 | 1,500.8 | 16.5 | 32.8 | 370.5 | 584,164.9 |
| Total financial liabilities | 545,016.6 | 34.0 | 35.2 | 6.4 | 334.3 | 545,426.5 |
| Net position of financial assets and liabilities | 37,227.7 | 1,466.8 | (18.7) | 26.4 | 36.2 | 38,738.4 |
| Credit commitments | 39,647.4 | 186.4 | – | – | 17.8 | 39,851.6 |

(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 timely rectifications to prevent such risk from recurring. As for risk and control self-assessment (RCSA), the Bank streamlined risk processes and RCSA assessment of the main process of each business line. 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 established and gradually improved a standardised risk review process for resignation, and promoted the implementation of the suspension and resumption points mechanism across the Bank, so as to effectively improve the capability of refined management of operational risk.

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(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. An information technology risk management system with three defensive lines of information technology, risk management and internal audit has been formed to gradually fulfill the responsibilities of information technology risk management. At the systematic level, the Bank regulated information technology management with the establishment of information technology management systems to improve its management of information technology risks. 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.

During the Reporting Period, the Bank's data centre proactively established online technology service channels during the pandemic, through 7*24 hours online office system, the Bank coordinated the linkage processing of various systems to quickly satisfy business needs and address issues. The Risk Management Department continuously optimised and improved business impact analysis and methodology, and conducted questionnaire surveys with various relevant business departments using the analytic hierarchy process model. Combining the practical experience of business experts, the Bank established 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. By coordinating all departments of the technology line, the Bank actively promoted the construction of its disaster recovery for major information systems of the same city, and conducted emergency combat drills in relation to the information system in an orderly and gradual manner as planned, ensuring that the Bank shall continue to operate on an ongoing basis. Meanwhile, in addition to the continuous quantified project service evaluation on the outsourcers' project service quality, the Bank constantly monitored the service quality and capabilities of the outsourcers, and conducted testing of service support capabilities of the outsourcers in actual emergency drills 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 Company. The Board of the Company assumes ultimate responsibility for the compliance of operating activities, and the Board of Supervisors supervises the compliance risk management. The Company 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 Company 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, strengthened the professional capacity building of the compliance management team of the headquarters and branches, enhanced the professionalism of the compliance management team 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, vigorously promoting the construction of intelligent risk control system 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; continuously and intensively promoted 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 financial 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; refined and improved consumer rights protection work channels and methods to maintain healthy financial consumer relations; commenced and implemented regular compliance education and training, 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, strived for the “risk-based” management concept, and incorporated money laundering risks into the comprehensive risk management system. By various means such as improving system construction, optimising the function design of monitoring systems and strengthening daily monitoring and management, it continued to strengthen customer identification management, perfected the suspicious transaction screening and analysis model, and improved the full-process closed-loop management of money laundering risk prevention and control system, which further improved the compliance and effectiveness of the Bank’s anti-money laundering management work. Meanwhile, the Bank continuously strengthened the publicity and training of anti-money laundering, and enhanced employees’ awareness of money laundering risk prevention and business skills to establish a good internal and external environment for anti-money laundering, effectively fulfilling corporate social responsibilities and strictly performing financial institutions’ obligations regarding anti-money laundering and anti-terrorist financing.

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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) as affected by the pandemic, the 2019 annual results and 2020 interim results presentations were held online in March 2020 and August 2020, respectively, attracting more than 100 analysts and investors to attend the presentations, respectively; (2) In 2020, there were more than 100 news reports on the Bank in respect of investor relations published on Xinhuanet, People’s Daily Online, ifeng.com, CAIJING.com.cn, Sina Finance, Gelonghui, Bloomberg, Wind and other mainstream media at home and abroad, which effectively promoted the image of the Bank and further enhanced its market attention and influence; (3) 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 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 2.40 million transactions, and its credit card centre handled a total of over 1.83 million transactions. Better communication with customers provided a good customer base for the Bank.

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XI. Corporate Social Responsibilities

With 2020 being the closing year of the Bank's new three-year strategy plan, the Bank adhered to the business philosophy of "Inclusive Finance, Harmonious Co-enrichment", unwaveringly upheld the microcredit strategy and continuously deepened the inclusive finance practices with the Bank's operating characteristics. In particular, facing the sudden outbreak of the COVID-19 pandemic, the Bank, in active response to the national call, launched innovative financial services for the special pandemic period, and saw to the sound implementation of the "stability on six fronts (六穩)" and "security in the six areas (六保)" strategies. Additionally, the Bank put greater efforts in the performance of its social responsibilities, including pandemic prevention and control, the establishment of happy communities, targeted poverty alleviation, education support, development of green finance and promoting the integration of marathon into city life, to build a bank image of providing warmth and emotional support. The "environment, society and governance" capacity of the Bank continued to improve with the integration of the brand philosophy of "trust, warmth, connection and commitment" into the daily social welfare practice and management. As at 31 December 2020, total expenditure on social charitable business of the Bank amounted to RMB19.45 million, and the green credit balance was RMB2,632 million.

At the beginning of 2020 and the onset of pandemic prevention and control, the Bank made immediate donation of RMB5 million to four designated hospitals in Heilongjiang Province. Aiming to battle the COVID-19 pandemic through product innovation, process streamlining and resource distribution, the Bank launched the "Seven Financial Measures to Fight the Pandemic Together" at an early stage to support the pandemic prevention and control efforts in the aspects of, among others, enhancing online financial services, supporting key pandemic prevention enterprises, securing the springtime production of farmers, alleviating pressure on repayment and ensuring the satisfaction of livelihood demands. The Bank also launched special financial products such as "anti-pandemic loans for small and micro enterprises (小微抗疫貸)" and "fund guaranteed loans for business and employment stabilization (穩企穩崗基金擔保貸)" (the "Stabilization Loans"), and successfully issued the first special interbank deposit certificate for pandemic control and prevention in Heilongjiang Province. During the Reporting Period, the Bank cumulatively granted Stabilization Loans amounting to RMB17.6 billion with the small enterprises supporting re-lending amounting to RMB4.62 billion, aiming to assist enterprises in resuming operation and production, as well as fully embracing its role as a provider of financial support and protection. During the Reporting Period, the Bank thoroughly implemented the government's prevention and control policies and strictly enforced its pandemic prevention and control measures, including daily follow-up of employees' health status, with the purpose of preventing the spreading of the pandemic and ensuring the safety and health of the employees.

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In 2020, the Bank strictly upheld the national requirements for poverty alleviation and paid close attention to the results of targeted poverty alleviation. In particular, after over three years of battling poverty with industries in line with local conditions, the on-site poverty alleviation teams in Shuanglong Village, Liutuan Town, Yanshou County dispatched by the Head Office successfully lifted 134 persons of 84 households out of poverty. The average net income of poverty-stricken population increased from RMB3,068 in 2017 to RMB9,904 in 2020. In the Southwestern China, the Chengdu Branch entered into the 2018-2020 Liangshan Prefecture “Purchase in lieu of Donation” Targeted Poverty Alleviation Collective Procurement Agreement with the Liangshan Prefecture People’s Government. As of the end of 2020, poverty alleviation products equivalent to over RMB400,000 was purchased in aggregate. Tianshui Maiji Rongxing Village and Township Bank, located in Maiji District, Tianshui City, Gansu Province, acted as a bridge of cooperation between poverty-stricken households and the poverty-alleviating companies. Under the development concept of “supporting a leading enterprise, which initiates a project, which promotes an industry, which benefits a range of poverty-stricken farmers”, Tianshui Maiji Rongxing Village and Township Bank actively promoted the financial model of poverty alleviation via the industry chain, expanded the coverage of industrial assistance projects, as well as launched credit products, such as “pepper farmer loans (椒農貸)” and “fruit e-loans (果e貸)”, to support distinctive industry development. During the Reporting Period, the “Happy Community” development programme, which is jointly initiated by the Bank and the United Charity Foundation, continued to explore the new bank-corporate relationship by expanding its online channels during the pandemic, and provided a communication platform of various activities for community residents to relieve their stress from staying at home for a prolonged period, and timely resumed physical activities subject to compliance of the pandemic prevention conditions. During the Reporting Period, the project covered eight cities, namely Shenyang, Dalian, Tianjin, Chengdu, Chongqing, Shenzhen, Harbin and Mudanjiang, with a total of 2,005 various events carried out, covering 396 residential communities and benefiting 400,000 person-head. Supplies equivalent to RMB430,000 were raised and distributed during the pandemic. In respect of educational support, the Bank made donation to the Harbin Institute of Technology Education Foundation of Development for the eleventh consecutive year to finance its development and construction. As of the end of 2020, the “Harbin Bank Lilac Blossom, Dream Achievement Hope Project”, which was initiated in 2018, had financed the education of 540 poverty-stricken students. During the Reporting Period, the Bank continued to sponsor Chengdu International Marathon and Chongqing Marathon, and issued their co-branded credit cards to provide value-added services to the customers, thereby promoting the integration between financial service and city sports events.

XII. Dividend

(I) Dividend

As approved at the meeting of the Board held on 31 March 2021, no final cash dividend for the year of 2020 would be distributed to all shareholders. Such dividend distribution plan is subject to the approval of the 2020 annual general meeting of the Company.

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

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(II) Dividend Tax

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

Pursuant to the applicable provisions and the implementing regulations of the Enterprise Income Tax Law 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.

Withholding and Payment of Individual Income Tax for Overseas Individual Shareholders

Pursuant to the Circular on Collection of Individual Income Tax after Repeal of the Documents Guoshuifa [1993] No. 045 promulgated by State Administration of Taxation, dividends and/or bonus shares received by overseas resident individual shareholders from domestic non-foreign invested enterprises which have issued shares in Hong Kong are generally subject to individual income tax at the tax rate of 10%. However, the individual income rate in respect of each overseas resident individual shareholder may vary due to the provisions in the tax agreements between the countries in which he/she is a resident and China. If shareholders of H Shares have any queries on the above arrangements, they should seek advice from their tax advisors on the tax impact in the PRC, Hong Kong and other country(ies) or region(s) in relation to the holding and disposing of H Shares

XIII. Other matters

(I) Share Capital and Substantial Shareholders

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

(II) Use of Proceeds

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

(III) Reserves

For the year ended 31 December 2020, 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 2020, the distributable reserve of the Company and its subsidiaries under the China Accounting Standards for Business Enterprises was RMB19,056 million and the distributable reserve of the Company was RMB18,196 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 2020 to the date of this report.

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(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.

(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 RMB19.45 million for the year ended 31 December 2020.

(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 46 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.

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(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 beneficiaries 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.

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. Information of the related parties

| Name of enterprise | Relationship with the Bank | Business nature or type | Principal business | Legal representative | Place of registration | Registered capital and its changes |
|-------------------------------------------------------------------------------|----------------------------|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|------------------------------------|
| Harbin Economic Development and Investment Company Limited (哈爾濱經濟開發投資有限公司) | Major shareholder | Limited liability company | Financial investments in fixed-assets of municipally-owned enterprises and others and receipt of dividends in return. | Zhang Xianjun | Harbin City | RMB 2,307.522 million |
| Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司) | Major shareholder | Limited liability company | Investment and asset management and capital investment services; non-public offering of securities investment funds; holding company services; and financial information services. | Yu Hong | Harbin City | RMB 13,600 million |

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| Harbin Heli Investment Holdings Co., Ltd. (哈爾濱合力投資控股 有限公司) | Major shareholder | Limited liability company | Management and operation of self- owned assets, development, external investment and investment consultation for projects of high- tech enterprises and projects favourable for the development of the development zone (except for those subject to special national approval); real estate development and operation, land development, contracting and construction management of infrastructure construction, municipal and building construction; procurement of construction materials, and provision of relevant technical consultation and technical services; heat supply within the operation scope as approved under the qualification certification issued by provincial construction department; coal operation (no high-pollution fuels inside combustion forbidden zones). | Cui Xitao | Harbin City | RMB 1,900 million |

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| Harbin Investment Group Corporation Limited (哈爾濱市投資集團有限責任公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Engaging in investment and investment information consulting for fixed assets, infrastructure, energy, heating, high-tech industries, resource development projects; organizing the implementation of thermal power projects and heating projects, infrastructure construction, land consolidation, and equity investment operations (The above projects require special national approval certificates for operation). | Zhao Hongbo | Harbin City | RMB 5,000 million |
| Harbin Property Heating Supply Group Co., Ltd. (哈爾濱物業供熱集團有限責任公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Property management, heating source and heating network construction, real estate operation and management, heating supply production, and car park operation and management. | Zhao Zhifeng | Harbin City | RMB 687.811 million |
| Harbin Daoli Real Estate Operation and Property Management Co., Ltd. (哈爾濱道里房產經營物業管理有限責任公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Direct and entrusted management of real estate operation and management, property management, heat supply and collection of related fees as an agent; heat supply energy saving technology development services, centralized heat supply project for the preparation, construction and installation of GB type GB(2) grade pressure pipes (for branch operations only); pipeline installation (excluding pressure pipes), plastic steel window production and installation. | Zhang Qiang | Harbin City | RMB 10 million |

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| Harbin Daowai Real Estate Operation and Property Management Co., Ltd. (哈爾濱道外房產經營物業管理有限責任公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Real estate operations, property management, heat supply. | Sun Ruzheng | Harbin City | RMB 5 million |
| Harbin Jinshanbao Heat Supply Co., Ltd. (哈爾濱金山堡供熱有限公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Centralized heat supply; property management and collection of related fees as an agent. | Gao Baikuan | Harbin City | RMB 50 million |
| Harbin Huaneng Centralized Heat Supply Co., Ltd. (哈爾濱市華能集中供熱有限公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Heat supply and property management for urban residents and industrial and commercial properties; warehousing (excluding dangerous goods). | Shen Zhitong | Harbin City | RMB 553.341 million |
| Harbin Taiping Real Estate Property Operation Co., Ltd. (哈爾濱市太平房產物業經營有限責任公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Real estate operation (public housing management, rent management, real estate replacement), heat supply, property management; maintenance of heat supply facilities and equipments; providing heat supply facilities and insulation materials for subsidiaries; cleaning; heat supply pipes, heaters; sewage cleaning. | Qin Yong | Harbin City | RMB 5 million |

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| Harbin Xiangfang Property Heat Supply Co., Ltd. (哈爾濱香坊物業供熱有限責任公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Operations of state-owned real estate and real estate under entrusted management, property management, house heating supply, house repair, road transportation of ordinary cargo, loading, unloading and carrying services for ordinary cargo, ordinary cargo warehousing services (excluding dangerous chemicals and toxic goods). | Na Haitao | Harbin City | RMB 12.842 million |
| Harbin Automobile Exchange Market Co., Ltd. (哈爾濱汽車交易市場有限公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Purchase and sales of: motors, automobile accessory and daily goods; wholesale of: automobile decoration and accessory; organise automobile exchange market; in-market property management; automobile after-sale service (exclude maintenance); acquisition, sales, consign, agency sell and buy, lease of used automobile, as well as accessory provision and information service; provision of automobile transfer, registration and agency insurance service; organise automobile exhibition and convention; organise corporate culture and exchange activities; lease of commercial equipments; venue leasing and property leasing. | Hu Xiaoping | Harbin City | RMB 50 million |
| Harbin Nangang Real Estate and Property Management Co., Ltd. (哈爾濱市南崗房產經營物業管理有限責任公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Transfer of real estate and property management; heat supply service in accordance with the qualification; agency service for paid transfer and swap of public housing, escrow of reserved properties and real estate brokerage and consultation service. | Gao Baikuan | Harbin City | RMB 10 million |

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| Harbin Huahui Thermoelectric Co., Ltd. (哈爾濱華匯熱電股份 有限公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Provision of urban heat supply in accordance with the approval; provision of property management in accordance with the qualification; warehousing (except for those restricted in accordance with nation laws and regulations). | Zhang Xueming | Harbin City | RMB 20 million |
| Harbin Entrusted Property Heat Supply Co., Ltd. (哈爾濱信託物業供熱 有限責任公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Urban heat supply; centralised heat supply, collection and payment of heating fees; sales and installation of measuring equipments; property management, property swap, property leasing, property management and agency service for collection of relevant fees; thermal power generation; ordinary cargo transportation. | Na Haitao | Harbin City | RMB 5.50 million |
| Harbin New Residential Zone Heat Supply Property Co., Ltd. (哈爾濱住宅新區 供熱物業有限責任公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Property management (class I), heat supply, paid transfer of rights of use of public residential properties and public non-residential properties, and real estate agency services. | Liu Huiyu | Harbin City | RMB 7.90 million |

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| Harbin Heat Power Co., Ltd. (哈爾濱市熱力有限公司) | A related party of the Bank's major shareholder Harbin Economic Development | Limited liability company | Supply and sale of steam and hot water, heat supply and equipment maintenance and management, repairmen of electric instruments; construction of pipeline works; installation for building heating system; property leasing. | Gao Baikuan | Harbin City | RMB 163.861 million |
| Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司) | A related party of the Bank's major shareholder Harbin Economic Development | Other joint stock company | Financing guarantee business. | Li Mingzhong | Harbin City | RMB 600.60 million |
| Heilongjiang University Student Startup Financing Guarantee Co., Ltd. (黑龍江省大學生創業融資擔保有限公司) | A related party of the Bank's major shareholder Heilongjiang Financial Holdings | Limited liability company | Financing guarantee business: including loan guarantee, bonds issuance guarantee and other financing guarantee business; non-financing guarantee business: including tender guarantee, construction contract performance guarantee, litigation preservation guarantee and other non-financing guarantee business; service business including consultation related to guarantee business; other businesses in compliance with the laws and regulations. | Gu Tiaojiao | Harbin City | RMB 200 million |

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| Heilongjiang Agricultural Financing Guarantee Co., Ltd. (黑龍江省農業融資擔保 有限責任公司) | A related party of the Bank's major shareholder Heilongjiang Financial Holdings | Limited liability company | Providing guarantee-related credit enhancement services for various business entities engaged in agriculture in accordance with the law, agriculture-related financing guarantee, re-guarantee, bonds issuance guarantee, tender guarantee, prepayment guarantee and contract performance guarantee; financing consultation, financial advisory and other intermediary services related to agriculture; investment in agricultural projects with self- own funds, and other businesses as regulated by the regulatory authorities. | Tan Zhiqiang | Harbin City | RMB 6,230.30 million |
| Heilongjiang Xinzheng Financing Guarantee Group Co., Ltd. (黑龍江省鑫正融資擔保 集團有限公司) | A related party of the Bank's major shareholder Heilongjiang Financial Holdings | Limited liability company | Financing guarantee; re-financing; guarantee for bond issuance; litigation provision guarantee; performance guarantee; entrusted loans; logistic supervision; financing consultation in relation to guarantee operation, intermediary services such as financial consultation; investment using self-owned funds. | Li Jinsong | Harbin City | RMB 4,601 million |

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| Northeast China Small and Medium-Sized Enterprises Credit Re-Guaranty Co., Ltd. (東北中小企業信用再擔保股份有限公司) | A related party of the Bank's major shareholder Heilongjiang Financial Holdings | Limited liability company | Loan, bill acceptance, trade and project financing, import and export, letter of credit and other guarantee re-guarantee services; litigation preservation, bidding, advance payment, project performance and other guarantee re-guarantee services; disposal of counter-guaranteed assets; financing consulting, financial advisors and other intermediaries Services; investment business; other businesses not prohibited by laws and regulations. (The license is valid until 18 April 2021). (business subject to approval by law shall be conducted upon approval by competent authorities). | Li Shi Jie | Harbin City | RMB 3,052.336 million |
| Harbin Economic and Technologic Development Zone Infrastructure Development and Construction Co., Ltd. (哈爾濱經濟技術開發區基礎設施開發建設有限公司) | A related party of the Bank's major shareholder Heli | Limited liability company | Planning, design, contracting and construction management of infrastructure works inside the development zone; development and construction of residential zone inside the development zone; sales of construction materials (exclude flammable materials); provision of heat supply service in accordance with the scope approved under the certification; coal operation (no high-pollution fuels inside combustion forbidden zones). | Yang Xuemei | Harbin City | RMB 500 million |

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| Yungu Technology Co., Ltd. (雲谷科技有限公司) | A related party of the Bank's major shareholder Heli | Limited liability company | Investment, construction and management of international data city; incubation and cultivation of technology enterprises and high-tech projects, development of computer software and hardware; computer system integration; computer network engineering; development, consultation and transfer of electronic, communication and opto-mechatronics system and network information technology; provision of planning, construction, management and organizational services for enterprises; exhibition and convention services; investment and investment management in technology industry, commercial industry, industrial industry and agriculture industry using self- owned assets; domestic trade; import and export of goods and technologies. | Liu Bo | Harbin City | RMB 65.633 million |

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| Harbin Development Zone Small and Medium-Sized Enterprises Financing Guarantee Co., Ltd. (哈爾濱開發區中小企業融資擔保有限公司) | A related party of the Bank's major shareholder Heli | Limited liability company | Engaging in the following businesses in accordance with the scope approved under the operation permit issued by financing guarantee institutions: financing guarantee business: including borrowing guarantee, guarantee for issuance of bonds and other financing guarantee; non-financing guarantee: including tender guarantee, work performance guarantee, litigation provision guarantee and other non-financing guarantee; consultation and other services in relation to guarantee business: other business in compliance with laws and regulations (valid until 14 January 2025). Technology venture investment and wealth management business (excluding financial security investment); property management. | Li Shichun | Harbin City | RMB 1,000 million |

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2. *Deposit transactions with the major shareholders and their related parties*

As at the end of the Reporting Period, Harbin Economic Development, a major shareholder of the Bank, together with its related parties had a deposit balance amounted to RMB2,744.4560 million in the Bank. Heilongjiang Financial Holdings and its related parties had a deposit balance amounted to RMB2,186.9246 million in the Bank. Heli Investment had a deposit balance amounted to RMB105.4990 million in the Bank.

3. *Credit transactions with the major shareholders and their related parties*

(1) *On-balance sheet transactions*

During the Reporting Period, there were a total of 78 loan, investment, guarantee and bank acceptance transactions conducted between Harbin Economic Development (a major Shareholder of the Bank) and its related parties, including Harbin Daoli Real Estate Operation and Property Management Co., Ltd., Harbin Daowai Real Estate Operation and Property Management Co., Ltd., Harbin Huahui Thermoelectric Co., Ltd., Harbin Jinshanbao Heat Supply Co., Ltd., Harbin Pingfang Property Heat Supply Co., Ltd., Harbin Huaneng Centralized Heat Supply Co., Ltd., Harbin Nangang Real Estate and Property Management Co., Ltd., Harbin Heat Power Co., Ltd., Harbin Taiping Real Estate Property Operation Co., Ltd., Harbin Xiangfang Property Heat Supply Co., Ltd., Harbin Entrusted Property Heat Supply Co., Ltd., Harbin New Residential Zone Heat Supply Property Co., Ltd., and the Bank with a transaction amount totaling RMB3,651.9199 million. The amount of each single transaction was less than 1% of the net capital of the Bank. As at the end of the Reporting Period, Harbin Junxin Financing Guarantee Co., Ltd. conducted guarantee transactions with the Bank with a total guarantee balance of RMB4 million. As at the end of the Reporting Period, the aggregate credit balance granted to Harbin Economic Development and its related parties amounted to RMB3,655.8599 million, accounting for 6.88% of the net capital of the Bank.

During the Reporting Period, the related party transactions conducted between Harbin Economic Development and its related parties and the Bank were significant related party transactions, which have been considered and approved by the Board and submitted to CBIRC for filing.

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During the Reporting Period, there were a total of 87 loan transactions conducted between Heilongjiang Financial Holdings, a major shareholder of the Bank, and the Bank, with a transaction amount totaling RMB1,330.9438 million. The amount of each single transaction was less than 1% of the net capital of the Bank. As at the end of the Reporting Period, Heilongjiang Xinzheng Financing Guarantee Group Co., Ltd., Heilongjiang University Student Startup Financing Guarantee Co., Ltd., Heilongjiang Agricultural Financing Guarantee Co., Ltd. and Northeast China Small and Medium-Sized Enterprises Credit Re-Guaranty Co., Ltd., each a related party of Heilongjiang Financial Holdings, conducted guarantee transactions with the Bank with a total guarantee balance of RMB373,144,400. As at the end of the Reporting Period, the credit balance of Heilongjiang Financial Holdings and its related parties in the Bank was RMB373,144,400.

During the Reporting Period, all the related party transactions conducted between Heilongjiang Financial Holdings (a major shareholder of the Bank) and its related parties and the Bank were ordinary related party transactions.

During the Reporting Period, there were a total of 29 loan transactions conducted between Heli (a major shareholder of the Bank) and its related parties and the Bank, with a transaction amount totaling RMB1,154 million. The amount of each single transaction was less than 1% of the net capital of the Bank.

As at the end of the Reporting Period, the aggregate credit balance granted to Heli and its related parties amounted to RMB3,202.7832 million, accounting for 6.03% of the net capital of the Bank.

During the Reporting Period, the related party transactions conducted between Heli and its related parties and the Bank were significant related party transactions, which have been considered and approved by the Board and submitted to CBIRC for filing.

(2) Off-balance sheet transactions

During the Reporting Period, Harbin Economic Development, a major shareholder of the Bank, and its related parties conducted a total of 13 bill acceptance transaction with the Bank with a total transaction amount of RMB151.2082 million. The credit balance was RMB457.0420 million. The amount of each single transaction was less than 1% of the net capital of the Bank. The accumulated balance of on – and off-balance sheet accounted for 7.74% of the net capital of the Bank.

During the Reporting Period, Heli, a major shareholder of the Bank, and its related parties did not conduct any on – and off-balance sheet business with the Bank. The credit balance was RMB103.5 million. The accumulated balance of on – and off-balance sheet accounted for 6.59% of the net capital of the Bank.

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(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 Non-executive Directors of the Seventh Session of the Board and the Proposal on the Appointment of Shareholder Representative Supervisor of the Seventh Session of the Board of Supervisors were considered and approved at the 2020 first extraordinary general meeting of the Company held on 15 October 2020, pursuant to which, each of Mr. Zhao Hongbo, Mr. Zhang Xianjun, Mr. Yu Hong and Mr. Lang Shufeng was appointed as a non-executive Director of the Company, and Ms. Yang Xuemei was appointed as a shareholder representative Supervisor of the Company. The qualification of each of Mr. Zhao Hongbo, Mr. Zhang Xianjun, Mr. Yu Hong and Mr. Lang Shufeng as a Director had been approved by the Heilongjiang Regulatory Bureau of the CBIRC, with effect from 24 November 2020.

Former non-executive Directors of the Company, namely Mr. Zhang Taoxuan, Mr. Ma Pao-Lin, Mr. Peng Xiaodong and Mr. Chen Danyang, resigned as independent non-executive Directors of the Company, and former shareholder representative Supervisor of the Company, namely Mr. Liu Mo, resigned as shareholder representative Supervisor of the Company, with effect from 28 August 2020.

The Proposal on the Appointment of Directors of the Eighth Session of the Board and the Proposal on the Appointment of External Supervisors and Shareholder Representative Supervisor of the Eighth Session of the Board of Supervisors were considered and approved at the 2021 first extraordinary general meeting of the Company held on 24 February 2021, pursuant to which, Mr. Deng Xinquan was appointed as a new executive Director; Mr. Jin Qinglu was appointed as a new independent non-executive Director; and Mr. Wang Haibin was appointed as a new employee representative Supervisor of the eighth session of the Board of 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.

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(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 2020, 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 (%) |
|--------------|------------------------|--------------------|-----------------|--------------------------------------|------------------------------------------------------------------|
| Deng Xinquan | Executive Director | Beneficial owner | Domestic Shares | 1,205 | 0.00001 |
| Sun Feixia | Executive Director | Beneficial owner | Domestic Shares | 378,907 | 0.003 |
| Lang Shufeng | Non-executive Director | Spouse interest | Domestic Shares | 10,032 | 0.0009 |

Note: Ms. Zheng Xiaohong, the spouse of Mr. Lang Shufeng, held 10,032 domestic shares of the Bank. By virtue of the SFO, Mr. Lang Shufeng is deemed to be interested in the shares held by Ms. Zheng Xiaohong.

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).

(XIX) Permitted Indemnity Provisions

In 2020, 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 2020, 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.

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(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

The world is witnessing major changes unfolding in a magnitude unseen in a century, with profound shifts in the internal and external developmental factors and growing instability and uncertainty in economic environment. The development of the pandemic in 2021 remains uncertain. Hence, the global economy continues to face major challenges. In spite of its hard-earned achievements, the Chinese economy is still plagued by various risks and challenges, as well as a shaky foundation for recovery. Therefore, it will maintain the continuity, stability and sustainability of its macroeconomic policies, improve the efficiency and sustainability of the proactive fiscal policy, prioritize “stability” above all else for the monetary policy, and maintain the sustainability of normal monetary policy space. With more scientific and effective pandemic prevention and control measures in place, domestic economic recovery will be expedited by the transformation and upgrade driven by the new development pattern of dual circulation. In addition, the supply-side structural reform has entered an era of in-depth trial, particularly in the financial sector, with slow growth in asset scale, low market interest rates and narrowed interest margins having become the new normal for bank operations.

2021 marks the opening year of China’s 14th Five-Year Plan and the long-term goal of socialist modernization, as well as the first year of the Bank’s new major strategic planning period for transformation and development. Looking ahead, the Bank will continue to adhere to the business philosophy of “Inclusive Finance, Harmonious Co-enrichment”, unwaveringly uphold the microcredit strategy, and promote new development philosophies befitting the new phase and the new situation. With high-quality development as the theme and as secured by risk prevention and mitigation, the Bank will return to the basics, focus on key areas, optimize its structure, reshape its foundation, and promote solid strategic transformation and management improvement with the aim of gaining a running start for the new strategic planning.

By order of the Board

Deng Xinquan
Chairman

Harbin, PRC
31 March 2021

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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 2020 | | Increase/decrease during the Reporting Period (+/-) | | | | 31 December 2020 | |
| | | 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% | - | - | - | 427,372 | 427,372 | 7,908,966,550 71.93% |
| Including: (1) Shares held by state-owned enterprises | | 5,332,201,096 | 48.49% | - | - | - | 1,553,995,638 | 1,553,995,638 | 6,886,196,734 62.63% |
| (2) Shares held by private enterprises | | 2,576,338,082 | 23.43% | - | - | - | -1,553,568,266 | -1,553,568,266 | 1,022,769,816 9.3% |
| 2. Non-listed shares held by natural persons | | 63,490,375 | 0.58% | - | - | - | -427,372 | -427,372 | 63,063,003 0.57% |
| 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 36 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. Shareholding 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.

Shareholding of Top 10 Shareholders of the Company as at the end of the Reporting Period

| Name of shareholder | Nature of shareholder | Number of shares held ³ (Shares) | Shareholding percentage (%) ³ | Number of shares pledged or frozen | 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 Fubon Life Insurance Company Limited | Foreign investment | 755,913,000 | 6.87% | – | H Shares |
| 4 Huaxia Life Insurance Co., Ltd. | Private enterprise | 486,702,000 | 4.43% | – | H Shares |
| 5 CITIC Capital HB Investment L.P. ¹ | Foreign investment | 401,275,000 | 3.65% | – | H Shares |
| 6 Harbin Heli Investment Holding Co., Ltd. ¹ | State-owned | 397,000,000 | 3.61% | – | Non overseas-Listed shares |
| 7 Finance Bureau of Daoli District, Harbin ¹ | State-owned | 386,025,859 | 3.51% | – | Non overseas-Listed shares |
| 8 Finance Bureau of Nangang District, Harbin | State-owned | 378,941,968 | 3.45% | – | Non overseas-Listed shares |
| 9 Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd. (哈爾濱高新技術產業開發區基礎設施開發建設有限公司) ² | State-owned | 301,315,846 | 2.74% | – | Non overseas-Listed shares |
| 10 Beijing Xinrun Investment Co., Ltd. (北京新潤投資有限公司) | Private enterprise | 255,418,587 | 2.32% | – | Non overseas-Listed shares |

Notes:

- On 24 June 2020, Harbin Kechuang Xingye Investment Company Limited transferred 397,000,000 Domestic Shares out of its 720,262,554 Domestic Shares to Harbin Heli Investment Holding Co., Ltd., and the remaining 323,262,554 Domestic Shares were transferred to Finance Bureau of Daoli District, Harbin. As at the date of this report, the registration procedures in relation to the aforesaid transfer of shares have been completed, and Harbin Kechuang Xingye Investment Company Limited ceased to hold any shares of the Company.
- Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd., shareholder of the Company, and Harbin Science and Technology Innovation Investment Co., Ltd. are related with each others. Harbin Science and Technology Innovation Investment Co., Ltd. held 96,220,000 shares of the Company, with aggregate shareholding of 397,535,846 shares, representing 3.62% of total shareholding.
- The above shareholding percentage of non overseas-listed shares and H 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.

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

As at 31 December 2020, according to the disclosure of interest information as shown on the website of the Hong Kong Stock Exchange, the interests and short positions of the following persons (excluding the Directors, Supervisors and the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Domestic Shares

| Name of shareholder | Capacity | Number of Domestic Shares held (long position) | Percentage of issued Domestic Shares to 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 | 3,258,338,652 | 40.87% | 29.63% |
| Harbin Investment Group Corporation Limited ¹ | Interest of controlled corporation | 3,258,338,652 | 40.87% | 29.63% |
| Harbin Economic Development and Investment Company ¹ | Beneficial owner | 3,257,943,986 | 40.87% | 29.63% |
| | Interest of controlled corporation | 394,666 | 0.005% | 0.004% |
| Department of Finance of Heilongjiang Province of the People's Republic of China ² | Interest of controlled corporation | 2,040,591,776 | 25.60% | 18.56% |
| 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% |
| | Interest of controlled corporation | 616,718 | 0.008% | 0.006% |

Notes:

1. Harbin Economic Development directly holds 3,257,943,986 Domestic Shares of the Company, and its controlled corporation by the major shareholders, Harbin Real Estate Guarantee Co., Ltd. (哈爾濱市房屋置業擔保有限責任公司), holds 394,666 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 90% and 10% 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) and the Heilongjiang Municipal People's Government State-owned Assets Supervision and Administration Commission (黑龍江省人民政府國有資產監督管理委員會) respectively. 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 3,258,338,652 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

- Heilongjiang Financial Holdings directly holds 2,035,675,058 Domestic Shares of the Company and indirectly holds 4,300,000 and 616,718 Domestic Shares of the Company through its indirectly controlled entity, namely Harbin Dazheng Microcredit Co., Ltd. (哈爾濱市大正小額貸款有限責任公司), and Heilongjiang Dazheng Investment Group Co., Ltd. (黑龍江省大正投資集團有限責任公司) respectively. According to the SFO, Heilongjiang Financial Holdings is deemed to be interested in a total of 2,040,591,776 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 2,040,591,776 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 (business subject to approval by law shall be conducted upon approval by competent authorities).

H Shares

| Name of shareholder | Capacity | Number of H Shares held (long position) | Percentage of issued H Share capital of the Company | Percentage of total issued share capital of the Company |
|------------------------------------------------|------------------------------------|-----------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------|
| Fubon Financial Holding Co., Ltd. ¹ | Interest of controlled corporation | 755,913,000 | 25.00% | 6.87% |
| Huaxia Life Insurance Co., Ltd. ² | Beneficial owner | 486,702,000 | 16.10% | 4.43% |
| CITIC Capital Holdings Limited ³ | Interest of controlled corporation | 401,275,000 | 13.27% | 3.65% |

Notes:

- Fubon Financial Holding Co., Ltd. held the interests in 755,913,000 H Shares of the Company through its 100% owned corporation, Fubon Life Insurance Co., Ltd. Fubon Life Insurance Co., Ltd was established in March 2007 with a registered capital of TWD110.83114 billion and Mr. Ming-Hsing (Richard) Tsai being the legal representative. The business scope of Fubon Life Insurance Co., Ltd is provision of life insurance. Fubon Life Insurance Co., Ltd held 18% equity interest in CITIC Capital Holdings Limited and nominated director. Pursuant to PRC laws and regulations and as determined by the competent regulatory authorities, 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 Co., Ltd is unable to issue a capital supplement undertaking to the Company. As of the disclosure date of this report, the qualifications of shareholders have yet to be approved.
- On 17 July 2020, the CBIRC decided to take over four insurance companies including Huaxia Life Insurance Co., Ltd. and two trust companies for term of one year. As of the disclosure date of this report, the takeover of Huaxia Life Insurance Co., Ltd. does not have a negative impact on the normal operation and management of the Bank.
- CITIC Capital Holdings Limited held the interests in the relevant number of shares through a series of controlled corporations. 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.

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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 2020.

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 2020, 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 90% and 10% by the Harbin Municipal People's Government State-owned Assets Supervision and Administration Commission and the Heilongjiang Municipal People's Government State-owned Assets Supervision and Administration Commission respectively.
2. As at 31 December 2020, Heilongjiang Financial Holdings directly and indirectly held 18.56% 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 2020, no shares held by any shareholder with shareholding of 5% or more of the Company were pledged or judicially frozen.

VI. Controlling Shareholders and Actual Controllers

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

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

Please see "III. Shareholdings of Shareholders" above for the particulars of shareholders with shareholding of 5% or more of the Company as at 31 December 2020.

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

During the period from 1 January 2020 to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company.

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

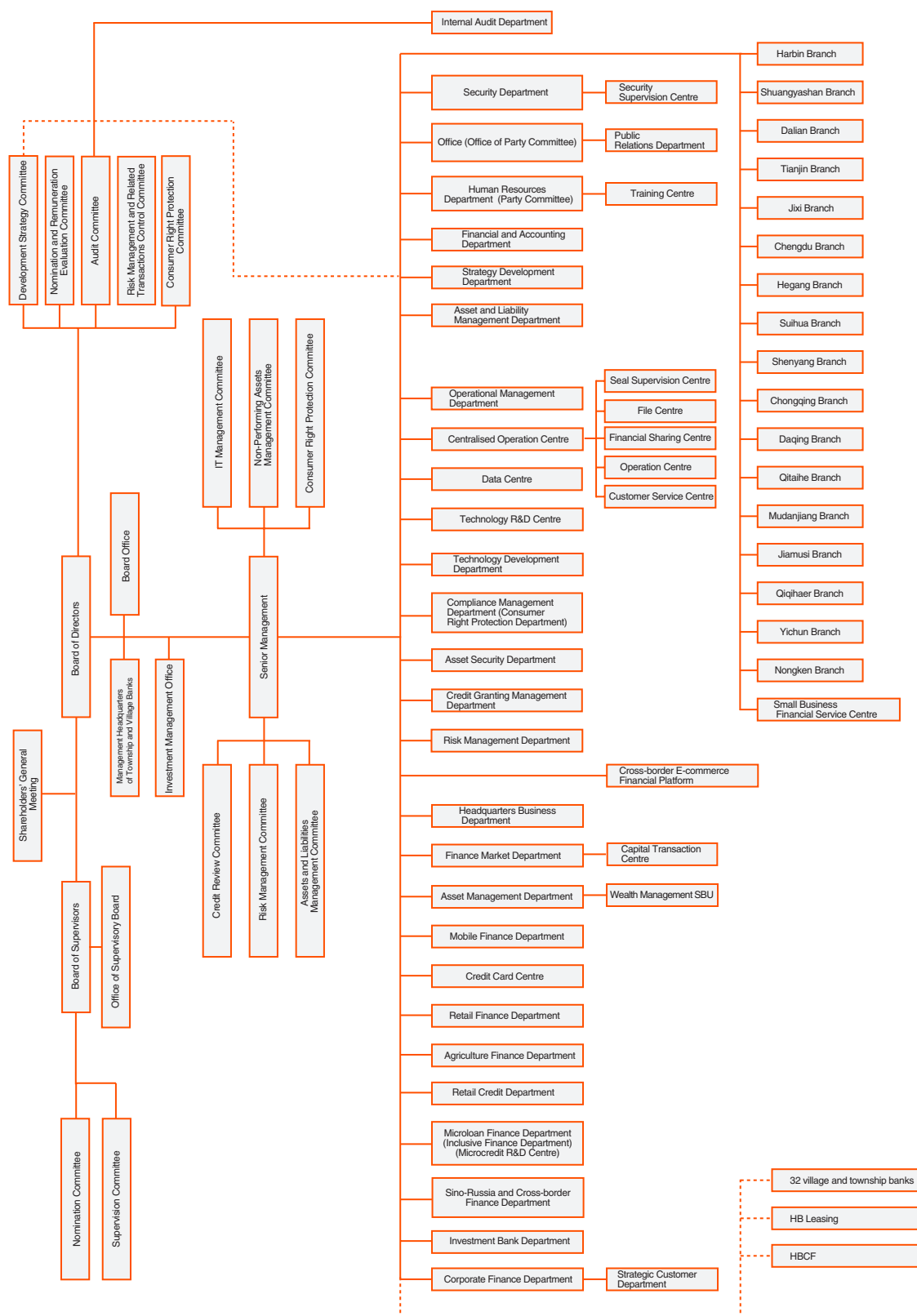
| Name of shareholders | Director nominated | Supervisor nominated |
|------------------------------------------------------------|----------------------------|----------------------|
| Harbin Economic Development and Investment Company Limited | Zhao Hongbo, Zhang Xianjun | – |
| Heilongjiang Financial Holdings Group Co., Ltd. | Yu Hong, Lang Shufeng | – |
| Harbin Heli Investment Holding Co., Ltd. | – | Yang Xuemei |

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I. Organisation Chart of Corporate Governance

Organisation Chart of Harbin Bank



Corporate Governance Report

II. Corporate Governance Overview

Sound corporate governance is the responsibility of the Board of the Company. In 2020, 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 Consumer Rights Protection 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 Shareholding, the Administrative Measures for Connected Transactions, the Information Disclosure Administrative Measures, etc. The Board believes that during the period from 1 January 2020 to 31 December 2020, 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 2020, the shareholders' general meetings of the Company passed the following resolutions relating to corporate governance of the Company:

At the 2019 annual general meeting convened by the Company on 15 May 2020, proposals namely the Proposal on the 2019 Work Report of the Board of Directors, the Proposal on the 2019 Work Report of the Board of Supervisors, the Proposal on the 2019 Final Account Report, the Proposal on the 2020 Financial Budgets, the Proposal on the 2019 Profit Distribution Plan, the Proposal on the 2019 Annual Report, the Proposal on the Appointment of Auditors for 2020, the Proposal on the Report on the Management of Related Party Transactions in 2019, the Proposal on the Remuneration Distribution Plan for the Executive Directors for 2019, the Proposal on the Remuneration Distribution Plan for the Chairman of the Board of Supervisors for 2019, the Proposal on the Amendments to the Rules of Procedures for the Shareholders' General Meeting, the Proposal on the Amendments to the Articles of Association, the Proposal on Granting the Board a General Mandate to Issue H Shares, the Proposal on the Extension of the Validity Period of the Resolutions in Respect of the Non-Public Issuance of Preference shares at the General Meeting, 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, and the Proposal on the Issuance of Eligible Tier-2 Capital Instruments were considered and approved.

At the 2020 first domestic shareholders' class meeting convened by the Company on 15 May 2020, the Proposal on the Extension of the Validity Period of the Offshore Issuance Plan and Relevant Shareholders' Resolutions 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.

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At the 2020 first H shareholders' class meeting convened by the Company on 15 May 2020, the Proposal on the Extension of the Validity Period of the Offshore Issuance Plan and Relevant Shareholders' Resolutions 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 2020 first extraordinary general meeting convened by the Company on 15 October 2020, the Proposal on the Election of Directors, the Proposal on the Election of Supervisor, 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 and the Proposal on the Extension of the Validity Period of the Issuance Plan of the Capital Supplemental Bonds and Relevant Shareholders' Resolution and 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 Capital Supplemental Bonds were considered and approved.

In 2020, the Company organised and held 61 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 4 general meetings and class meetings of shareholders in total, 10 meetings of the Board, 32 meetings of the special committees of the Board, 6 meetings of the Board of Supervisors and 9 meetings of the special committees of the Board of Supervisors. At the meetings, the Company considered and approved 275 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 of the Company, the Nomination and Remuneration Evaluation Committee of the Board 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.

Corporate Governance Report

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;

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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;

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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 consists of 11 Directors, including 3 executive Directors (Mr. Deng Xinquan, Mr. Lyu Tianjun and Ms. Sun Feixia), 4 non-executive Directors (Mr. Zhao Hongbo, Mr. Zhang Xianjun, Mr. Yu Hong and Mr. Lang Shufeng), 4 independent non-executive Directors (Mr. Zhang Zheng, Mr. Sun Yan, Mr. Hou Bojian and Mr. Jin Qinglu). 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.

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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 of the Board 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 election of Directors was considered and approved at the 2020 first extraordinary general meeting of the Company held on 15 October 2020, and Mr. Zhao Hongbo, Mr. Zhang Xianjun, Mr. Yu Hong and Mr. Lang Shufeng were appointed as independent non-executive Directors of the Company. The qualification of Mr. Zhao Hongbo, Mr. Zhang Xianjun, Mr. Yu Hong and Mr. Lang Shufeng as Directors was approved by the Heilongjiang Regulatory Bureau of the CBIRC, and their appointment was effective from 24 November 2020. The former non-executive Directors of the Company, namely Mr. Zhang Taoxuan, Mr. Ma Pao-Lin, Mr. Peng Xiaodong and Mr. Chen Danyang resigned from their positions as non-executive Directors of the Company due to personal work arrangements with effect from 28 August 2020.

During the Reporting Period, the proposal on the election of Directors of the eighth session of the Board was considered and approved at the 2021 first extraordinary general meeting of the Company held on 24 February 2021, and Mr. Deng Xinquan was appointed as an executive Director of the Company, while Mr. Jin Qinglu was appointed as an independent non-executive Director of the Company. The qualification of Mr. Deng Xinquan as a Director was approved by the Heilongjiang Regulatory Bureau of the CBIRC, and his appointment was effective from 10 March 2021. The qualification of Mr. Jin Qinglu as a independent non-executive director was approved by the Heilongjiang Regulatory Bureau of the CBIRC, and his appointment was effective from 25 March 2021. The former executive Director of the Company, namely Mr. Guo Zhiwen, and the former independent non-executive Director of the Company, namely Mr. Ma Yongqiang, resigned from their positions on expiry of their respective term of office.

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. Deng Xinquan, 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.

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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. Yu Hong had an attendance of 0%, 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 2020, 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 176 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 101 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 16th meeting of the seventh session of the Board | 4 February 2020 | Way of communication |
| The 17th meeting of the seventh session of the Board | 28 February 2020 | Video conference |
| The 18th meeting of the seventh session of the Board | 30 March 2020 | Video conference |
| The 19th meeting of the seventh session of the Board | 30 April 2020 | Video conference |
| The 2020 first extraordinary general meeting of the Board | 22 June 2020 | Video conference |
| The 2020 second extraordinary general meeting of the Board | 22 June 2020 | Video conference |
| The 20th meeting of the seventh session of the Board | 28 August 2020 | Video conference |
| The 2020 third extraordinary general meeting of the Board | 23 September 2020 | Video conference |
| The 2020 fourth extraordinary general meeting of the Board | 25 September 2020 | Video conference |
| The 21st meeting of the seventh session of the Board | 28 December 2020 | Video conference |

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The attendance of each Director in the Board meetings and Shareholders' general meetings/class meetings in 2020 is set out below:

| | 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 |
|--------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Board members | | | | | |
| Deng Xinquan (newly appointed on 10 March 2021) | 0 | 0 | 0 | – | 4/4 |
| Guo Zhiwen (resigned on 24 February 2021) | 10 | 10 | 0 | 100% | 4/4 |
| Lyu Tianjun | 10 | 10 | 0 | 100% | 4/4 |
| Sun Feixia | 10 | 10 | 0 | 100% | 4/4 |
| Zhao Hongbo (newly appointed on 24 November 2020) | 1 | 1 | 0 | 100% | 0/0 |
| Zhang Xianjun (newly appointed on 24 November 2020) | 1 | 1 | 0 | 100% | 0/0 |
| Yu Hong (newly appointed on 24 November 2020) | 1 | 0 | 1 | 0 | 0/0 |
| Lang Shufeng (newly appointed on 24 November 2020) | 1 | 1 | 0 | 100% | 0/0 |
| Zhang Taoxuan (resigned on 28 August 2020) | 7 | 7 | 0 | 100% | 0/3 |
| Ma Pao-Lin (resigned on 28 August 2020) | 7 | 7 | 0 | 100% | 3/3 |
| Peng Xiaodong (resigned on 28 August 2020) | 7 | 7 | 0 | 100% | 3/3 |
| Chen Danyang (resigned on 28 August 2020) | 7 | 7 | 0 | 100% | 3/3 |
| Ma Yongqiang (resigned on 24 February 2021) | 10 | 10 | 0 | 100% | 4/4 |
| Zhang Zheng | 10 | 10 | 0 | 100% | 4/4 |
| Sun Yan | 10 | 10 | 0 | 100% | 4/4 |
| Hou Bojian | 10 | 10 | 0 | 100% | 4/4 |
| Jin Qinglu (newly appointed on 25 March 2021) | 0 | 0 | 0 | – | 0/0 |

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

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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, investigations, trainings and other approaches. They actively expressed independent, objective 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 2020 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 2020, 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 32 meetings, at which 107 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 2020 are as follows:

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(I) Audit Committee

The Audit Committee mainly consists of independent non-executive Directors. The current members include independent non-executive Directors, namely Mr. Jin Qinglu (chairman of the committee) and Mr. Hou Bojian, and a non-executive Director, namely Mr. Lang Shufeng.

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 2020, the Audit Committee held 4 meetings, at which 19 proposals and reports, including the Proposal on the 2019 Annual Results Announcement and Annual Report, the Proposal on 2019 Profit Distribution Plan, the Proposal on the 2020 Financial Budgets, the Proposal on the Appointment of Auditors for 2020, the Proposal on the 2019 Internal Control Evaluation Report of Harbin Bank Co., Ltd., the Proposal on Approval of 2020 Unaudited Interim Financial Statements Prepared according to the International Financial Reporting Standards, and the Proposal on Consideration of 2020 Interim Results Announcement and Interim Report, were considered and approved. In 2020, the Audit Committee listened to the work reports from the Internal Audit Department, 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 2019 annual report and 2020 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 26 March 2021, the Audit Committee reviewed the audited consolidated financial statements for the year ended 31 December 2020 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 2020 is as follows:

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| Member of Audit Committee | Number of meetings requiring attendance | Number of meetings attended in person | Number of meetings attended by proxy | Attendance rate ^(Note) |
|-------------------------------------------------------|--------------------------------------------------|------------------------------------------------|-----------------------------------------------|--------------------------------------|
| Jin Qinglu (newly appointed on 25 March 2021) | 0 | 0 | 0 | – |
| Ma Yongqiang (resigned on 24 February 2021) | 4 | 4 | 0 | 100% |
| Hou Bojian | 4 | 4 | 0 | 100% |
| Lang Shufeng (newly appointed on 28 December 2020) | 1 | 1 | 0 | 100% |
| Peng Xiaodong (resigned on 28 August 2020) | 3 | 3 | 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. Zhao Hongbo.

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

1. Reviewing the structure, size and composition of the Board (including the skills, knowledge and experience) at least on an annual basis and proposing suggestions on the proposed change of the Board in accordance with company strategy;
2. Determining the conditions of service, criteria and selection procedures for Directors and senior management personnel;
3. Conducting preliminary review on the qualifications and appointment conditions of Directors and senior management personnel and proposing suggestions to the Board;
4. Assessing the independence of independent Directors;
5. Making and implementing the remuneration policy and structure for Directors and senior management;

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6. Reviewing and approving the remuneration proposals of the management with reference to the enterprise policies and objectives formulated by the Board;
7. Making recommendations to the Board on the remuneration and incentives measures and schemes for the senior management;
8. Drafting the performance 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 2020, 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 2020 annual performance assessment index of the senior management. Meanwhile, 13 proposals and reports including the Proposal on 2019 Directors' Performance Assessment Report, the Report on Harbin Bank's 2019 Performance Evaluation, the Proposal on the Determination of 2020 KPI for Senior Management and the Proposal on the Nomination of Director were considered and approved. The attendance of each member in the meetings of the Nomination and Remuneration Evaluation Committee in 2020 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) |
|---------------------------------------------------------------|--------------------------------------------------|------------------------------------------------|-----------------------------------------------|--------------------------------------|
| Sun Yan | 6 | 6 | 0 | 100% |
| Zhang Zheng | 6 | 6 | 0 | 100% |
| Hou Bojian | 6 | 6 | 0 | 100% |
| Chen Danyang (resigned on 28 August 2020) | 4 | 4 | 0 | 100% |
| Zhao Hongbo (newly appointed on 28 December 2020) | 0 | 0 | 0 | 0 |

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

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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.

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(III) Risk Management and Related Transactions Control Committee

The Risk Management and Related Transactions Control Committee consists of independent non-executive Directors, an executive Director and a non-executive Director. The current members include independent non-executive Directors, namely Mr. Jin Qinglu (chairman of the committee), Mr. Sun Yan and Mr. Zhang Zheng, an executive Director, namely Ms. Sun Feixia, and a non-executive Director, namely Mr. Zhang Xianjun.

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.

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In 2020, the Risk Management and Related Transactions Control Committee held 13 meetings, at which 51 proposals and reports were considered and approved, including the Proposal on the Risk Management Report in 2019, the Proposal on the General Evaluation Report on Information Technology Risk of Harbin Bank Co., Ltd. in 2019, the Proposal on the Risk Inspection Report of Harbin Bank in 2019, the Proposal on the Anti-money Laundering Report of Harbin Bank Co., Ltd. in 2019 and the Proposal on the Related Transactions with Harbin Investment Group Corporation Limited and Other Related Parties. The attendance of each member in the meetings of Risk Management and Related Transactions Control Committee in 2020 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) |
|-------------------------------------------------------------------------|--------------------------------------------------|------------------------------------------------|-----------------------------------------------|--------------------------------------|
| Jin Qinglu (newly appointed on 25 March 2021) | 0 | 0 | 0 | – |
| Ma Yongqiang (resigned on 24 February 2021) | 13 | 13 | 0 | 100% |
| Sun Feixia | 13 | 13 | 0 | 100% |
| Sun Yan | 13 | 13 | 0 | 100% |
| Zhang Zheng | 13 | 13 | 0 | 100% |
| Zhang Xianjun (newly appointed on 28 December 2020) | 0 | 0 | 0 | – |

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. Deng Xinquan (chairman of the committee) and Mr. Lyu Tianjun, an independent non-executive Director, namely Mr. Hou Bojian, and a non-executive Director, namely Mr. Yu Hong.

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;

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4. Drafting the Bank's annual business targets;
5. Supervising and inspecting the implementation by senior management of the Bank's long and medium term development plans, annual business targets, investment and financing programmes and capital allocation programmes;
6. 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 2020, the Development Strategy Committee held 5 meetings, at which 20 proposals and reports were considered and approved including the Proposal on the Institutional Development Plan of Harbin Bank Co., Ltd. for 2020, the Proposal on the Establishment of Environmental, Social and Governance (ESG) Working Group of Harbin Bank Co., Ltd., the Proposal on the Work Report of the Board of Harbin Bank Co., Ltd. for 2019, the Proposal on the Amendments to the Articles of Association of Harbin Bank Co., Ltd., the Proposal on the Amendments to the Rules of Procedures of General Meetings of Harbin Bank Co., Ltd., the Proposal on the Operational Plan of Harbin Bank for 2020, the Proposal on the Performance Assessment on Senior Management for 2020 and the Proposal on the Donation to Harbin Cultural Tourism Integration and Development Foundation. The attendance of each member in the meetings of Development Strategy Committee in 2020 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 (resigned on 24 February 2021) | 5 | 5 | 0 | 100% |
| Deng Xinquan (newly appointed on 10 March 2021) | 0 | 0 | 0 | — |
| Lyu Tianjun | 5 | 5 | 0 | 100% |
| Zhang Taoxuan (resigned on 28 August 2020) | 4 | 4 | 0 | 100% |
| Ma Pao-Lin (resigned on 28 August 2020) | 4 | 4 | 0 | 100% |
| Yu Hong (newly appointed on 28 December 2020) | 0 | 0 | 0 | — |
| Hou Bojian | 5 | 5 | 0 | 100% |

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

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(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 Mr. Zhang Xianjun.

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 2020, the Consumer Rights Protection Committee held 4 meetings, at which 4 proposals and reports were considered and approved, namely the Proposal on the Report of Consumer Rights Protection of Harbin Bank for 2019, the Proposal on the Work Scheme of Consumer Rights Protection of Harbin Bank for 2020, the Proposal on the Report of Consumer Rights Protection of Harbin Bank for the First Half of 2020 and the Proposal on the Administration Measures of Consumer Rights Protection of Harbin Bank. The attendance of each member in the meetings of Consumer Rights Protection Committee in 2020 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 | 4 | 4 | 0 | 100% |
| Lyu Tianjun | 4 | 4 | 0 | 100% |
| Sun Feixia (resigned on 28 December 2020) | 4 | 4 | 0 | 100% |
| Sun Yan | 4 | 4 | 0 | 100% |
| Zhang Xianjun (newly appointed on 28 December 2020) | 0 | 0 | 0 | — |

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

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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 6 meetings, at which 24 proposals and reports were considered and approved including the Work Report of the Board of Supervisors, performance evaluation reports, evaluation report of the strategic development plan, 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 2020 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 (resigned on 24 February 2021) | 6 | 6 | 0 | 100% |
| Wang Haibin (newly appointed on 24 February 2021) | 0 | 0 | 0 | — |
| Li Dong | 6 | 6 | 0 | 100% |
| Li Zhaohua | 6 | 6 | 0 | 100% |
| Sun Yi | 6 | 6 | 0 | 100% |
| Liu Mo (resigned on 28 August 2020) | 4 | 4 | 0 | 100% |
| Yang Xuemei (newly appointed on 15 October 2020) | 2 | 2 | 0 | 100% |
| Luo Zhonglin | 6 | 5 | 1 | 83.33% |
| Fang Shang | 6 | 6 | 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. 9 meetings were held throughout the year at which 17 proposals were studied and considered including the annual performance evaluation report, periodic reports and the profit distribution plan.

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(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 3 meetings, at which a total of 5 proposals were considered and approved, namely the Proposal on the Evaluation Report on the Performance of the Board and the Directors in 2019 Issued by the Board of Supervisors, the Proposal on the Evaluation Report on the Performance of the Board of Supervisors and Supervisors in 2019, the Proposal on the Evaluation Report on the Performance of the Senior Management and its Members in 2019 Issued by the Board of Supervisors, the Proposal on the Resignation of Mr. Liu Mo as a Shareholder Representative Supervisor and the Proposal on the Nomination of Shareholder Representative Supervisor Candidates. The attendance of each Supervisor in the meetings of the Nomination Committee in 2020 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 | 3 | 3 | 0 | 100% |
| Sun Yi | 3 | 3 | 0 | 100% |
| Luo Zhonglin | 3 | 3 | 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 Ms. Yang Xuemei, 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;
5. Other matters authorised by the Board of Supervisors.

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During the Reporting Period, the Supervision Committee held 6 meetings, at which 12 proposals and reports were considered and approved, namely the Proposal on the 2019 Annual Report, the Proposal on the 2019 Profit Distribution Plan, the Proposal on the 2019 Internal Capital Adequacy Evaluation Procedure Report of Harbin Bank, the Proposal on the Audit Report on the Economic Responsibility of He Dongbo in respect of his Resignation, the Proposal on the 2016-2020 Strategic Development Plan of Harbin Bank (Revised Edition), the Proposal on the 2019 Internal Control Evaluation Report of Harbin Bank Co., Ltd. and the 2020 Interim Report of Harbin Bank Co., Ltd. The attendance of each Supervisor in the meetings of the Supervision Committee in 2020 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 | 6 | 6 | 0 | 100% |
| Liu Mo (resigned on 28 August 2020) | 6 | 6 | 0 | 100% |
| Yang Xuemei (newly appointed on 15 October 2020) | 0 | 0 | 0 | – |
| Fang Shang | 6 | 6 | 0 | 100% |

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

The Proposal on the Resignation of Mr. Liu Mo as a Shareholder Representative Supervisor was considered and approved at the 15th meeting of the seventh session of the Board of Supervisors of the Company held on 28 August 2020. On the same date, Mr. Liu Mo ceased to be a Supervisor of the Company.

The Proposal on the Election of Supervisors was considered and approved at the 2020 first extraordinary general meeting of the Company held on 15 October 2020, pursuant to which, Ms. Yang Xuemei was appointed as a Shareholder Representative Supervisor of the seventh session of the Board of 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.

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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 2020 to 31 December 2020. 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 of Directors and Supervisors during the Reporting Period

During the Reporting Period, the Board of the Company organised specific trainings with a theme of corporate governance, internal control and related transactions for all its Directors, Supervisors and senior management members. Hence, Directors, Supervisors and senior management can enhance their understanding on leadership by the Communist Party, duty performance of Directors and senior management, corporate governance structure, regulatory rules and other aspects, and further learn about the scope and definitions of related party and various requirements about related transaction management. In addition, the duties and obligations of Directors, Supervisors and senior management were clarified, with increased awareness on risk control and management. Management activities were regulated, thereby promoting the healthy development of the Company.

During the Reporting Period, the Company arranged Supervisors to study the regulatory requirements, relevant laws and regulations, understand the spirit of supervision and their responsibilities, and organised 2 centralized training sessions. One of which was to invite internal control experts from Deloitte to conduct "Special Training on Internal Control of Commercial Bank" for Supervisors. The second was to arrange Supervisors to participate in the "Special Training on Corporate Governance" organised by the Board of the Company to continuously improve the theoretical level and performance ability of Supervisors.

During the Reporting Period, the Board of Supervisors of the Company conducted survey interviews with 4 branches, 8 village and township banks and 7 head office departments, 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.

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The attendance of each Director in training sessions on specific topics and on-site business visits in 2020 is as follows:

| Name of Directors | Number of training sessions on specific topics attended | Number of on-site business visits |
|-----------------------------------------------------|---------------------------------------------------------|-----------------------------------|
| Guo Zhiwen (resigned on 24 February 2021) | 1 | 8 |
| Lyu Tianjun | 1 | 8 |
| Sun Feixia | 1 | 6 |
| Zhao Hongbo (newly appointed on 24 November 2020) | 1 | 0 |
| Zhang Xianjun (newly appointed on 24 November 2020) | 1 | 0 |
| Yu Hong (newly appointed on 24 November 2020) | 1 | 0 |
| Lang Shufeng (newly appointed on 24 November 2020) | 1 | 0 |
| Zhang Taoxuan (resigned on 28 August 2020) | 0 | 0 |
| Ma Pao-Lin (resigned on 28 August 2020) | 0 | 0 |
| Peng Xiaodong (resigned on 28 August 2020) | 0 | 0 |
| Chen Danyang (resigned on 28 August 2020) | 0 | 0 |
| Ma Yongqiang (resigned on 24 February 2021) | 1 | 0 |
| Zhang Zheng | 1 | 0 |
| Sun Yan | 1 | 2 |
| Hou Bojian | 1 | 0 |

The attendance of each Supervisor in training sessions on specific topics and on-site business visits in 2020 is as follows:

| Name of Supervisors | Number of training sessions on specific topics attended | Number of on-site business visits |
|--------------------------------------------------|---------------------------------------------------------|-----------------------------------|
| Deng Xinquan (resigned on 24 February 2021) | 2 | 14 |
| Luo Zhonglin | 2 | 12 |
| Fang Shang | 2 | 10 |
| Li Zhaohua | 2 | 7 |
| Sun Yi | 2 | 8 |
| Li Dong | 2 | 4 |
| Liu Mo (resigned on 28 August 2020) | 0 | 3 |
| Yang Xuemei (newly appointed on 15 October 2020) | 1 | 1 |

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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 laws, regulations and regulatory requirements including the Company Law of the People's Republic of China, the Reply of the State Council on the Adjustment of the Provisions Applicable to the Notice Period for the Convention of Shareholders' General Meeting for Overseas Listed Companies (Guo Han [2019] No.97) (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批復》(國函[2019]97號)), the Guidelines on the Corporate Governance of Commercial Banks (《商業銀行公司治理指引》), the Notice of the CBRC on Strengthening Management of Pledge of Equity Interest in Commercial Banks (Yin Jian Fa [2013] No. 43) (《中國銀監會關於加強商業銀行股權質押管理的通知》(銀監發[2013]43號)) and the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》), the Board passed relevant resolution on 30 March 2020. The Board intended to amend the notification date of written notice regarding the convene of general meeting and other matters. It is proposed to make further amendments to the Articles of Association which is currently in effect and the Articles of Association which came into effect after the issuance of offshore preference shares. Relevant resolutions on the amendments to the Articles of Association were considered and passed at the 2019 annual general meeting held on 15 May 2020. Pursuant to requirements of the Company Law of the People's Republic of China, the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), the Administrative Measures for the Related Party Transactions between the Commercial Banks and their Insiders or Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》), the Guidelines on the Corporate Governance of Commercial Banks (《商業銀行公司治理指引》), the Reply of the State Council on the Adjustment of the Provisions Applicable to the Notice Period for the Convention of Shareholders' General Meeting of Overseas Listed Companies (Guo Han [2019] No. 97) (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批復》(國函[2019]97號)) and the Notice of the CBRC on Strengthening Management of Pledge of Equity Interest in Commercial Banks (Yin Jian Fa [2013] No. 43) (《中國銀監會關於加強商業銀行股權質押管理的通知》(銀監發[2013]43號)), the Board passed relevant resolutions on 28 August 2020. The Board intended to amend the obligations of shareholders of the Company and other matters. It is proposed to make further amendments to the Articles of Association which is currently in effect. Relevant resolutions on the amendments to the Articles of Association were considered and passed at the 2020 first extraordinary general meeting held on 15 October 2020. The aforesaid amendments became effective on 23 December 2020 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.

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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) Due to the pandemic, the press conferences for 2019 annual results and 2020 interim results were held online in March 2020 and August 2020 respectively, attracting more than 100 analysts and investors to watch; (2) In 2020, the Bank published more than 100 news reports regarding investor relations on many domestic and overseas mainstream media, including Xinhua News Agency, People’s Daily Online, ifeng.com, Caijing.com, Sina Finance, Gelonghui, Bloomberg, Wind etc., thus effectively promoting the corporate image and further enhancing market attention and influence of the Bank; (3) The Bank timely responded to the questions and recommendations from investors through various channels, including answering over 100 calls from investors, replying numerous e-mail enquiries from investors and analysts, and arranging meetings between investors and the Bank.

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

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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.

Corporate Governance Report

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 318 of the Articles of Association, the profits after income tax paid by the Company shall be distributed in the following order:
 - (1) To make up the losses of the previous years;
 - (2) To extract ten percent (10%) of the statutory accumulation fund;
 - (3) To extract fund for general (risk) preparation;
 - (4) To extract the any accumulation fund by the resolutions of shareholders' general meeting; and
 - (5) To distribute profits to shareholders.

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

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

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

- (II) Pursuant to Article 321 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 321 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.

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- (IV) Pursuant to Article 121(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 2020 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 2020, the Company paid RMB5.000 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.

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 2020 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.

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(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 2020 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

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- 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.

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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, compliance risk, operation risk, legal risk and reputation risk, and basically established a comprehensive risk management system which is suitable for the Company through years of efforts. Major risk exposures, such as credit risk, market risk, liquidity risk, compliance risk, operation 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, internal assessment model for retail and non-retail business, branch transformation, team service model transformation for corporate clients, credit approval model transformation, data management and smart risk control. Hence, the standard of delicacy management for risk assessment greatly improved.

Secondly, the Company adhered to its principles in full coverage, balancing, prudence and conformity to establish a comprehensive internal control system, which formulated comprehensive, systematic and standardized 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.

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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 information exchanging within the Bank, 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 compliance awareness and capacity of internal control performance among employees at all levels. 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 constantly 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.

Corporate Governance Report

During the Reporting Period, the internal audit department of the Company proactively complied with and implemented regulatory rules. Conforming to 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.

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I. Meeting of the Board of Supervisors

In 2020, the Board of Supervisors held 6 meetings, at which 24 proposals and reports were considered and approved, namely the 2019 Work Report of Board of Supervisors, the 2020 Work Plan of Board of Supervisors, the Amendments of the Rules of the Election of the Supervisors of Harbin Bank Co., Ltd., the Amendments of the Measures for the Evaluation by the Board of Supervisors on Duty Performance of Directors of Harbin Bank Co., Ltd., the Amendments of the Measures for the Evaluation of Duty Performance of Senior Management and its Members of Harbin Bank Co., Ltd., the 2019 Profit Distribution Plan, the 2019 Annual Report, the 2019 Internal Capital Adequacy Evaluation Procedure Report of Harbin Bank, the Evaluation Report of 2016-2020 Strategic Development Plan of Harbin Bank (Group) (Revised Edition), the Audit Report on the Economic Responsibility of Mr. He Dongbo in respect of his Resignation, the Evaluation Report on the Performance of the Board and the Directors in 2019 Issued by the Board of Supervisors, the Evaluation Report on the Performance of Senior Management and its Members in 2019 Issued by the Board of Supervisors, the Evaluation Report on the Performance of the Board of Supervisors and the Supervisors in 2019, the Proposal on the Remuneration Distribution Plan for the Chairman of the Board of Supervisors for 2019, the Proposal on the 2019 Internal Control Evaluation Report of Harbin Bank, the Resignation of Mr. Liu Mo as Shareholder Representative Supervisor, the Nomination of Candidate for Shareholder Representative Supervisor, the Proposal on the Changes of Members of the Special Committees under the Board of Supervisors, Archives Management Measures of the Board of Supervisors of Harbin Bank Co., Ltd. (For Trial Implementation).

II. Major Work of the Board of Supervisors

(I) System Establishment

During the Reporting Period, the Board of Supervisors comprehensively streamlined its working mechanism for systematic improvements in accordance with regulatory requirements. Firstly, the Board of Supervisors arranged the formulation of the administrative measures on the supervision for the performance of the Board of Supervisors and the administrative measures on internal control and risk management supervision of the Board of Supervisors in accordance with the Articles of Association and relevant laws and regulations, which clarified the details and methods of supervision, and optimized the supervision work system. Secondly, the Board of Supervisors, in compliance with national archives management standards and the archive management requirements of Bank and based on the actual work of the Board of Supervisors, formulated the measures on archives management of the Board of Supervisors, which clarified the contents of various work files, standardized file management, established and improved performance files, and comprehensively recorded duty performance of Directors, Supervisors and senior management. Thirdly, the Board of Supervisors revised the measure on election of Supervisors, which further clarified the conditions for election of Supervisors to ensure the structure of the Board of Supervisors is more scientific and reasonable, and enhance the independence of the Board of Supervisors in performing duties.

(II) 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.

Report of the Board of Supervisors

During the Reporting Period, the Board of Supervisors conducted 19 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, the implementation of regulatory opinions and relevant rectification measures adopted by these institutions, as well as the risk control and the development of key businesses of these institutions. 19 meeting minutes were formed and 1 special research report was compiled, containing 132 proposals on risk prevention measures, compliance and internal control management, leadership team building, 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.

(III) Performance Supervision

During the Reporting Period, the Board of Supervisors continued to supervise the performance of the Board and the senior management and its members, prepare reports and submit them to the general meeting and regulatory authorities in accordance with the Articles of Association and 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 established sound duty performance filing, recorded the performance of the Board, senior management and its members, thus providing detailed basis for the annual performance evaluation work, enhancing the objectivity of the evaluation results, and further strengthening the performance evaluation work of the Board of Supervisors.

(IV) 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 suggestions and comments on strategic positioning, risk management and control, performance assessment, 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. The Board of Supervisors continuously implemented the supervision of finance, comprehensive risk management and internal control.

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(V) Self-enrichment

Firstly, the Board of Supervisors maintained a stable supervisory structure. During the Reporting Period, Mr. Liu Mo resigned from a shareholder representative Supervisor due to job changes. The Board of Supervisors organized and standardized the election of a new external Supervisor in a timely manner to ensure the stability of the supervisory structure and the good operation of the Board of Supervisors. Secondly, the Board of Supervisor organized special investigation and research. During the Reporting Period, the Supervisors of the Bank completed the “Research Report on the Group Management Model of Internal Control and Compliance of Harbin Bank”, so as to ensure the effectiveness of supervisory works while providing suggestions for the development of the Group. Thirdly, the Board of Supervisors strengthened file management, carefully sorted out the work of the current Board of Supervisors, organized work files, and greatly improved the level of trace management. Fourthly, the Board of Supervisors strengthened the training of Supervisors. The Board of Supervisors purchased professional books including the “Commercial Bank Business and Operation” and the “Work Guidelines for Supervisory Boards of Listed Companies” for Supervisors, organized seminars on regulatory requirements, relevant national laws and regulations for Supervisors in order to let them understand the spirit of supervision and clarify their responsibilities. The Board of Supervisors also invited internal control experts from Deloitte to conduct the “Special Training on Internal Control of Commercial Banks” for Supervisors, and arranged Supervisors to participate in the “Special Training on Corporate Governance” organized by the Board of Directors of the Bank to continuously improve the theoretical level of Supervisors and their ability to perform duties. Fifthly, the Board of Supervisors strengthened the quantitative management of Supervisors’ performance of duties, conducted detailed assessments of meeting attendance, performance time, and opinions expressed, mobilized the initiative and enthusiasm of Supervisors to perform their duties, and promoted the supervision of Supervisors to be closer to reality and concerns. Moreover, the suggestions put forward were more pertinent and effective, and performance efficiency was significantly improved.

By Order of the Board of Supervisors

Wang Haibin

Chairman of the Board of Supervisors

Harbin, PRC
31 March 2021

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 Issuance

1. 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 Licence [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 as "16 Harbin Bank Tier-2" (bond code: 1620026).

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2. *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 Licence [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. has 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), and its principal and interests were due and paid on 11 April 2020. The 2017 second tranche of green financial bonds (Category I) of Harbin Bank Co., Ltd. has 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), and its principal and interests were due and paid on 10 May 2020. The 2017 second tranche of green financial bonds (Category II) of Harbin Bank Co., Ltd. has an issuance size of RMB1.0 billion with a term of five years. The coupon rate is 4.75% and the interest is calculated annually at a fixed rate. Its short name is "17 Harbin Bank Green Finance 03" (bond code: 1720022).

3. *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., as the shareholders of HB Leasing, considered and unanimously approved the Proposal on the Issuance of the Second Tranche of Financial Bonds at the 2018 second extraordinary general meeting of shareholders.

HB Leasing obtained the consent and approval 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 RMB10.0 Billion Non-capital Financial Bonds, pursuant to which the 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 RMB15.0 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, upon approval 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 for 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 series of the capital bonds without a fixed term then issued and outstanding. After receiving the interests at the prescribed interest rate, the holders of the capital supplemental bonds shall not be entitled to any distribution of residual profits of the Company together with the ordinary shareholders. Relevant matters in respect of the proposed issuance of the capital supplemental bonds by the Company were disclosed in the circular dated 6 April 2018 and the announcement dated 18 May 2018 of the Company. The Bank received the Approval of Heilongjiang Regulatory Bureau of the CBIRC for Harbin Bank to Issue the Capital Bonds Without a Fixed Term (Hei Yin Bao Jian Fu [2021] No. 44) on 5 February 2021, approving the Bank’s issuance of capital bonds without a fixed term in an amount not more than RMB15 billion, which shall be included in additional tier 1 capital according to relevant regulations.

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3. According to the resolution 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 bonds will be used in the investment in agriculture and greening projects.
4. According to the resolutions of the 18th meeting of the seventh session of the Board held on 30 March 2020 and the 2019 annual general meeting of the Company held on 15 May 2020, the Board and the general meeting of the Company approved the Proposal on the Issuance of Eligible Tier-2 Capital Instruments, pursuant to which the Company was approved to issue eligible tier-2 capital instruments of not more than RMB20.0 billion by way of public issuance. The bonds will have a term of ten years, and the issuer may redeem the bonds at the end of the fifth year subject to certain conditions. The interest rate of the bonds is fixed, which will be determined through book building or other means. The proceeds raised from the issuance of bonds will be fully used to replenish the tier-2 capital of the Company pursuant to applicable laws and as approved by regulatory authorities.

II. Proposed Non-Public Issuance of Offshore Preference Shares

The Proposal on the Non-Public Issuance of Offshore Preference Shares was considered and approved at the 12th meeting of the Sixth Session of the Board of the Company held on 15 December 2016. The Proposal on the Non-Public Issuance of Offshore Preference Shares by the Bank and the Proposal on the Authorization to the Board and the Personals Authorized by the Board to Deal with All Matters Relating to the Issuance of Offshore Preference Shares were 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 (the "**Offshore Preference Shares**") to raise proceeds not exceeding RMB8.0 billion or its equivalent for the replenishment of additional tier 1 capital of the Company. Subsequently, the validity periods of the relevant shareholders' resolutions and the issuance plan in relation to the issuance of the Offshore Preference Shares, as well as the authorisation granted by the shareholders' general meeting to the Board and the persons authorised by the Board to deal with all matters relating to the issuance of Offshore Preference Shares (the "**Authorisation**") were approved to be extended at the 2017, 2018 and 2019 annual general meetings and relevant class meetings. As at the date of this report, the extended validity period of each of the issuance plan of the Offshore Preference Shares and relevant shareholders' resolutions and the Authorisation as approved by the Shareholders is 12 months from the date of being approved at the 2019 annual general meeting, i.e. from 15 May 2020 to 14 May 2021. For details of the proposed non-public issuance of Offshore Preference Shares, please refer to the circulars of the Company dated 23 December 2016, 6 April 2018, 1 April 2019 and 30 March 2020.

Important Events

The Proposal on Issuance of Not More Than RMB15.0 Billion Capital Supplemental Bonds was considered and approved at the 2017 annual general meeting of the Company held on 18 May 2018, pursuant to which, approval has been granted to the Company to issue not more than RMB15.0 billion capital supplemental bonds (the **“Capital Supplemental Bonds”**) by way of public or non-public issuance for the replenishment of additional Tier-1 capital of the Company. The validity period of the issuance plan of the Capital Supplemental Bonds is 36 months from the date of being approved at the 2017 annual general meeting, i.e. from 18 May 2018 to 17 May 2021. In accordance with relevant laws, regulations and regulatory policies, the issuance of the Capital Supplemental Bonds by the Company is still subject to the approvals by the Heilongjiang Bureau of the CBIRC and the People’s Bank of China. Given the capital supplemental bonds and the preference shares are both additional tier-1 capital instruments with similar capital supplemental effects, and the issuance of capital supplemental bonds has the advantages of shorter approval process and lower interest cost and issuance cost as compared with the issuance of offshore preference shares, capital supplemental bonds have become the preferred choice of commercial banks to replenish additional tier-1 capital. In addition, the amount of Capital Supplemental Bonds proposed to be issued by the Company is sufficient to fill in the gap of additional tier-1 capital. As such, after due consideration, the Company will replenish additional tier-1 capital by issuing Capital Supplemental Bonds instead of Offshore Preference Shares at the present stage. The Board has decided at a meeting held on 28 August 2020 (i) to formally withdraw the Company’s application for non-public issuance of Offshore Preference Shares from the CSRC; and (ii) to authorise the Chairman or the persons authorised by the Chairman to deal with all matters relating to the withdrawal of application for non-public issuance of Offshore Preference Shares (including but not limited to drafting, determining, signing and executing documents relating to the withdrawal of application for non-public issuance of Offshore Preference Shares, publishing relevant announcements, etc.), with a validity period from the date of being approved by the Board to the date of completion of the withdrawal of application for non-public issuance of Offshore Preference Shares.

III. Material Legal Proceedings and Arbitrations

As at the end of the Reporting Period, the amount involved in significant outstanding legal proceedings against the Bank (as a defendant or a third party defendant) amounted to RMB21 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.

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VI. Audit Review

The Bank's consolidated financial statements for the year ended 31 December 2020 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 2020 had been reviewed by the Audit Committee of the Board and the Board of Directors.

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 2019 Profit Distribution Plan was considered and approved at the 2019 annual general meeting held on 15 May 2020, pursuant to which, the Company proposed to distribute final cash dividend for 2019 of RMB0.10 per share (tax inclusive) to all shareholders. The payment of dividends was completed on 15 July 2020, except for dividends that have not yet been collected by certain domestic shareholders. The Company did not distribute any interim dividend for the six months ended 30 June 2020.

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 2020 was considered and approved at the 2019 annual general meeting of the Company held on 15 May 2020.

X. Subsequent Material Events

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

Basic Information on Directors, Supervisors, Senior Management, Employees and Organisations

I. Incumbent Directors, Supervisors and Senior Management

Directors

| Name | Gender | Age | Position | Term of office |
|---------------|--------|-----|------------------------------------------------------|------------------------------------------------------|
| Deng Xinquan | Male | 56 | Executive Director and Chairman of the Board | 2021.3.10 – expiry of Eighth Session of the Board |
| Lyu Tianjun | Male | 54 | Executive Director and President | 2021.2.24 – expiry of Eighth Session of the Board |
| Sun Feixia | Female | 50 | Executive Director and Vice Chairman of the Board | 2021.2.24 – expiry of Eighth Session of the Board |
| Zhao Hongbo | Male | 52 | Non-Executive Director | 2021.2.24 – expiry of Eighth Session of the Board |
| Zhang Xianjun | Male | 46 | Non-Executive Director | 2021.2.24 – expiry of Eighth Session of the Board |
| Yu Hong | Male | 57 | Non-Executive Director | 2021.2.24 – expiry of Eighth Session of the Board |
| Lang Shufeng | Male | 50 | Non-Executive Director | 2021.2.24 – expiry of Eighth Session of the Board |
| Zhang Zheng | Male | 48 | Independent Non-Executive Director | 2021.2.24 – expiry of Eighth Session of the Board |
| Sun Yan | Male | 52 | Independent Non-Executive Director | 2021.2.24 – expiry of Eighth Session of the Board |
| Hou Bojian | Male | 61 | Independent Non-Executive Director | 2021.2.24 – expiry of Eighth Session of the Board |
| Jin Qinglu | Male | 48 | Independent Non-Executive Director | 2021.3.25 – expiry of Eighth Session of the Board |

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Supervisors

| Name | Gender | Age | Position | Term of office |
|--------------|--------|-----|-----------------------------------------------------------------------------|------------------------------------------------------------------|
| Wang Haibin | Male | 51 | Chairman of the Board of Supervisors and Employee Representative Supervisor | 2021.2.24 – expiry of Eighth Session of the Board of Supervisors |
| Luo Zhonglin | Male | 55 | Employee Representative Supervisor | 2021.2.24 – expiry of Eighth Session of the Board of Supervisors |
| Fang Shang | Male | 49 | Employee Representative Supervisor | 2021.2.24 – expiry of Eighth Session of the Board of Supervisors |
| Yang Xuemei | Female | 49 | Shareholder Representative Supervisor | 2021.2.24 – expiry of Eighth Session of the Board of Supervisors |
| Li Dong | Male | 62 | External Supervisor | 2021.2.24 – expiry of Eighth Session of the Board of Supervisors |
| Li Zhaohua | Female | 55 | External Supervisor | 2021.2.24 – expiry of Eighth Session of the Board of Supervisors |
| Sun Yi | Male | 50 | External Supervisor | 2021.2.24 – expiry of Eighth Session of the Board of Supervisors |

Senior Management

| Name | Gender | Age | Position | Term of office |
|-------------|--------|-----|----------------------------------------------------------------------------------------------|---------------------------------------------------|
| Lyu Tianjun | Male | 54 | Executive Director and President | 2021.2.24 – expiry of Eighth Session of the Board |
| Sun Feixia | Female | 50 | Executive Director, Vice Chairman of the Board, Secretary of the Board and Company Secretary | 2021.2.24 – expiry of Eighth Session of the Board |
| Zhou Jie | Female | 46 | Assistant to the President | 2021.2.24 – expiry of Eighth Session of the Board |
| Qi Yilei | Male | 49 | Chief Credit Approval Officer | 2021.2.24 – expiry of Eighth Session of the Board |
| Yang Dazhi | Male | 44 | Assistant to the President | 2021.2.24 – expiry of Eighth Session of the Board |
| Wang Ying | Female | 49 | Chief Audit Officer | 2021.2.24 – expiry of Eighth Session of the Board |
| Gong Tiemin | Male | 45 | Chief Risk Officer | 2021.2.24 – expiry of Eighth Session of the Board |
| Liang Yong | Male | 49 | Chief Information Officer | 2021.2.24 – expiry of Eighth Session of the Board |

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II. Information on Remuneration Paid to Directors, Supervisors and Senior Management of the Bank for 2020

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 2020 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 | 5 |
| RMB2,000,001 to RMB2,500,000 | 2 |
| RMB2,500,001 to RMB3,000,000 | 1 |
| RMB3,000,001 and above | 2 |

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

(I) Information on Directors

Executive Directors

Mr. Deng Xinquan (鄧新權), has been an executive Director, chairman of the Board and the legal representative of the Company since March 2021, and the secretary of the Party Committee of the Company since October 2020. Mr. Deng has served as the chairman of the Board of Supervisors and the employee representative Supervisor of the Company from May 2018 to February 2021. From November 2007 to May 2018, Mr. Deng was a member of the Party Committee and deputy director of Heilongjiang Office of the China Banking Regulatory Commission (CBRC). From August 2006 to November 2007, he was the director of the office (office of the Party Committee) of Heilongjiang Office of the CBRC. From December 2003 to August 2006, he was the head of the preparation team, secretary to the Party Committee and director of Daqing Branch of the CBRC. From June 1997 to December 2003, he was a deputy head of the rural cooperative finance management division of Heilongjiang Provincial Branch of People's Bank of China (PBOC), deputy head and head of the second bank supervision division of Shenyang Branch of the PBOC, head of the joint-stock commercial bank supervision division of Shenyang Branch of the PBOC, 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 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 currently a senior economist as accredited by the Evaluation Committee of Senior Professional Qualification in Economics of the PBOC.

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Mr. Lyu Tianjun (呂天君), has been the president and an executive Director of the Company since July 2018, and the secretary of the Party Committee and the chairman of Harbin Bank Financial Leasing Co., Ltd. (哈銀金融租賃有限責任公司) since June 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. 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. 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 currently 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, and a director of Beijing Huairou Rongxing Village and Township Bank Co., Ltd. (北京懷柔融興村鎮銀行有限責任公司) since July 2018. Ms. Sun has served as the secretary of the Board of the Company since January 2015 and as the company secretary of the Company since January 2014. From July 1997 to July 2020, 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, the general manager of the Board Office, general manager of the Investment Management Office and joint company secretary of the Company. 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. 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 is currently a senior economist as accredited by the Personnel Department of Heilongjiang Province.

Non-executive Directors

Mr. Zhao Hongbo (趙洪波), has been a non-executive Director of the Company since November 2020. He has served as secretary of the Party Committee and the chairman of Harbin Investment Group Corporation Limited (哈爾濱投資集團有限責任公司) since February 2017; the chairman and a director of Harbin Hatou Investment Co., Ltd. (stock code: 600864.SH) since May 2017; the chairman of Harbin Binxi Railway Co., Ltd. (哈爾濱賓西鐵路有限公司) since June 2017; the secretary of the Party Committee of Jianghai Securities Co., Ltd. since July 2017; and the chairman of Jianghai Securities Co., Ltd. since April 2018. Mr. Zhao served as the general manager, deputy secretary of the Party Committee, chairman and secretary of the Party Committee of Harbin Transportation Group Co., Ltd. (哈爾濱交通集團有限公司) from April 2013 to February 2017; the deputy general manager and a member of the Party Committee of the General Office of Harbin Municipal People's Government from December 2002 to April 2013; the headmaster of Heilongjiang Transportation Cadre School (黑龍江省交通幹部學校) from May 2001 to December 2002; the deputy general manager (deputy division head level) and general manager (division head level) of Heilongjiang Provincial Transportation Information and Communication Center (黑龍江省交通信息通信中心) from March 1997 to

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May 2001; the deputy general manager of the office of Heilongjiang International Exhibition Center (黑龍江國際博覽中心) from October 1995 to March 1997; and a cadre of the Heilongjiang Border Economic and Trade Administration (黑龍江省邊境經濟貿易管理局) from September 1991 to October 1995. Mr. Zhao received a Doctor's degree in Agricultural Economic Management from Northeast Agricultural University in June 2004, and is currently a senior engineer as accredited by the Personnel Department of Heilongjiang Province.

Mr. Zhang Xianjun (張憲軍), has been a non-executive Director of the Company since November 2020. Mr. Zhang has served as the vice chairman and general manager of Harbin Hatou Investment Co., Ltd. (stock code: 600864.SH) since January 2021; an executive director and the general manager of Harbin Economic Development and Investment Company Limited since December 2019; the authorised representative of Shenzhen Zhongrong Hatou Bail-out Investment Partnership (Limited Partnership) (深圳中融哈投紓困投資合夥企業(有限合夥)) since November 2019; a shareholder of Ningbo Jinxiang Qianyi Investment Partnership (Limited Partnership) (寧波錦享謙溢投資合夥企業(有限合夥)) with 39.93% equity interests since March 2018; an director of Harbin Hatou Hengtai Investment Management Co., Ltd. (哈爾濱哈投恒泰投資管理有限公司) since January 2018; a director of Harbin Hatou Investment Co., Ltd. (stock code: 600864.SH) since November 2016; a director of Heilongjiang Jinxin Financial Leasing Co., Ltd. (黑龍江金信融資租賃有限公司) since August 2015; a director of each of Zhongrong International Trust Co., Ltd. and Jianghai Securities Co., Ltd. since December 2014; the vice chairman, a director and the deputy general manager of Harbin Junxin Financing Guarantee Co., Ltd. (stock code: 430558.OC) since August 2014. Mr. Zhang served as the general manager of Harbin Economic Development and Investment Company (now Harbin Economic Development and Investment Company Limited) from October to December in 2019; the head of the financial asset management department of Harbin Investment Group Corporation Limited from July 2014 to January 2021; an officer of the long-term development planning division, secretary of the office, secretary of the Youth League Committee, the deputy general manager and officer (ministerial level) of Harbin Investment Group Corporation Limited from April 2004 to June 2014; and a technician, a staff member of the Youth League Committee and the general manager of the labor union of Harbin Cement Factory (哈爾濱水泥廠) from August 1995 to March 2004. Mr. Zhang received a Master's degree in Business Administration from Harbin Engineering University in June 2009, and is currently a senior economist as accredited by the Personnel Department of Heilongjiang Province.

Mr. Yu Hong (于宏), has been a non-executive Director of the Company since November 2020. Mr. Yu has served as the secretary of the Party Committee and chairman of Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司) since January 2019; and a director of Longjiang Bank Corporation since October 2019. Mr. Yu was the deputy inspector, deputy director general and a member of the Party Committee of the Department of Finance of Heilongjiang Province from January 2011 to January 2019; the associate chief officer, chief officer and deputy head of the agriculture division and the head of the treasury division and concurrently the general manager of the financial treasury payment center of the Department of Finance of Heilongjiang Province from June 1990 to January 2011; and an officer and associate chief officer of the Aquatic Products Bureau of Heilongjiang Province from September 1983 to June 1990. Mr. Yu graduated from the Party School of Heilongjiang Province majoring in economic management in February 1992.

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Mr. Lang Shufeng (郎樹峰), has been a non-executive Director of the Company since November 2020. Mr. Lang has served as the deputy secretary of the Party Committee and general manager of Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司) since June 2019. Mr. Lang served as the deputy secretary of the Party Committee, president, the secretary of the Party Committee and the chairman of Heilongjiang Xinzheng Investment Guarantee Group Co., Ltd. (黑龍江省鑫正投資擔保集團有限公司) from October 2010 to December 2019; the assistant to the general manager, executive deputy general manager and general manager of Heilongjiang Xinzheng Investment Guarantee Co., Ltd. (黑龍江省鑫正投資擔保有限責任公司) from October 2000 to October 2010; the manager of the investment department and the manager of the corporate management department of Heilongjiang Economic and Trade Development Group Corporation (黑龍江省經濟貿易開發集團總公司) from July 1996 to October 2000; the manager (temporary post) of a Sino-US joint venture Wudalianchi Wuhuan Mineral Water Company (五大連池五環礦泉水公司) from June 1995 to July 1996; and an officer of Heilongjiang Economic Development Company (黑龍江省經濟開發公司) from July 1993 to June 1995. Mr. Lang received an EMBA degree from Harbin Institute of Technology in April 2005, and is currently a senior accountant (researcher-level) as accredited by the Heilongjiang Human Resources and Social Security Bureau.

Independent non-executive Directors

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. Mr. Sun worked as a director of Fangzhouedu Co., Ltd. (北京敏捷方舟科技有限公司) from July 2018 to September 2020; the vice chairman of Beijing Tianyuan Yutou Film Culture Media Co., Ltd. (北京天元芋頭影視文化傳媒有限公司) from June 2017 to August 2020 with 16.6667% equity interests; a supervisor of Beijing Greenwind Technology Co., Ltd. (北京格林新風科技有限公司) from July 2014 to July 2017; a director of Yunnan Jiusheng Farm Co., Ltd. (雲南九盛牧業有限公司) from September 2011 to March 2014; a supervisor of Beijing Orient Mingdao Public Relations Consulting Center (北京東方名道公共關係諮詢中心) from June 2004 to August 2020; a supervisor of Beijing Cina Digital Technology Research Institute Co., Ltd. (北京磁納數碼科技研究院有限公司) from March 2004 to October 2008; the chairman of Beijing Lele Online Entertainment Software Co., Ltd. (北京樂樂在線娛樂軟件有限公司) from September 2002 to April 2004; 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; the 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; the director of president office and concurrently general legal counsel of Beijing Lianbang Software Limited (北京連邦軟件有限公司) from January 1997 to December 1999; the 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; the manager of legal department of Beijing Kelihua Computer Limited (北京科利華計算機有限公司) 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 received 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.

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Mr. Zhang Zheng (張嶢), has been an independent non-executive Director of the Company since July 2018. Mr. Zhang has served as the deputy dean of Guanghua School of Management of Peking University since January 2020; the deputy director of the School Administration Committee of Guanghua School of Management of Peking University since December 2018; a professor and Ph.D. tutor of the Finance Department of Guanghua School of Management of Peking University since August 2016; executive director of the undergraduate and graduate programmes of Guanghua School of Management of Peking University since June 2014; the deputy department head of the Finance Department of Guanghua School of Management of Peking University since March 2011; an independent director of CCB Trust Co., Ltd. since July 2019; and a supervisor of China Cinda Asset Management Co., Ltd. since June 2016. Mr. Zhang served as a director of Guangdong Silver Age Sci & Tech Co., Ltd. (300221.SZ) from July 2017 to October 2018; a director of Zhejiang Jasan Holding Group Co., Ltd. (603558.SH) from May 2017 to December 2019; a director of Tianjin Guangyu Development Co., Ltd. (000537.SZ) from January 2016 to April 2018; an assistant dean of Guanghua School of Management of Peking University from June 2014 to January 2020; an assistant researcher, assistant professor, deputy professor and Ph.D. tutor of the Finance Department of Guanghua School of Management of Peking University from October 2000 to July 2016; 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. Hou Bojian (侯伯堅) (former name: Hou Bojian (侯柏堅)), with Hong Kong Chinese nationality, has been an independent non-executive Director of the Company since September 2019. Mr. Hou has been a managing director of Hong Kong HT Strategy Ltd. (香港匯通策略有限公司) since October 2011; a director and chairman of audit committee of the board of directors 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; and an executive director of Full Apex (Holdings) Limited (BTY.SG) 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, deputy general manager and chief financial officer of Guangdong Investment Limited (0270.HK) 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 (0124.HK, originally known as Guangdong Brewery Holdings Limited), a non-executive director of Guangdong Tannery Limited (1058.HK), a director of Hi Sun Technology (China) Limited (0818.HK, originally known as Guangdong Building Industries Limited), an executive director of Guangnan (Holdings) Limited (1203.HK), the chairman of the supervisory committee of Guangdong Teem (Holdings) Limited, a director of Hong Kong Baiyue Finance Limited (香港百粵金融財務有限公司), 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

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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 the 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 received his master's degree in economics from Jinan University in July 1988. He 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 was granted the title of accountant by Guangdong accountant professional title appraisal panel in October 1992.

Mr. Jin Qinglu (靳慶魯), has been an independent non-executive Director of the Company since March 2021. Mr. Jin has served as the dean of the School of Accountancy of Shanghai University of Finance and Economics since November 2018; a professor of the School of Accountancy of Shanghai University of Finance and Economics since June 2012; and an independent director of Orient Securities Company Limited (600958.SH; 03958.HK) since September 2017. Mr. Jin was an independent director of Shanghai Emperor of Cleaning Hi-tech Co., Ltd. (603200.SH) from October 2017 to October 2020; an independent director of China Grand Automotive Services Group Co., Ltd. (600297.SH) from July 2015 to December 2015; an independent director of Besttone Holding Co., Ltd. (600640.SH) from May 2014 to December 2015; an independent director of Shanghai SK Petroleum & Chemical Equipment Corporation Ltd. (002278.SZ) from November 2013 to November 2016; the vice dean of the School of Accountancy of Shanghai University of Finance and Economics from March 2015 to November 2018; the vice dean of the Institute of Accounting and Finance of Shanghai University of Finance and Economics from March 2014 to November 2018; an assistant professor and a vice professor in the School of Accountancy of Shanghai University of Finance and Economics from June 2005 to May 2012; and an assistant professor of Accounting Department of Xi'an Jiaotong University from March 1999 to June 2000. Mr. Jin received a doctorate degree from the Hong Kong University of Science and Technology in November 2005.

(II) Information on Supervisors

Mr. Wang Haibin (王海濱), has been the chairman of the Board of Supervisors and employee representative Supervisor of the Company since February 2021. From July 1997 to February 2021, 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, the president of the Bank's Harbin Branch, assistant to the president of the Company and executive vice president. 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 People's Bank of China (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.

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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.

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 (Customers' Rights and Interests Protection Department) of the Company since November 2013. Mr. Fang has been an arbitrator of the fifth session of committee of Harbin Arbitration Commission since September 2018. 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.

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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 Economy and Management of the Harbin Institute of Technology and Ph.D. tutor since July 2000. Mr. Li was a professor of the Faculty of Social Science of the Harbin University of Civil Engineering and Architecture from September 1997 to July 2000, an associate professor of the Faculty of Social Science of the Harbin University of Civil Engineering and Architecture from July 1996 to August 1997, an associate professor at the Harbin Administrative Cadre Institute of Economics from October 1989 to June 1996, a teaching assistant at the Harbin Forestry Machinery Factory Workers College from July 1982 to July 1986, an advisor to Harbin Longshang (Private Entrepreneur) Club (哈爾濱龍商(民營企業家)俱樂部) from October 2009 to October 2015, a corporate advisor and independent director at Heilongjiang Heli Group Construction and Engineering Co., Ltd. (黑龍江合利集團建築工程有限公司) from August 1999 to August 2012, an advisor to Harbin Xiangge Real Estate Co., Ltd. (哈爾濱祥閣置業有限公司) from September 2003 to August 2010, an advisor to Harbin Hexin Industry (Group) Co., Ltd. (哈爾濱和鑫實業(集團)有限公司) from August 2001 to August 2004, an advisor to Hongbo Trade City (紅博商貿城) and Honorary Vice President of the Marketing Research Association (市場營銷研究會) of Harbin Institute of Technology High-tech Enterprise Development Co., Ltd. (哈爾濱工大高新技術產業開發股份有限公司) from October 2000 to October 2002, an advisor to Harbin Duopeng Food Co., Ltd. (哈爾濱市多朋食品有限公司) and Harbin Manhattan Multi-Line Group Co., Ltd. (哈爾濱曼哈頓多元集團有限公司) from June 1999 to June 2001, an advisor to the Harbin International Golf Club and Harbin Amusement Park from October 1998 to October 2001, and a special visual commentator at Heilongjiang Broadcasting Television from August 2000 to August 2001. 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 and a Ph.D tutor at the Accounting School of Harbin University of Commerce since July 2005, an independent director of Harbin Pharmaceutical Group Co., Ltd. since January 2021, 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.

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Mr. Sun Yi (孫毅), has been an external Supervisor of the Company since May 2019. Mr. Sun has been a professor and master instructor 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. Mr. Sun obtained a doctorate degree in law from China University of Political Science and Law in June 2003, and obtained the practicing lawyer's license in May 1997.

Ms. Yang Xuemei (楊雪梅), has been a Shareholder representative Supervisor of the Company since October 2020. Ms. Yang has served as the deputy general manager and a supervisor of Harbin Heli Investment Holding Co., Ltd. (哈爾濱合力投資控股有限公司) since August 2018 and the chairman of Infrastructure Development and Construction Corporation of Harbin Economic and Technology Development Zone (哈爾濱經濟技術開發區基礎設施開發建設總公司) since December 2020. Ms. Yang was the chairman of Harbin Kaishengyuan Real Estate Co., Ltd. (哈爾濱凱盛源置業有限責任公司) from November 2017 to December 2020, the deputy general manager of Infrastructure Development and Construction Corporation of Harbin Economic and Technology Development Zone (哈爾濱經濟技術開發區基礎設施開發建設總公司) from August 2014 to August 2018, a staff and the deputy head of the engineering and technology department of Infrastructure Development and Construction Corporation of Harbin Economic and Technology Development Zone from May 2002 to August 2014, a supervisor of Aidi Engineering Construction Supervision Co., Ltd. of Harbin Economic and Technology Development Zone (哈爾濱經濟技術開發區愛迪工程建設監理有限責任公司) from April 2000 to May 2002, and a staff of design office of the infrastructure division and technical department of infrastructure company of Harbin No. 1 Machinery Manufacturer (哈爾濱第一機器製造廠) from July 1991 to April 2000. Ms. Yang received a college degree from Heilongjiang Institute of Construction Technology in July 2005, and is currently a senior engineer as accredited by the Personnel Department of Heilongjiang Province.

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(III) Information on Senior Management

Please refer to the section headed “Information on Directors” for introduction on Mr. Lyu Tianjun.

Please refer to the section headed “Information on Directors” for introduction on Ms. Sun Feixia.

Ms. Zhou Jie (周杰), has been an assistant to the president of the Company since July 2018; the Chinese secretary-general in the Sino-Russia Financial Council (Harbin) since October 2015; a secretary of the Party Committee of HBCF since January 2020; and the chairman of HBCF since February 2020. Ms. Zhou was the general manager of the Retail Finance Department of the Company from January 2018 to March 2020. 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. Qi Yilei (齊亦雷), has been the chief credit approval officer of the Company since July 2018. From February 2004 to July 2020, 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), general manager of the Interbank Business Review Department and the general manager of the Credit Granting Management Department. 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. Yang Dazhi (楊大治), has been an assistant to the president of the Company since July 2018. Mr. Yang worked consecutively as the deputy general manager of the Financial and Accounting Department and the general manager of the Asset and Liability Management Department of the Company from April 2015 to March 2020. 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 Chinese University of Hong Kong in August 2014. He is an assistant accountant as accredited by Industrial and Commercial Bank of China Limited.

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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. 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.

Mr. Gong Tiemin (龔鐵敏), has been the chief risk officer of the Company since July 2018. Mr. Gong worked consecutively as the deputy general manager (in charge of work) and general manager of Risk Management Department from April 2013 to July 2020 and deputy general manager of the Risk Management Department from July 2012 to April 2013. 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. Mr. Gong received a Master's degree in Industrial Economics from University of International Business and Economics in July 2004.

Mr. Liang Yong (梁勇), has been the chief information officer of the Company since October 2018. 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 and worked in the preparation and execution team of the same company from January 2017 to June 2017. 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. Liang 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, the executive Director, secretary of the Board and company secretary of the Company, please refer to "Information on Directors".

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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.

Basic Information on Directors, Supervisors, Senior Management, Employees and Organisations

VII. Employees

(I) Personnel Composition

As at 31 December 2020, the Company (excluding subsidiaries) had 6,992 employees, among which 1,120 were headquarters staff, accounting for 16.02% of the total, and 2,441 were Harbin Branch staff, accounting for 34.91% of the total. Regarding the age composition, the average age of employees of the Company is 35.92. 1,358 are between 21 and 30 years old, accounting for 19.42% of the total. Regarding the educational background composition, there are 6,284 employees with a bachelor's degree or above in the Company, accounting for 89.87% of the total. Regarding the number of years of services, the Company had 2,594 employees with 10 years or more banking experiences, accounting for 37.10% of the total. Staff turnover rate of the Company (excluding subsidiaries) was 2.76%. Key talents' turnover rate of the Bank was 0.28%.

Subsidiaries had 1,630 employees in total.

(II) Staff training Programmes

During the Reporting Period, the Bank, adhering to the work theme of "steady 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". We continued to advance the professional capabilities of the staff by initiating the "Ten Hundreds"(十個一百) construction project and creating the "embark, endure, guide, escort, voyage, cruise, pilot" (啟航、續航、導航、護航、遠航、巡航、領航) training system with online and offline integration for the continued creation of excellent training programs. Both training completion rate and coverage rate were 100%. In 2020, the Company (excluding subsidiaries) arranged 678 training sessions in total, including 470 internal training sessions, and 108 external training sessions for selected staff of the Company. The total training hours amounted to 3,210.

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(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, and continued to carry out the “Leaders” Training Program in 2020 to list the customer managers of the Company with “good moral character, professional capability, marketing results and performance” in the talent pool. We initiated the trainee assistant selection technology line with 8 trainee assistants in reserve and 5 appointed; thirdly, we 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 1,400 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 2020, staff costs of the Bank were RMB2,427 million.

(V) Retirement and Benefits

The Bank pays living expenses and other 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.

Basic Information on 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 | 132 sub-branches |
| 2 | Shuangyashan Branch | No. 248 Xinxing Street, Jianshan District, Shuangyashan | 12 sub-branches |
| 3 | Dalian Branch | 1-4/F, 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 | 1-4/F, No. 210 Xiyulong Street, Qingyang District, Chengdu | 12 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 | 14 sub-branches |
| 8 | Suihua Branch | Crossing of Huanghe North Road and Xinhua Street, Beilin District, Suihua | 10 sub-branches |
| 9 | Jixi Branch | No. 45 Xingdong Street, Jiguan District, Jixi | 11 sub-branches |
| 10 | Chongqing Branch | 1-6/F, No. 197 Wuyi Road, Yuzhong District, Chongqing | 21 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 | 8 sub-branches |
| 15 | Qiqihaer Branch | No. 33, 1/F, Unit 00, Qiqihaer Jinmao Plaza, 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 | |

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- 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 179 to 303, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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"). 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.

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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 2020, gross loans and financial investments at amortised cost amounted to RMB426,047 million, representing 71% of total assets, and impairment allowance for loans and financial investments at amortised cost amounted to RMB15,585 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 20, Note 22 and Note 48 to the consolidated financial statements.

We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems.

We adopted a risk-based sampling approach in our review procedure for loans and financial investments at amortised cost. We assessed the debtors' repayment capacity and evaluated the Group's grading for loans and financial investments at amortised cost, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.

With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects:

1. Expected credit loss model:

- Assessed the rationality of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and significant 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.

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| <u>Key audit matter (continued)</u> | <u>How our audit addressed the key audit matter (continued)</u> |
|-------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Impairment assessment of loans and advances to customers and financial investments at amortised cost (continued) | <div>2. Design and operating effectiveness of key controls:<ul style="list-style-type: none">• 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.</div> <p>We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.</p> |

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Key audit matter (continued)

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 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 2020, the balance of unconsolidated wealth management products managed by the Group was RMB52,986 million, and the amount of investments in unconsolidated structured entities invested by the Group was RMB137,453 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 44 to the consolidated financial statements.

How our audit addressed the key audit matter (continued)

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 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.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by 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.

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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, actions taken to eliminate threats or safeguards applied.

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
31 March 2021

Consolidated Statement of Profit or Loss

For The Year Ended 31 December 2020
(In RMB thousands, unless otherwise stated)

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| | Note | Years ended 31 December | |
|--------------------------------------|------|-------------------------|--------------|
| | | 2020 | 2019 |
| Interest income | 5 | 29,003,891 | 29,280,761 |
| Interest expense | 5 | (16,694,713) | (17,585,533) |
| NET INTEREST INCOME | 5 | 12,309,178 | 11,695,228 |
| Fee and commission income | 6 | 1,110,720 | 1,618,358 |
| Fee and commission expense | 6 | (230,713) | (251,909) |
| NET FEE AND COMMISSION INCOME | 6 | 880,007 | 1,366,449 |
| Net trading income | 7 | 1,200,005 | 1,486,496 |
| Net gain on financial investments | 8 | 216,924 | 432,305 |
| Other operating income, net | 9 | 226 | 143,922 |
| OPERATING INCOME | | 14,606,340 | 15,124,400 |
| Operating expenses | 10 | (4,895,987) | (5,153,006) |
| Credit impairment losses | 13 | (8,301,465) | (5,180,902) |
| OPERATING PROFIT | | 1,408,888 | 4,790,492 |
| PROFIT BEFORE TAX | | 1,408,888 | 4,790,492 |
| Income tax expense | 14 | (613,056) | (1,155,415) |
| PROFIT FOR THE YEAR | | 795,832 | 3,635,077 |
| Attributable to: | | | |
| Owners of the parent | | 745,676 | 3,558,447 |
| Non-controlling interests | | 50,156 | 76,630 |
| | | 795,832 | 3,635,077 |
| EARNINGS PER SHARE (RMB yuan) | | | |
| Basic and diluted | 17 | 0.07 | 0.32 |

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 2020
(In RMB thousands, unless otherwise stated)

| | Note | Years ended 31 December | |
|--------------------------------------------------------------------------------------------------------------------------------|------|-------------------------|-----------|
| | | 2020 | 2019 |
| Profit for the year | | 795,832 | 3,635,077 |
| Other comprehensive income, net of tax: | | | |
| Other comprehensive income attributable to owners of the parent | 39 | (223,442) | (31,358) |
| 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 | | 45,982 | 5,912 |
| Items that may be reclassified to profit or loss in subsequent years | | | |
| – Net losses on investments in debt instruments measured at fair value through other comprehensive income | | (298,204) | (86,080) |
| – Allowance for credit impairment on investments in debt instruments measured at fair value through other comprehensive income | | 28,780 | 48,810 |
| Subtotal of other comprehensive income for the year, net of tax | | (223,442) | (31,358) |
| Total comprehensive income for the year | | 572,390 | 3,603,719 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | 522,234 | 3,527,089 |
| Non-controlling interests | | 50,156 | 76,630 |
| Total | | 572,390 | 3,603,719 |

Consolidated Statement of Financial Position

As At 31 December 2020

(In RMB thousands, unless otherwise stated)

Directors, Supervisors, Senior
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| | | As at 31 December | |
|------------------------------------------------------------------------|------|--------------------|--------------------|
| | Note | 2020 | 2019 |
| ASSETS | | | |
| Cash and balances with the central bank | 18 | 62,771,096 | 52,282,319 |
| Due from banks and other financial institutions | 19 | 6,206,118 | 3,731,686 |
| Loans and advances to customers | 20 | 272,350,602 | 258,496,366 |
| Derivative financial assets | 21 | 16,395 | 28,521 |
| Financial investments | 22 | 216,849,308 | 231,843,228 |
| – financial assets at fair value through profit or loss | (a) | 53,573,633 | 59,606,966 |
| – financial assets at fair value through other comprehensive income | (b) | 20,152,230 | 26,727,296 |
| – financial assets at amortised cost | (c) | 143,123,445 | 145,508,966 |
| Finance lease receivables | 23 | 23,089,177 | 23,124,389 |
| Property and equipment | 24 | 9,098,535 | 8,947,322 |
| Deferred income tax assets | 25 | 3,743,549 | 2,638,284 |
| Other assets | 26 | 4,478,837 | 1,997,323 |
| TOTAL ASSETS | | 598,603,617 | 583,089,438 |
| LIABILITIES | | | |
| Due to the central bank | 27 | 3,639,219 | 3,603,534 |
| Borrowings from banks and other financial institutions | 28 | 9,847,931 | 13,053,570 |
| Due to banks | 29 | 15,921,469 | 12,564,272 |
| Derivative financial liabilities | 21 | 16,395 | 26,881 |
| Repurchase agreements | 30 | 1,499,442 | 18,361,742 |
| Due to customers | 31 | 476,333,139 | 431,361,665 |
| Income tax payable | | 885,597 | 830,391 |
| Debt securities issued | 32 | 33,575,110 | 45,962,823 |
| Other liabilities | 33 | 5,776,183 | 5,683,396 |
| TOTAL LIABILITIES | | 547,494,485 | 531,448,274 |

Consolidated Statement of Financial Position

As At 31 December 2020
(In RMB thousands, unless otherwise stated)

| | | As at 31 December | |
|---------------------------------------------|------|--------------------|-------------|
| | Note | 2020 | 2019 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 34 | 10,995,600 | 10,995,600 |
| Capital reserves | 35 | 7,661,124 | 7,663,342 |
| Other comprehensive income | 39 | 96,484 | 319,926 |
| Surplus reserves | 36 | 3,886,909 | 3,782,467 |
| General and regulatory reserves | 37 | 7,550,747 | 7,520,778 |
| Undistributed profits | 38 | 19,056,263 | 19,544,558 |
| | | 49,247,127 | 49,826,671 |
| Non-controlling interests | | 1,862,005 | 1,814,493 |
| TOTAL EQUITY | | 51,109,132 | 51,641,164 |
| TOTAL EQUITY AND LIABILITIES | | 598,603,617 | 583,089,438 |

DENG Xinquan

Chairman

LYU Tianjun

President

YANG Dazhi

Assistant to the President
(in Charge of Finance)

CHEN Liyang

General Manager of Finance
and Accounting Department

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2020
(In RMB thousands, unless otherwise stated)

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| | Equity attributable to owners of the parent | | | | | | | Total |
|---------------------------------------------------------|---------------------------------------------|------------------|----------------------------|------------------|---------------------------------|-----------------------|---------------------------|-------------|
| | Share capital | Capital reserves | Other comprehensive income | Surplus reserves | General and regulatory reserves | Undistributed profits | Non-controlling interests | |
| Balance as at 1 January 2020 | 10,995,600 | 7,663,342 | 319,926 | 3,782,467 | 7,520,778 | 19,544,558 | 1,814,493 | 51,641,164 |
| Movements during the year | - | (2,218) | (223,442) | 104,442 | 29,969 | (488,295) | 47,512 | (532,032) |
| Total comprehensive income | - | - | (223,442) | - | - | 745,676 | 50,156 | 572,390 |
| Profit distribution | - | - | - | 104,442 | 29,969 | (1,233,971) | (4,862) | (1,104,422) |
| 1. Appropriation to surplus reserves | - | - | - | 104,442 | - | (104,442) | - | - |
| 2. Appropriation to general and regulatory reserves (i) | - | - | - | - | 29,969 | (29,969) | - | - |
| 3. Distribution to shareholders | - | - | - | - | - | (1,099,560) | (4,862) | (1,104,422) |
| Others | - | (2,218) | - | - | - | - | 2,218 | - |
| Balance as at 31 December 2020 | 10,995,600 | 7,661,124 | 96,484 | 3,886,909 | 7,550,747 | 19,056,263 | 1,862,005 | 51,109,132 |

(i) Includes the appropriation made by subsidiaries in the amount of RMB29,969 thousand.

| | Equity attributable to owners of the parent | | | | | | | Total |
|---------------------------------------------------------|---------------------------------------------|------------------|----------------------------|------------------|---------------------------------|-----------------------|---------------------------|------------|
| | Share capital | Capital reserves | Other comprehensive income | Surplus reserves | General and regulatory reserves | Undistributed profits | Non-controlling interests | |
| 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 during the 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.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2020
(In RMB thousands, unless otherwise stated)

| | | Years ended 31 December | |
|--------------------------------------------------------|------|-------------------------|--------------|
| | Note | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 1,408,888 | 4,790,492 |
| Adjustments for: | | | |
| Depreciation and amortisation | 10 | 780,526 | 760,703 |
| Net trading gain | 7 | (1,200,005) | (1,486,496) |
| Dividend income | 8 | (2,608) | (2,173) |
| Interest income on financial investments | | (8,380,871) | (9,142,491) |
| Credit impairment losses | 13 | 8,301,465 | 5,180,902 |
| Unrealised foreign exchange gain | | 39,235 | (40,387) |
| Interest expense on debt securities issued | 5 | 1,579,925 | 3,102,038 |
| Interest expense on lease liabilities | | 30,478 | 28,503 |
| Accreted interest on impaired loans | 20 | (351,490) | (78,535) |
| Net gain on disposal of financial investments | 8 | (214,316) | (430,132) |
| Net gain on disposal of property and equipment | | 4,496 | (13,631) |
| | | 1,995,723 | 2,668,793 |
| Net decrease/(increase) in operating assets: | | | |
| Due from the central bank | | (9,389,080) | 1,022,700 |
| Due from banks and other financial institutions | | 525,391 | 3,207,582 |
| Reverse repurchase agreements | | — | 8,711 |
| Loans and advances to customers | | (19,140,538) | (11,835,969) |
| Finance lease receivables | | (315,663) | (1,716,599) |
| Other assets | | (2,506,012) | (721,243) |
| | | (30,825,902) | (10,034,818) |
| Net increase/(decrease) in operating liabilities: | | | |
| Due to the central bank | | 35,685 | 429,980 |
| Borrowings from banks and other financial institutions | | (3,205,639) | (1,024,272) |
| Due to banks | | 3,357,197 | (16,080,974) |
| Repurchase agreements | | (16,862,300) | 15,371,003 |
| Due to customers | | 44,971,474 | 31,081,468 |
| Other liabilities | | 85,730 | 54,765 |
| | | 28,382,147 | 29,831,970 |

Consolidated Statement of Cash Flows

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(In RMB thousands, unless otherwise stated)

| | Note | Years ended 31 December | |
|-----------------------------------------------------------------------------------|------|-------------------------|-------------------|
| | | 2020 | 2019 |
| Net cash flows from operating activities before tax | | (448,032) | 22,465,945 |
| Income tax paid | | (1,588,634) | (1,230,098) |
| Net cash flows from operating activities | | (2,036,666) | 21,235,847 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of property and equipment, intangible assets and other long-term assets | | (802,323) | (806,402) |
| Proceeds from disposal of property and equipment | | 13,816 | 20,082 |
| Cash paid for investments | | (1,296,556,105) | (1,853,953,415) |
| Proceeds from sales and redemptions of investments | | 1,309,426,047 | 1,844,524,446 |
| Return on investments | | 9,342,735 | 10,813,844 |
| Net cash flows from investing activities | | 21,424,170 | 598,555 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Capital injection by non-controlling shareholders | | — | 549,278 |
| Proceeds from issue of debt securities | | 96,793,550 | 43,514,150 |
| Payment for redemptions of debt securities | | (108,678,780) | (108,941,897) |
| Interest and issue expenses paid on debt securities | | (2,082,408) | (4,477,848) |
| Dividends paid on ordinary shares | | (1,045,851) | — |
| Payment for lease liabilities | | (200,659) | (227,761) |
| Distribution of dividends to non-controlling shareholders | | (4,862) | (3,350) |
| Net cash flows from financing activities | | (15,219,010) | (69,587,428) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at the beginning of the year | | 16,414,032 | 64,157,392 |
| Effect of exchange rate changes on cash and cash equivalents | | (60,314) | 9,666 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 40 | 20,522,212 | 16,414,032 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE: | | | |
| Interest received | | 19,444,078 | 18,598,789 |
| Interest paid | | (13,863,832) | (13,695,857) |

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2020
(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. As at 31 December 2020, the legal representative was Guo Zhiwen and the registered office was 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 2020 were 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. | (i) | 27 Jan 2011 | Huachuan, Heilongjiang | 270,000 | 99.63 | 269,000 | Village and township bank |
| Baiquan Rongxing Village and Township Bank Co., Ltd. | (i) | 7 Apr 2011 | Baiquan, Heilongjiang | 253,000 | 100.00 | 253,000 | Village and township bank |

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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. | (i) | 19 Apr 2011 | Yanshi, Henan | 50,000 | 100.00 | 50,000 | Village and township bank |
| Leping Rongxing Village and Township Bank Co., Ltd. | (i) | 25 Apr 2011 | Leping, Jiangxi | 160,000 | 100.00 | 160,000 | Village and township bank |
| Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd. | | 9 May 2011 | Rudong, Jiangsu | 106,000 | 80.00 | 80,000 | Village and township bank |
| Honghu Rongxing Village and Township Bank Co., Ltd. | | 16 May 2011 | Honghu, Hubei | 30,000 | 100.00 | 30,000 | Village and township bank |
| Zhuzhou Rongxing Village and Township Bank Co., Ltd. | | 4 May 2011 | Zhuzhou, Hunan | 55,000 | 80.00 | 40,000 | Village and township bank |
| Chongqing Wulong Rongxing Village and Township Bank Co., Ltd. | | 1 June 2011 | Wulong, Chongqing | 50,000 | 70.00 | 35,000 | Village and township bank |
| Xin'an Rongxing Village and Township Bank Co., Ltd. | | 8 June 2011 | Xin'an, Henan | 33,300 | 90.09 | 30,000 | Village and township bank |
| Anyi Rongxing Village and Township Bank Co., Ltd. | (ii) | 20 June 2011 | Anyi, Jiangxi | 60,000 | 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 |

Notes to Consolidated Financial Statements

For The Year Ended 31 December 2020
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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 |
|-------------------------------------------------------------------|------|-----------------------|-----------------------------------------------------|------------------------------------------------|----------------------------------------------------------------|-----------------------------|---------------------------|
| Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd. | | 19 May 2017 | Pingliang, Gansu | 50,000 | 90.00 | 45,000 | Village and township bank |
| Tianshui Majji 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 Sept 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. | | 24 Jan 2017 | Harbin, Heilongjiang | 1,500,000 | 53.00 | 795,000 | Consumer finance |

During the year ended 31 December 2020, the major changes to the structure of the Group are as follows:

- (i) With the approval of Jiamusi Banking and Insurance Regulatory Bureau, the Bank made a capital injection of RMB220 million into Huachuan Rongxing Village and Township Bank Co., Ltd. in December 2020, and after the capital injection, the Bank's equity interest increased from 98.00% to 99.63%, remaining its controlling shareholder. With the approval of Qiqihar Banking and Insurance Regulatory Bureau, the Bank made a capital injection of RMB223 million into Baiquan Rongxing Village and Township Bank Co., Ltd. in December 2020, and after the capital injection, the Bank's equity interest remained 100%. With the approval of Luoyang Banking and Insurance Regulatory Bureau, the Bank made a capital injection of RMB20 million into Yanshi Rongxing Village and Township Bank Co., Ltd. in December 2020, and after the capital injection, the Bank's equity interest remained 100%. With the approval of Jingdezhen Banking and Insurance Regulatory Bureau, the Bank made a capital injection of RMB130 million into Leping Rongxing Village and Township Bank Co., Ltd. in December 2020, and after the capital injection, the Bank's equity interest remained 100%.
- (ii) With the approval of Jiangxi Banking and Insurance Regulatory Bureau, Anyi Rongxing Village and Township Bank Co., Ltd. converted its undistributed profit of RMB30 million into capital in November 2020, and after the conversion, its registered capital increased from RMB30 million to RMB60 million.

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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 2020, 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 2020. 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 2020
(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 2020

On 1 January 2020, the Group adopted the following amendments.

| | |
|--------------------------------------|------------------------------------------|
| IFRS 3 Amendments | <i>Definition of a Business</i> |
| IAS 1 and IAS 8 Amendments | <i>Definition of Material</i> |
| IFRS 9, IAS 39 and IFRS 7 Amendments | <i>Interest Rate Benchmark Reform</i> |
| IFRS 16 Amendment (early adopted) | <i>Covid-19-Related Rent Concessions</i> |

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

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

2.2 Standards, Amendments and Interpretations Effective In 2020 (Continued)

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 made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

IFRS 9, IAS 39 and IFRS 7 Amendments modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform. The amendments must be applied retrospectively.

IFRS 16 Amendment provides for rent relief during Covid-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease changes in IFRS 16 for rent relief granted due to the impact of Covid-19. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020, and earlier adoption is permitted. The Group has adopted the amendment from 1 January 2020.

The adoption of the above amendments has no significant impact on the Group's operating results, financial position or comprehensive income.

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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 2020

| | | Effective from the date/ after the year |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments | <i>Interest Rate Benchmark Reform – Phase 2</i> | 1 January 2021 |
| IFRS 3 Amendments | <i>Reference to the Conceptual Framework</i> | 1 January 2022 |
| IAS 16 Amendments | <i>Property, Plant and Equipment: Proceeds before Intended Use</i> | 1 January 2022 |
| IAS 37 Amendments | <i>Onerous Contracts – Cost of Fulfilling a Contract</i> | 1 January 2022 |
| IAS 1 Amendments | <i>Classification of Liabilities as Current or Non-current</i> | 1 January 2023 |
| IAS 8 Amendments | <i>Definition of Accounting Estimates</i> | 1 January 2023 |
| IAS 1 and IFRS Practice Statement 2 Amendments | <i>Disclosure of Accounting Policies</i> | 1 January 2023 |
| IFRS 10 and IAS 28 Amendments | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> | Effective date has been deferred indefinitely |
| Annual Improvements to IFRSs 2018-2020 Cycle (issued in May 2020) | | 1 January 2022 |

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments address the accounting issues that arise when financial instruments that reference Interbank Offered Rates (“IBOR”) transition to nearly RFRs. The amendments include a practical expedient for modifications, which permits contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate. The amendments also permit changes required by IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. In addition, while IFRS 9 and IAS 39 require that a risk component (or a designated portion) is “separately identifiable” to be eligible for hedge accounting, the amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates is required by the amendments.

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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 2020 (Continued)

IFRS 3 Amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

IAS 16 Amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

IAS 37 Amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IAS 1 Amendments specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, and that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

IAS 8 Amendments introduce a new definition of “accounting estimates”. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

IAS 1 and IFRS Practice Statement 2 Amendments provide guidance to help entities apply materiality judgements to accounting policy disclosures. The amendments replace the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies. The amendments add guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

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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 2020 (Continued)

IFRS 10 and IAS 28 Amendments address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

Annual Improvements to IFRSs 2018-2020 Cycle were issued in May 2020, including an amendment to IFRS 9 Financial Instruments, which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability by conducting the "10 per cent" test for derecognition of financial liabilities. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The improvements also include an amendment to lease incentives, which removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16 Leases, so as to remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.

The above standards, amendments and interpretations 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.

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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.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the assets. Regular way purchases or sales are the purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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.

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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 identify 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, finance 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.

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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.

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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 debt securities 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).

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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.

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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 48(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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 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.

3.4 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 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% | 9.50%-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.

3.5 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 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.

3.7 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.

3.8 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.

For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair values at acquisition date, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Business Combinations and Goodwill (Continued)

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.

3.9 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.

3.10 Asset Impairment

Impairment losses on assets, except for deferred income 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Asset Impairment (Continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

3.11 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.

3.12 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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 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.

3.14 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Recognition of Income and Expense (Continued)

Interest income and expense (Continued)

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 effective 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.

3.15 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Income Tax (Continued)

Deferred income tax (Continued)

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases

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.

Group as a lessee

Right-of-use assets

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

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases (Continued)

Evaluation of lease term (Continued)

Group as a lessee (Continued)

Right-of-use assets (Continued)

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.

Lease liabilities

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 Group's decision whether to exercise purchase options, extension options, or termination options.

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.

- (i) The lease change expands the scope of the lease by adding the right to use one or more leased assets;
- (ii) The increase in consideration is equivalent to the price of the additional part of the lease scope.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases (Continued)

Evaluation of lease term (Continued)

Group as a lessee (Continued)

Changes in leases (Continued)

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.

- (i) 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 is included in current profits and losses.
- (ii) 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases (Continued)

Evaluation of lease term (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 finance leases

Finance lease receivables, the net investment of lease is recorded as the book value of the finance 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 finance lease is changed, and the following conditions are simultaneously met, the Group regard the change as a separate lease change:

- (i) The change expands the scope of lease by adding the right to use one or more leased assets;
- (ii) 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:

- (i) 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;
- (ii) 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases (Continued)

Evaluation of lease term (Continued)

Group as a lessor (Continued)

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 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.

3.19 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.

3.20 Structured Entities

A structured entity is an entity that has been designed so that voting right is not a dominant factor in deciding who controls the entity. Unconsolidated structured entities refer to equity in other entities which have no significant impact on the Group, including but not limited to equity or debt instruments or any other involvements. The Group's unconsolidated structured entities mainly include off-balance sheet non-guaranteed wealth management products sponsored by the Group as disclosed in note 44 to the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

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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

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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.

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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 | |
|-------------------------------------------------------------------|------------------------|--------------|
| | 2020 | 2019 |
| Interest income on: | | |
| Loans and advances to customers | 17,846,290 | 17,095,963 |
| – Corporate loans and advances | 9,148,997 | 8,288,002 |
| – Personal loans | 8,515,603 | 8,754,599 |
| – Discounted bills | 181,690 | 53,362 |
| Reverse repurchase agreements | 236,310 | 344,239 |
| Financial assets at fair value through other comprehensive income | 1,124,599 | 1,396,102 |
| Financial assets at amortised cost | 7,256,272 | 7,746,389 |
| Due from the central bank | 784,898 | 731,505 |
| Due from banks and other financial institutions | 145,044 | 354,697 |
| Finance lease receivables | 1,610,478 | 1,611,866 |
| Subtotal | 29,003,891 | 29,280,761 |
| Interest expense on: | | |
| Due to customers | (13,673,442) | (12,142,798) |
| Repurchase agreements | (222,080) | (315,921) |
| Due to banks | (563,589) | (867,197) |
| Debt securities issued | (1,579,925) | (3,102,038) |
| Due to the central bank | (111,336) | (187,898) |
| Borrowings from banks and other financial institutions | (513,863) | (941,178) |
| Lease liabilities | (30,478) | (28,503) |
| Subtotal | (16,694,713) | (17,585,533) |
| Net interest income | 12,309,178 | 11,695,228 |
| Including: Interest income on impaired loans | 351,490 | 78,535 |

| | Year ended 31 December | |
|---------------------------|------------------------|------------|
| | 2020 | 2019 |
| Interest income from: | | |
| Listed debt instruments | 3,042,255 | 2,808,244 |
| Unlisted debt instruments | 25,961,636 | 26,472,517 |
| Subtotal | 29,003,891 | 29,280,761 |

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6. NET FEE AND COMMISSION INCOME

| | Year ended 31 December | |
|------------------------------------------------------|------------------------|-----------|
| | 2020 | 2019 |
| Fee and commission income: | | |
| Advisory and consulting fees | 263,117 | 521,758 |
| Agency and custodian fees | 576,611 | 833,467 |
| Including: Non-guaranteed wealth management products | 317,824 | 507,076 |
| Bank card fees | 238,623 | 215,690 |
| Settlement and clearing fees | 23,609 | 34,395 |
| Others | 8,760 | 13,048 |
| Subtotal | 1,110,720 | 1,618,358 |
| Fee and commission expense: | | |
| Settlement and clearing fees | (121,314) | (146,980) |
| Agency fees | (3,732) | (3,574) |
| Bank card fees | (34,716) | (37,403) |
| Others | (70,951) | (63,952) |
| Subtotal | (230,713) | (251,909) |
| Net fee and commission income | 880,007 | 1,366,449 |

7. NET TRADING INCOME

| | Year ended 31 December | |
|-------------------------------------------------------|------------------------|-----------|
| | 2020 | 2019 |
| Financial assets at fair value through profit or loss | 1,201,645 | 1,486,496 |
| Derivative financial instruments | (1,640) | — |
| Total | 1,200,005 | 1,486,496 |

The above amounts mainly include gains and losses arising from the purchase and sale of, interest income on, dividend on and changes in the fair value of financial assets at fair value through profit or loss and derivative financial instruments.

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8. NET GAIN ON FINANCIAL INVESTMENTS

| | Year ended 31 December | |
|--------------------------------------------------------------------------------------------|------------------------|----------------|
| | 2020 | 2019 |
| Gain on disposal of financial assets at fair value through other comprehensive income, net | 214,316 | 430,132 |
| Dividends from equity investments at fair value through other comprehensive income | 2,608 | 2,173 |
| Total | 216,924 | 432,305 |

9. OTHER OPERATING INCOME, NET

| | Year ended 31 December | |
|--------------------------------------------|------------------------|----------------|
| | 2020 | 2019 |
| Net gain on sale of property and equipment | (1,804) | 13,631 |
| Gain from foreign exchange, net | (99,549) | 50,053 |
| Lease income | 63,603 | 27,183 |
| Government grants and subsidies | 24,810 | 41,851 |
| Others | 13,166 | 11,204 |
| Total | 226 | 143,922 |

10. OPERATING EXPENSES

| | Year ended 31 December | |
|----------------------------------------------|------------------------|------------------|
| | 2020 | 2019 |
| Staff costs: | | |
| Salaries, bonuses and allowances | 1,878,304 | 2,099,178 |
| Social insurance | 223,440 | 360,674 |
| Housing fund | 167,190 | 142,726 |
| Staff benefits | 111,751 | 124,450 |
| Labour union expenditure and education costs | 24,311 | 25,258 |
| Early retirement benefits | 22,164 | 9,676 |
| Subtotal | 2,427,160 | 2,761,962 |
| General and administrative expenses | 820,477 | 781,795 |
| Tax and surcharges | 213,816 | 205,328 |
| Depreciation and amortisation | 780,526 | 760,703 |
| Leasing expense | 162,346 | 150,442 |
| Auditors' remuneration | 8,113 | 7,783 |
| Others | 483,549 | 484,993 |
| Total | 4,895,987 | 5,153,006 |

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11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

| | | Year ended 31 December 2020 | | | | | | |
|--------------------|---------------------------------------------------------------------------------------|-----------------------------|---------------------------------|-------------------------------------|--------------------------------------------------------|-----------------------------------|----------------------------------|-------------------------------------------------------|
| | | | | | Contributions to defined contribution schemes | Total emoluments before tax | Of which: deferred payment | Actual amount of remuneration paid (pre-tax) |
| Name | Position | Fees RMB'000 | Remuneration paid RMB'000 | Discretionary bonuses RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | (1) | (2) | (3) | (4) | (5)=(1)+(2) +(3)+(4) | (6) | (7)=(5)-(6) |
| Guo Zhiwen | Executive Director and Chairman | - | 774 | 1,016 | - | 1,790 | 84 | 1,706 |
| Lyu Tianjun | Executive Director and President | - | 576 | 1,662 | 11 | 2,249 | 606 | 1,643 |
| Sun Feixia | Executive Director, Vice Chairman, Secretary of the Board and Company Secretary | - | 468 | 1,283 | - | 1,751 | 392 | 1,359 |
| Zhao Hongbo (ii) | Non-executive Director | - | - | - | - | - | - | - |
| Zhang Xianjun (ii) | Non-executive Director | - | - | - | - | - | - | - |
| Yu Hong (ii) | Non-executive Director | - | - | - | - | - | - | - |
| Lang Shufeng (ii) | Non-executive Director | - | - | - | - | - | - | - |
| Zhang Taoxuan (ii) | Non-executive Director | - | - | - | - | - | - | - |
| Ma Pao-Lin (ii) | Non-executive Director | 96 | - | - | - | 96 | - | 96 |
| Chen Danyang (ii) | Non-executive Director | 96 | - | - | - | 96 | - | 96 |
| Peng Xiaodong (ii) | Non-executive Director | 96 | - | - | - | 96 | - | 96 |
| Ma Yongqiang | Independent Non-executive Director | 264 | - | - | - | 264 | - | 264 |
| Sun Yan | Independent Non-executive Director | 288 | - | - | - | 288 | - | 288 |
| Zhang Zheng | Independent Non-executive Director | 288 | - | - | - | 288 | - | 288 |
| Hou Bojian | Independent Non-executive Director | 364 | - | - | - | 364 | - | 364 |
| Deng Xinquan | Chairman of the Board of Supervisors and Employee Supervisor | - | 552 | 1,032 | - | 1,584 | 526 | 1,058 |
| Luo Zhonglin | Employee Supervisor | - | 435 | 1,103 | 8 | 1,546 | 313 | 1,233 |
| Fang Shang | Employee Supervisor | - | 485 | 914 | 12 | 1,411 | 280 | 1,131 |
| Yang Xuemei (i) | Supervisor | 15 | - | - | - | 15 | - | 15 |
| Liu Mo (i) | Supervisor | 40 | - | - | - | 40 | - | 40 |
| Li Dong | External Supervisor | 144 | - | - | - | 144 | - | 144 |
| Sun Yi | External Supervisor | 120 | - | - | - | 120 | - | 120 |
| Li Zhaohua | External Supervisor | 144 | - | - | - | 144 | - | 144 |

Note: Pursuant to the relevant PRC regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors (the "Board"), the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred.

- (i) At the 2020 first extraordinary general meeting held on 15 October 2020, Ms. Yang Xuemei was elected as shareholder representative supervisor. Mr. Liu Mo ceased to act as supervisor since 28 August 2020.
- (ii) At the 2020 first extraordinary general meeting held on 15 October 2020, Mr. Zhao Hongbo, Mr. Zhang Xianjun, Mr. Yu Hong and Mr. Lang Shufeng were elected as Non-executive Director, effective since 24 November 2020. Mr. Zhang Taoxuan, Mr. Ma Pao-Lin, Mr. Peng Xiaodong and Mr. Chen Danyang ceased to act as Non-executive Director since 28 August 2020.

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(In RMB thousands, unless otherwise stated)**11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)**

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

| Name | Position | Year ended 31 December 2019 | | | | | | Actual amount of remuneration paid (pre-tax) RMB'000 |
|--------------------|---------------------------------------------------------------------------------------|-----------------------------|---------------------------------|-------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------|------------------------------------------------------------------|
| | | Fees RMB'000 | Remuneration paid RMB'000 | Discretionary bonuses RMB'000 | Contributions to defined contribution schemes RMB'000 | Total emoluments before tax RMB'000 (5)=(1)+(2) +(3)+(4) | Of which: deferred payment RMB'000 | |
| | | (1) | (2) | (3) | (4) | (5) | (6) | (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 |

(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, effective since 2 September 2019. Mr. Yin Jintao and Mr. Jiang Shaozhi ceased to act as Independent Non-executive Director since 8 October 2019.

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11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

During the year ended 31 December 2020, Zhao Hongbo, Zhang Xianjun, Yu Hong, Lang Shufeng, and Zhang Taoxuan, non-executive Directors of the Bank, agreed to waive remuneration before tax of RMB12 thousand, RMB14 thousand, RMB12 thousand, RMB12 thousand, and RMB96 thousand, respectively. (2019: Zhang Taoxuan, a non-executive Director of the Bank, agreed to waive remuneration before tax of RMB144 thousand).

During the year ended 31 December 2020, 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 (2019: 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 2020 and 2019, the five highest paid individuals of the Group comprised two directors and two directors of the Bank, respectively, whose emoluments are disclosed in notes 11 and 46(b) to the consolidated financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

| | Year ended 31 December | |
|------------------------------------------------|------------------------|--------|
| | 2020 | 2019 |
| Salaries, allowances and discretionary bonuses | 14,164 | 16,548 |
| Contribution to defined contribution schemes | 21 | 12 |
| Total | 14,185 | 16,560 |

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 | |
|------------------------------|-----------------------------------------------|------|
| | 2020 | 2019 |
| RMB2,000,001 to RMB3,000,000 | 2 | 2 |
| RMB3,000,001 to RMB4,000,000 | 2 | 3 |
| Total | 4 | 5 |

During the year ended 31 December 2020, 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 (2019: Nil).

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(In RMB thousands, unless otherwise stated)**13. CREDIT IMPAIRMENT LOSSES**

| | Year ended 31 December | |
|---------------------------------------------------|------------------------|-----------|
| | 2020 | 2019 |
| Impairment losses on: | | |
| Loans and advances to customers at amortised cost | 7,275,792 | 3,686,179 |
| Financial investments at amortised cost | 485,446 | 877,522 |
| Finance lease receivables | 350,875 | 350,085 |
| Others | 189,352 | 267,116 |
| Total | 8,301,465 | 5,180,902 |

14. INCOME TAX EXPENSE**(a) Income tax**

| | Year ended 31 December | |
|---------------------|------------------------|-----------|
| | 2020 | 2019 |
| Current income tax | 1,643,840 | 1,769,516 |
| Deferred income tax | (1,030,784) | (614,101) |
| Total | 613,056 | 1,155,415 |

(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 | |
|-------------------------------------------------------------|------------------------|-----------|
| | 2020 | 2019 |
| Profit before tax | 1,408,888 | 4,790,492 |
| Tax at the PRC statutory income tax rate | 352,222 | 1,197,623 |
| Effect of different tax rates for certain subsidiaries | 2,368 | (29,900) |
| Items not deductible for tax purposes | 628,597 | 264,988 |
| Non-taxable income (i) | (411,267) | (270,038) |
| Adjustment for income tax from prior years | 41,136 | (13,614) |
| Others | — | 6,356 |
| Tax expense at the Group's effective income tax rate | 613,056 | 1,155,415 |

- (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.

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15. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2020 includes a profit of RMB746 million (2019: RMB3,558 million) which has been dealt with in the financial statements of the Bank.

16. DIVIDENDS

| | Year ended 31 December | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------|
| | 2020 | 2019 |
| Dividends on ordinary shares declared and paid: Final dividend for 2019: RMB0.10 per share** (2018: nil*) | 1,045,851 | – |
| Dividends on ordinary shares proposed for approval (not recognised as at 31 December): Final dividend for 2020: nil*** (2019: RMB0.10 per share**) | – | 1,099,560 |

* 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.

*** The Bank proposed not to distribute any dividend for the year ended 31 December 2020.

17. EARNINGS PER SHARE

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

| | Year ended 31 December | |
|--------------------------------------------------------------------|------------------------|------------|
| | 2020 | 2019 |
| Earnings: | | |
| Profit attributable to owners of the parent | 745,676 | 3,558,447 |
| 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) | 0.07 | 0.32 |

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 2020 and 2019 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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(In RMB thousands, unless otherwise stated)**18. CASH AND BALANCES WITH THE CENTRAL BANK**

| | As at 31 December | |
|----------------------------------------------|--------------------------|------------|
| | 2020 | 2019 |
| Cash | 782,714 | 725,437 |
| Mandatory reserves with the central bank (i) | 47,403,114 | 37,908,758 |
| Surplus reserves with the central bank (ii) | 14,401,466 | 13,359,046 |
| Fiscal deposits with the central bank | 159,517 | 272,522 |
| Subtotal | 62,746,811 | 52,265,763 |
| Accrued interest | 24,285 | 16,556 |
| Total | 62,771,096 | 52,282,319 |

- (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 2020 and 2019, 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 | |
|----------------------------------------------------------|-------------------|-----------|
| | 2020 | 2019 |
| Nostro accounts: | | |
| Banks operating in Mainland China | 2,694,400 | 1,788,537 |
| Other financial institutions operating in Mainland China | 204,936 | 108,664 |
| Banks operating outside Mainland China | 1,282,036 | 301,679 |
| Subtotal | 4,181,372 | 2,198,880 |
| Accrued interest | 2,656 | 7,312 |
| Less: Allowance for impairment losses | (14,244) | (4,542) |
| Subtotal | 4,169,784 | 2,201,650 |
| Placements with banks and other financial institutions: | | |
| Banks operating in Mainland China | 200,000 | 662,739 |
| Other financial institutions operating in Mainland China | 1,530,000 | 450,000 |
| Banks operating outside Mainland China | 300,000 | 413,627 |
| Subtotal | 2,030,000 | 1,526,366 |
| Accrued interest | 9,457 | 7,835 |
| Less: Allowance for impairment losses | (3,123) | (4,165) |
| Subtotal | 2,036,334 | 1,530,036 |
| Total | 6,206,118 | 3,731,686 |

As at 31 December 2020 and 31 December 2019, the Group included nostro accounts and placements with banks and other financial institutions in stage 1, and measured the impairment losses based on ECLs in the next 12 months.

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| | As at 31 December | |
|-----------------------------------------------------------|--------------------------|-------------|
| | 2020 | 2019 |
| Measured at amortised cost | | |
| Corporate loans and advances | 158,551,787 | 140,578,332 |
| Personal loans | 120,174,328 | 119,083,896 |
| Subtotal | 278,726,115 | 259,662,228 |
| Measured at fair value through other comprehensive income | | |
| Discounted bills | 1,841,061 | 3,941,883 |
| Total loans and advances to customers | 280,567,176 | 263,604,111 |
| Accrued interest | 2,888,133 | 2,900,609 |
| Less: Allowance for impairment losses | (11,104,707) | (8,008,354) |
| Loans and advances to customers, net | 272,350,602 | 258,496,366 |

| | As at 31 December 2020 | | | |
|-----------------------------------------------------------|-----------------------------------|-----------------------------------|-------------------------------------------------|---------------------|
| | Stage 1 (12-month ECL) | Stage 2 (Lifetime ECL) | Stage 3 (Lifetime ECL- impaired) | Total |
| Total loans and advances at amortised cost | 253,603,790 | 11,018,817 | 14,103,508 | 278,726,115 |
| Accrued interest | 2,831,592 | 56,509 | 32 | 2,888,133 |
| Allowance for impairment losses at amortised cost | (2,807,065) | (1,940,480) | (6,357,162) | (11,104,707) |
| Loans and advances to customers at amortised cost, net | 253,628,317 | 9,134,846 | 7,746,378 | 270,509,541 |

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20. LOANS AND ADVANCES TO CUSTOMERS (Continued)

| | As at 31 December 2019 | | | Total |
|-----------------------------------------------------------|---------------------------|---------------------------|----------------------------------------|-------------|
| | Stage 1 (12-month ECL) | Stage 2 (Lifetime ECL) | Stage 3 (Lifetime ECL- impaired) | |
| 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 |

Movements of allowance for impairment losses 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 2020 | 2,660,191 | 1,746,632 | 3,601,531 | 8,008,354 |
| Exchange difference | — | — | (186) | (186) |
| Charge for the year | 375,190 | 805,779 | 6,094,823 | 7,275,792 |
| Stage conversion | (228,316) | (611,931) | 840,247 | — |
| Converted to stage 1 | 163,143 | (109,197) | (53,946) | — |
| Converted to stage 2 | (153,706) | 163,476 | (9,770) | — |
| Converted to stage 3 | (237,753) | (666,210) | 903,963 | — |
| Write-offs and transferred | — | — | (3,976,376) | (3,976,376) |
| Recoveries of loans and advances previously written off | — | — | 148,613 | 148,613 |
| Accreted interest on impaired loans | — | — | (351,490) | (351,490) |
| As at 31 December 2020 | 2,807,065 | 1,940,480 | 6,357,162 | 11,104,707 |

During the year ended 31 December 2020, 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 RMB16,248 million, and corresponding impairment provision increased by RMB5,225 million. The loan principal transferred from stage 2 to stage 3 was RMB3,133 million, impairment provision increasing by RMB976 million. The loan principal transferred from stage 2 to stage 1 was RMB4,833 million, impairment provision decreasing by RMB98 million. The loan principal transferred from stage 3 to stage 1 and stage 2 was not significant.

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

| | 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 |
| 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.

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21. 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 | | | | | |
|--------------------|---------------------------------|------------|-------------|---------------------------------|------------|-------------|
| | 2020 | | | 2019 | | |
| | Contractual/ notional amount | Fair value | | Contractual/ notional amount | Fair value | |
| | | Assets | Liabilities | | Assets | Liabilities |
| Interest rate swap | – | – | – | 400,000 | 1,640 | – |
| Option contract | 727,830 | 16,395 | (16,395) | 970,390 | 26,881 | (26,881) |
| | 727,830 | 16,395 | (16,395) | 1,370,390 | 28,521 | (26,881) |

22. FINANCIAL INVESTMENTS

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

| | As at 31 December | |
|--------------------------------------------------|-------------------|------------|
| | 2020 | 2019 |
| Government debt securities | 559,927 | 1,479,488 |
| Policy bank debt securities | – | 1,023,241 |
| Financial institution debt securities | 344,321 | 153,347 |
| Corporate debt securities | 2,937,970 | 1,854,198 |
| Funds (i) | 7,663,828 | 7,749,767 |
| Trust fund plans and asset management plans (ii) | 41,731,606 | 46,879,785 |
| Subtotal | 53,237,652 | 59,139,826 |
| Equity instruments | 277,626 | 278,997 |
| Accrued interest | 58,355 | 188,143 |
| Total | 53,573,633 | 59,606,966 |

- (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.

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| | As at 31 December | |
|---------------------------------------|-------------------|------------|
| | 2020 | 2019 |
| Government debt securities | 9,521,517 | 12,570,326 |
| Policy bank debt securities | 2,226,333 | 4,873,713 |
| Financial institution debt securities | 628,245 | 2,043,137 |
| Corporate debt securities | 7,141,561 | 6,678,878 |
| Subtotal | 19,517,656 | 26,166,054 |
| Equity investments | 250,561 | 89,251 |
| Accrued interest | 384,013 | 471,991 |
| Net balance | 20,152,230 | 26,727,296 |

As at 31 December 2020, debt securities of RMB68,557 thousand 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 RMB105 million. Other debt securities at fair value through other comprehensive income were in stage 1, and the corresponding accumulated allowance for impairment losses amounted to RMB6,074 thousand. As at 31 December 2019, debt securities of RMB68,557 thousand 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 million. 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.

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22. FINANCIAL INVESTMENTS (Continued)

(c) Financial assets at amortised cost

| | As at 31 December | |
|---------------------------------------------|-------------------|-------------|
| | 2020 | 2019 |
| Government debt securities | 25,949,771 | 15,631,128 |
| Policy bank debt securities | 18,049,199 | 9,364,146 |
| Financial institution debt securities | 670,279 | 1,099,910 |
| Corporate debt securities | 12,753,587 | 9,958,037 |
| Trust fund plans and asset management plans | 88,057,105 | 111,969,901 |
| Subtotal | 145,479,941 | 148,023,122 |
| Accrued interest | 2,124,265 | 1,481,159 |
| Less: Allowance for impairment losses (i) | (4,480,761) | (3,995,315) |
| Net balance | 143,123,445 | 145,508,966 |

- (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 2020 | 660,360 | 261,546 | 3,073,409 | 3,995,315 |
| Impairment loss charge for the year | 83,632 | 60,708 | 341,106 | 485,446 |
| As at 31 December 2020 | 743,992 | 322,254 | 3,414,515 | 4,480,761 |

| | 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 |

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| | As at 31 December | |
|---------------------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Finance lease receivables | 26,770,922 | 26,679,871 |
| Less: Unearned finance lease income | (2,782,870) | (2,846,897) |
| Finance lease receivables, net | 23,988,052 | 23,832,974 |
| Accrued interest | 299,699 | 253,744 |
| Less: Allowance for impairment losses | (1,198,574) | (962,329) |
| Net balance | 23,089,177 | 23,124,389 |

The Group divided finance lease receivables into stage 1, stage 2 and stage 3. As at 31 December 2020, the carrying amounts were RMB23,239,902 thousand, RMB410 thousand, and RMB747,740 thousand respectively, and allowances for impairment losses were RMB602,855 thousand, RMB5 thousand, and RMB595,714 thousand, respectively. As at 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.

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

| | As at 31 December | | | | | |
|--------------------|---------------------------------|----------------------------------------|-----------------------------------------|---------------------------------|----------------------------------------|-----------------------------------------|
| | 2020 | | | 2019 | | |
| | 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 | 11,990,672 | (1,037,320) | 10,953,352 | 11,132,304 | (956,524) | 10,175,780 |
| 1 year to 2 years | 7,263,748 | (779,993) | 6,483,755 | 7,865,747 | (836,471) | 7,029,276 |
| 2 years to 3 years | 4,911,466 | (628,459) | 4,283,007 | 4,325,268 | (618,659) | 3,706,609 |
| 3 years to 5 years | 2,549,976 | (330,385) | 2,219,591 | 3,266,370 | (426,615) | 2,839,755 |
| More than 5 years | 55,060 | (6,713) | 48,347 | 90,182 | (8,628) | 81,554 |
| | 26,770,922 | (2,782,870) | 23,988,052 | 26,679,871 | (2,846,897) | 23,832,974 |

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24. PROPERTY AND EQUIPMENT

| | Properties and buildings | Construction in progress | Leasehold improvements | Office equipment | Motor vehicles | Operating lease fixed assets | Total |
|--------------------------------------------|--------------------------------|-----------------------------|---------------------------|---------------------|-------------------|------------------------------------|------------|
| Cost: | | | | | | | |
| At 1 January 2020 | 6,774,871 | 2,354,283 | 600,002 | 2,099,326 | 70,729 | 314,398 | 12,213,609 |
| Additions | 104,715 | 373,534 | 34,207 | 99,045 | 3,747 | - | 615,248 |
| Transfers from construction in progress | 42,831 | (69,862) | - | 27,031 | - | - | - |
| Disposals | (3,292) | - | - | (92,263) | (5,531) | - | (101,086) |
| At 31 December 2020 | 6,919,125 | 2,657,955 | 634,209 | 2,133,139 | 68,945 | 314,398 | 12,727,771 |
| 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 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2020 | 1,159,099 | - | 476,115 | 1,502,489 | 53,914 | 74,670 | 3,266,287 |
| Depreciation charge for the year | 202,916 | - | 48,874 | 179,461 | 5,132 | 15,013 | 451,396 |
| Disposals | (2,036) | - | - | (80,948) | (5,463) | - | (88,447) |
| At 31 December 2020 | 1,359,979 | - | 524,989 | 1,601,002 | 53,583 | 89,683 | 3,629,236 |
| 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 |
| Net carrying amount: | | | | | | | |
| At 31 December 2020 | 5,559,146 | 2,657,955 | 109,220 | 532,137 | 15,362 | 224,715 | 9,098,535 |
| At 31 December 2019 | 5,615,772 | 2,354,283 | 123,887 | 596,837 | 16,815 | 239,728 | 8,947,322 |

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24. 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 | |
|--------------------|-------------------|-----------|
| | 2020 | 2019 |
| Held in China | | |
| Over 50 years | 1,582,553 | 1,649,752 |
| 10 to 50 years | 3,942,057 | 3,932,830 |
| Less than 10 years | 34,536 | 33,190 |
| | 5,559,146 | 5,615,772 |

As at 31 December 2020, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,299 million (31 December 2019: RMB2,192 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

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25. DEFERRED INCOME TAX ASSETS

(a) Analysed by nature

| | As at 31 December | | | |
|--------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------------------|----------------------------------------|----------------------------------------------------|
| | 2020 | | 2019 | |
| | Deductible temporary differences | Deferred income tax assets/ (liabilities) | Deductible temporary differences | Deferred income tax assets/ (liabilities) |
| Deferred income tax assets: | | | | |
| Allowance for impairment losses | 14,924,262 | 3,715,285 | 11,028,217 | 2,734,247 |
| Contingent liabilities | 63,458 | 15,865 | 66,813 | 16,703 |
| Salaries, bonuses, allowances and subsidies payable | 188,717 | 45,726 | 118,847 | 28,321 |
| Early retirement benefits | 38,005 | 9,501 | 28,638 | 7,160 |
| Deferred revenue | 75,067 | 18,383 | 107,476 | 26,869 |
| Deductible losses | — | — | 45,090 | 11,272 |
| Others | 94,398 | 23,397 | 20,793 | 5,198 |
| Subtotal | 15,383,907 | 3,828,157 | 11,415,874 | 2,829,770 |
| Deferred income tax liabilities: | | | | |
| Changes in fair value of financial assets at fair value through profit or loss | (320,859) | (80,215) | (410,435) | (102,609) |
| Changes in fair value of financial assets at fair value through other comprehensive income | (17,571) | (4,393) | (353,867) | (88,467) |
| Change in fair value of derivative financial instruments | — | — | (1,640) | (410) |
| Subtotal | (338,430) | (84,608) | (765,942) | (191,486) |
| Total | 15,045,477 | 3,743,549 | 10,649,932 | 2,638,284 |

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25. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements of deferred income tax

At 31 December 2020

| | At 1 January 2020 | Total gains/ (losses) recorded in profit or loss | Total gains/(losses) recorded in other comprehensive income | At 31 December 2020 |
|----------------------------------------------------------------------------------------------------------|-------------------------|-----------------------------------------------------------|----------------------------------------------------------------------------|---------------------------|
| Deferred income tax assets: | | | | |
| Allowance for impairment losses | 2,734,247 | 981,038 | — | 3,715,285 |
| Contingent liabilities | 16,703 | (838) | — | 15,865 |
| Changes in fair value of financial assets at fair value through profit or loss | (102,609) | 22,394 | — | (80,215) |
| Changes in fair value of financial assets at fair value through other comprehensive income | (88,467) | — | 84,074 | (4,393) |
| Allowance for impairment losses on the financial assets at fair value through other comprehensive income | — | 9,593 | (9,593) | — |
| Changes in fair value of derivatives | (410) | 410 | — | — |
| Salaries, bonuses, allowances and subsidies payable | 28,321 | 17,405 | — | 45,726 |
| Early retirement benefits | 7,160 | 2,341 | — | 9,501 |
| Deferred revenue | 26,869 | (8,486) | — | 18,383 |
| Deductible losses | 11,272 | (11,272) | — | — |
| Others | 5,198 | 18,199 | — | 23,397 |
| Total | 2,638,284 | 1,030,784 | 74,481 | 3,743,549 |

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25. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements of deferred income tax (Continued)

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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| | As at 31 December | |
|---------------------------------------|-------------------|-----------|
| | 2020 | 2019 |
| Interest receivables (a) | 1,189,879 | 279,660 |
| Right-of-use assets (b) | 494,839 | 600,788 |
| Land use rights (c) | 4,527 | 4,630 |
| Advance payments | 164,027 | 190,235 |
| Settlement and clearing accounts | 2,039,270 | 455,879 |
| Intangible assets (d) | 397,844 | 306,709 |
| Other receivables | 586,044 | 404,333 |
| Input VAT carried forward | — | 12,355 |
| Others | 7,236 | 1,889 |
| Subtotal | 4,883,666 | 2,256,478 |
| Less: Allowance for impairment losses | (404,829) | (259,155) |
| Total | 4,478,837 | 1,997,323 |

(a) Interest receivable

As at 31 December 2020, the carrying amounts of the Group's overdue interest receivables in stage 1, 2 and 3 were RMB320,639 thousand, RMB786,241 thousand and RMB82,999 thousand, respectively. The allowance for impairment losses were RMB13,244 thousand, RMB92,777 thousand and RMB37,340 thousand, respectively. As at 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 allowance for impairment losses were RMB2,139 thousand, RMB54,054 thousand and RMB24 thousand, respectively.

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26. OTHER ASSETS (Continued)

(b) Right-of-use assets

| | Properties and buildings | Motor vehicles and others | Total |
|--------------------------|-----------------------------|---------------------------------|-----------|
| Cost | | | |
| At 1 January 2020 | 711,270 | 124,735 | 836,005 |
| Additions | 124,019 | 2,865 | 126,884 |
| Decreases | (124,813) | (39,792) | (164,605) |
| At 31 December 2020 | 710,476 | 87,808 | 798,284 |
| Accumulated depreciation | | | |
| At 1 January 2020 | 188,078 | 47,139 | 235,217 |
| Additions | 192,508 | 34,652 | 227,160 |
| Decreases | (120,888) | (38,044) | (158,932) |
| At 31 December 2020 | 259,698 | 43,747 | 303,445 |
| Net value | | | |
| At 31 December 2020 | 450,778 | 44,061 | 494,839 |
| At 1 January 2020 | 523,192 | 77,596 | 600,788 |
| | Properties and buildings | Motor vehicles and others | Total |
| Cost | | | |
| At 1 January 2019 | 645,858 | 75,496 | 721,354 |
| Additions | 67,761 | 53,478 | 121,239 |
| Decreases | (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 31 December 2019 | 523,192 | 77,596 | 600,788 |
| At 1 January 2019 | 645,858 | 75,496 | 721,354 |

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26. OTHER ASSETS (Continued)

(c) Land use rights

| | As at 31 December | |
|---------------------------------------------|-------------------|-------|
| | 2020 | 2019 |
| Located in Mainland China 10 to 50 years | 4,527 | 4,630 |

(d) Intangible assets

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

27. DUE TO THE CENTRAL BANK

| | As at 31 December | |
|-----------------------------------------|-------------------|-----------|
| | 2020 | 2019 |
| Medium-term lending facility | 1,000,000 | 2,700,000 |
| Small enterprises supporting re-lending | 1,915,130 | 452,000 |
| Agriculture supporting re-lending | 559,150 | 378,000 |
| Poverty alleviation re-lending | 71,845 | 35,010 |
| Rediscounted bills | 72,771 | – |
| Subtotal | 3,618,896 | 3,565,010 |
| Interest payable | 20,323 | 38,524 |
| Total | 3,639,219 | 3,603,534 |

28. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| | As at 31 December | |
|----------------------|-------------------|------------|
| | 2020 | 2019 |
| Unsecured borrowings | 9,727,612 | 12,703,530 |
| Pledged borrowings | – | 74,934 |
| Subtotal | 9,727,612 | 12,778,464 |
| Interest payable | 120,319 | 275,106 |
| Total | 9,847,931 | 13,053,570 |

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

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29. DUE TO BANKS

| | As at 31 December | |
|----------------------------------------------------------|-------------------|------------|
| | 2020 | 2019 |
| Deposits: | | |
| Banks operating in Mainland China | 14,271,065 | 8,513,414 |
| Banks operating outside Mainland China | 3,407 | 31,328 |
| Subtotal | 14,274,472 | 8,544,742 |
| Interest payable | 150,481 | 122,929 |
| Subtotal | 14,424,953 | 8,667,671 |
| Placements: | | |
| Banks operating in Mainland China | 859,756 | 3,879,898 |
| Other financial institutions operating in Mainland China | 620,000 | – |
| Subtotal | 1,479,756 | 3,879,898 |
| Interest payable | 16,760 | 16,703 |
| Subtotal | 1,496,516 | 3,896,601 |
| Total | 15,921,469 | 12,564,272 |

30. REPURCHASE AGREEMENTS

| | As at 31 December | |
|----------------------------------------------------------|-------------------|------------|
| | 2020 | 2019 |
| Repurchase agreements analysed by counterparty: | | |
| Banks operating in Mainland China | 1,470,165 | 14,884,615 |
| Other financial institutions operating in Mainland China | – | 3,438,576 |
| Interest payable | 29,277 | 38,551 |
| Total | 1,499,442 | 18,361,742 |
| Repurchase agreements analysed by collateral: | | |
| Bonds | 1,470,165 | 18,323,191 |
| Interest payable | 29,277 | 38,551 |
| Total | 1,499,442 | 18,361,742 |

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| | As at 31 December | |
|--------------------------------|-------------------|-------------|
| | 2020 | 2019 |
| Demand deposits: | | |
| Corporate deposits | 101,577,440 | 104,455,135 |
| Personal deposits | 57,215,361 | 44,577,670 |
| Subtotal | 158,792,801 | 149,032,805 |
| Fixed time deposits: | | |
| Corporate deposits | 88,371,236 | 91,669,194 |
| Personal deposits | 222,115,974 | 184,981,670 |
| Subtotal | 310,487,210 | 276,650,864 |
| Demand and fixed time deposits | 469,280,011 | 425,683,669 |
| Interest payable | 7,053,128 | 5,677,996 |
| Total | 476,333,139 | 431,361,665 |

32. DEBT SECURITIES ISSUED

| | As at 31 December | |
|-------------------------------------------|-------------------|------------|
| | 2020 | 2019 |
| Financial bonds issued | 1,997,742 | 5,997,055 |
| Tier 2 capital bonds issued | 8,000,000 | 8,000,000 |
| Negotiable certificates of deposit issued | 23,332,177 | 31,591,418 |
| Subtotal | 33,329,919 | 45,588,473 |
| Interest payable | 245,191 | 374,350 |
| Total | 33,575,110 | 45,962,823 |

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32. 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 interbank bond market. The Group has not had any defaults of principal or interest or other financial bonds issued during the year ended 31 December 2020 (2019: Nil). The relevant information on these financial bonds is set out below:

| Name | Issue date | Issued price | Coupon rate | Value date | Maturity date | Issue amount |
|-------------------------------------------|--------------|--------------|-------------|--------------|---------------|---------------|
| | | (RMB) | | | | (RMB) |
| 16 Harbin Bank tier 2 capital bonds | 14 June 2016 | 100 | 4.00% | 16 June 2016 | 16 June 2026 | 8,000 million |
| 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 2020 and 2019, the Group issued at discount 341 and 108 interbank negotiable certificates of deposit with face value of RMB100 through domestic interbank bond market, respectively. As at 31 December 2020, 104 negotiable certificates of deposit issued by the Group, with annual interest rates between 2.65% and 3.82% and maturities between one month and one year, were undue, amounting to RMB23,333 million. As at 31 December 2019, 61 negotiable certificates of deposit issued by the Group, with annual interest rates between 2.45% and 5.20% and maturities between one month and one year, were undue, amounting to RMB31,591 million.

33. OTHER LIABILITIES

| | As at 31 December | |
|---------------------------------------------------------|-------------------|-----------|
| | 2020 | 2019 |
| Wealth management products payable | 4,467 | 4,539 |
| Settlement and clearing accounts | 1,002,263 | 1,026,688 |
| Accounts payable from agency services | 226,388 | 159,980 |
| Salaries, bonuses, allowances and subsidies payable (a) | 636,688 | 679,541 |
| Sundry tax payables | 290,586 | 214,440 |
| Deferred revenue (b) | 191,685 | 236,895 |
| Dividends payable | 82,688 | 28,979 |
| Accrued expenses | 95,106 | 72,133 |
| Lease guarantee fee | 2,028,199 | 2,064,929 |
| Contingent liabilities | 63,458 | 66,813 |
| Lease liabilities | 467,624 | 510,921 |
| Other payables | 687,031 | 617,538 |
| | 5,776,183 | 5,683,396 |

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| | As at 31 December | |
|----------------------------------------------|-------------------|---------|
| | 2020 | 2019 |
| Salaries, bonuses and allowances | 567,310 | 623,657 |
| Social insurance | 13,035 | 11,342 |
| Housing fund | 5,985 | 7,005 |
| Staff benefits | 829 | 39 |
| Labour union expenditure and education costs | 9,592 | 8,860 |
| Early retirement benefits | 39,937 | 28,638 |
| | 636,688 | 679,541 |

(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 | |
|-----------------------|-------------------|---------|
| | 2020 | 2019 |
| Intermediary services | 191,685 | 236,895 |

34. SHARE CAPITAL

| | As at 31 December | | | |
|-----------------|------------------------------------|------------------|------------------------------------|------------------|
| | 2020 | | 2019 | |
| | 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 |

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35. CAPITAL RESERVES

| | Share premium | Other capital reserves | Total |
|--------------------------|------------------|---------------------------|------------------|
| At 1 January 2019 | 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 |
| Increase during the year | – | (2,218) | (2,218) |
| At 31 December 2020 | 7,624,993 | 36,131 | 7,661,124 |

36. SURPLUS RESERVES

| | Statutory surplus reserves | Discretionary surplus reserves | Total |
|-------------------------------|-------------------------------|-----------------------------------|------------------|
| At 1 January 2019 | 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 |
| Appropriation during the year | 104,442 | – | 104,442 |
| At 31 December 2020 | 3,860,723 | 26,186 | 3,886,909 |

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 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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37. GENERAL AND REGULATORY RESERVES

| | Year ended 31 December | |
|-----------------------------------------|------------------------|-----------|
| | 2020 | 2019 |
| Balance as at the beginning of the year | 7,520,778 | 7,143,548 |
| Increase during the year | 29,969 | 377,230 |
| Balance as at the end of the year | 7,550,747 | 7,520,778 |

From 1 July 2012, according to the requirements of the Administrative Measures for the Provision of Reserves of Financial Enterprises (No. 20 [2012] of the Ministry of Finance ("MOF"), the Group is required to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year-end balance of its risk assets.

38. UNDISTRIBUTED PROFITS

| | Year ended 31 December | |
|----------------------------------------------------------|------------------------|------------|
| | 2020 | 2019 |
| Balance as at the beginning of the year | 19,544,558 | 16,720,480 |
| Profit for the year attributable to owners of the parent | 745,676 | 3,558,447 |
| Net of: Appropriation to surplus reserves | (104,442) | (357,139) |
| Appropriation to general and regulatory reserves | (29,969) | (377,230) |
| Dividends | (1,099,560) | — |
| Balance as at the end of the year | 19,056,263 | 19,544,558 |

As approved by the equity holders of the Group at the 2019 Annual General Meeting held in May 2020, the Bank distributed a cash dividend of RMB1.00 per 10 shares for the year ended 31 December 2019.

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

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39. COMPONENTS OF OTHER COMPREHENSIVE INCOME

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

| | Year ended 31 December | |
|----------------------------------------------------------------------------------------------------------|------------------------|-----------------|
| | 2020 | 2019 |
| 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 | 61,309 | 7,882 |
| 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 | (197,449) | 116,702 |
| Allowance for impairment losses on the debt instruments at fair value through other comprehensive income | 38,373 | 65,080 |
| Transfer to the statement of profit or loss arising from disposal | (200,156) | (231,475) |
| Income tax effect | 74,481 | 10,453 |
| | (223,442) | (31,358) |

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

| | 1 January 2020 | Changes during the year | 31 December 2020 |
|------------------------------------------------------------------------------|-------------------|----------------------------|---------------------|
| Losses on debt instruments at fair value through other comprehensive income | 271,528 | (269,424) | 2,104 |
| Gains on equity instruments at fair value through other comprehensive income | 48,398 | 45,982 | 94,380 |
| | 319,926 | (223,442) | 96,484 |

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

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40. CASH AND CASH EQUIVALENTS

On the consolidated statement of cash flows, cash and cash equivalents with an original maturity of less than three months are as follows:

| | As at 31 December | |
|-------------------------------------------------|-------------------|------------|
| | 2020 | 2019 |
| Cash on hand (note 18) | 782,714 | 725,437 |
| Balances with the central bank (note 18) | 14,401,466 | 13,359,046 |
| Due from banks and other financial institutions | 5,338,032 | 2,329,549 |
| | 20,522,212 | 16,414,032 |

During the years ended 31 December 2020 and 2019, the Group was not involved in non-cash investing and financing activities.

41. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

During the reporting period, the Group had capital commitments as follows:

| | As at 31 December | |
|----------------------------------|-------------------|---------|
| | 2020 | 2019 |
| Contracted, but not provided for | 201,771 | 321,257 |
| Approved, but not contracted | 1,408 | — |
| | 203,179 | 321,257 |

(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.

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41. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Credit commitments (Continued)

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.

| | As at 31 December | |
|-----------------------------|-------------------|------------|
| | 2020 | 2019 |
| Bank bill acceptances | 15,514,035 | 19,489,664 |
| Letters of guarantee issued | 1,570,625 | 1,705,175 |
| Letters of credit | 929,584 | 2,634,109 |
| Undrawn credit card limits | 21,837,315 | 19,056,773 |
| | 39,851,559 | 42,885,721 |

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

| | As at 31 December | |
|-----------------------------------------------------|-------------------|------------|
| | 2020 | 2019 |
| Financial guarantees and credit related commitments | 7,252,861 | 10,117,936 |

The credit risk-weighted amount of financial guarantees and credit related commitments refers to the amount as computed in accordance with the formula promulgated by the CBIRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

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41. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(c) Legal proceedings

As at 31 December 2020 and 2019, significant legal proceedings exceeding RMB10 million outstanding against the Group (for itself or as a third party) amounted to RMB21,305 thousand and RMB40,637 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. 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 2020, the Bank had underwritten and sold bonds with an accumulated amount of RMB2,517 million (31 December 2019: RMB3,333 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material. The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

42. FIDUCIARY ACTIVITIES

| | As at 31 December | |
|------------------|-------------------|-----------|
| | 2020 | 2019 |
| Designated funds | 1,819,533 | 3,224,299 |
| Designated loans | 1,819,533 | 3,224,299 |

The designated funds represent the funding that the trustors have instructed the Group to use to grant loans to third parties as designated by them. The credit risk remains with the trustors.

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group does not bear any risk.

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43. TRANSFERS OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group 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 2020 and 2019, 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.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2020, the Group did not hold such asset-backed securities (31 December 2019: RMB245,865 thousand).

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44. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments, asset management and credit asset transfers. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on the Group's control on them. The interests held by the Group in the unconsolidated structured entities are set out below:

44.1 Unconsolidated structured entities managed by the Group

(i) *Wealth management products*

When conducting the wealth management business, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 31 December 2020, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB52,986 million (31 December 2019: RMB65,657 million). For the year ended 31 December 2020, fee and commission income included commission and custodian fee and management fee income from the wealth management business that amounted to RMB317,824 thousand (2019: RMB507,076 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 2020, the Group did not provide any financing to the unconsolidated wealth management products (2019: 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 2020 (2019: Nil).

44.2 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 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 2020 and 2019, the Group has not provided liquidity support for those kinds of structured entities.

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44. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

44.2 Structured entities sponsored by other financial institutions (Continued)

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

| | As at 31 December 2020 | | | |
|-------------------------------------------------|----------------------------------------------------------------|---------------------------------------------|-------------|--------------------------------|
| | 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 | 41,731,606 | 88,057,105 | 129,788,711 | 125,395,601 |
| Funds | 7,663,828 | – | 7,663,828 | 7,663,828 |

| | 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 |

45. 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 2020, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB7,719 million (31 December 2019: RMB30,110 million).

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46. RELATED PARTY DISCLOSURES

(a) Significant related party disclosures

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

| Name | Share percentage in the Bank | |
|------------------------------------------------------------|------------------------------|-----------|
| | As at 31 December | |
| | 2020 % | 2019 % |
| Harbin Economic Development and Investment Company Limited | 29.63 | 29.63 |
| Heilongjiang Financial Holding Group Company Limited | 18.51 | 18.51 |
| Fubon Life Insurance Company Limited | 6.87 | 7.03 |
| Harbin Kechuang Xingye Investment Company Limited | N/A | 6.55 |

(ii) Subsidiaries of the Bank

Details of the subsidiaries of the Bank are set out in note 1.

(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

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46. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions

1. Transactions between the Group and related parties

- (i) Transactions between the Group and shareholders of the Group with ownership of 5% or above
Interest expense on due to customers

| Name | Year ended 31 December | | | |
|------------------------------------------------------------------|------------------------|---------------|--------|---------------|
| | 2020 | | 2019 | |
| | Amount | Interest rate | Amount | Interest rate |
| Heilongjiang Financial Holding Group Company Limited | 20,933 | 0.42-3.00% | 3,952 | 1.38-3.00% |
| Harbin Economic Development and Investment Company Limited | 13 | 0.42% | 87,887 | 0.42-1.95% |

Interest income on loans and advances to customers

| Name | Year ended 31 December | | | |
|---------------------------------------------------------|------------------------|---------------|--------|---------------|
| | 2020 | | 2019 | |
| | Amount | Interest rate | Amount | Interest rate |
| Heilongjiang Financial Holding Group Company Limited | 44,695 | 4.65-4.75% | 3,243 | 4.75% |

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

| Transaction | Year ended 31 December | | | |
|------------------|------------------------|---------------|--------|---------------|
| | 2020 | | 2019 | |
| | Amount | Interest rate | Amount | Interest rate |
| Interest income | 332 | 3.43-6.55% | 840 | 3.43-6.55% |
| Interest expense | 190 | 0.05-4.75% | 487 | 0.01-5.23% |

- (iii) Transactions between the Bank and its subsidiaries

| Transaction | Year ended 31 December | | | |
|------------------|------------------------|---------------|---------|---------------|
| | 2020 | | 2019 | |
| | Amount | Interest rate | Amount | Interest rate |
| Interest income | 643,188 | 3.25-5.00% | 424,848 | 2.90-5.10% |
| Interest expense | 154,826 | 0.35-3.90% | 64,154 | 0.35-5.05% |

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- (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

| Name | Year ended 31 December | | | |
|------------------------------------------|------------------------|---------------|--------|---------------|
| | 2020 | | 2019 | |
| | Amount | Interest rate | Amount | Interest rate |
| Sino Russian Financial Union (Harbin) | 25 | 0.42% | 28 | 0.42% |

Operating expenses

| Name | Year ended 31 December | |
|---------------------------|------------------------|------|
| | 2020 | 2019 |
| Beijing Zhongwen Law Firm | N/A | 169 |

- (v)
- Transactions with other related parties*

| Transaction | Year ended 31 December | |
|--------------------------------------------------------------------------|------------------------|--------|
| | 2020 | 2019 |
| Emoluments of key management personnel and their close family members | 31,725 | 40,018 |

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.

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46. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

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 2020 | | 31 December 2019 | |
|------------------------------------------------------------------|------------------|---------------|------------------|---------------|
| | Balance | Interest rate | Balance | Interest rate |
| Heilongjiang Financial Holding Group Company Limited | 1,183,645 | 0.42-3.00% | 29,899 | 1.38-3.00% |
| Harbin Economic Development and Investment Company Limited | 1,076 | 0.42% | – | – |

Loans and advances to customers

| Name | 31 December 2020 | | 31 December 2019 | |
|---------------------------------------------------------|------------------|---------------|------------------|---------------|
| | Balance | Interest rate | Balance | Interest rate |
| Heilongjiang Financial Holding Group Company Limited | – | – | 751,301 | 4.75% |

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

| Transaction | 31 December 2020 | | 31 December 2019 | |
|---------------------------------|------------------|---------------|------------------|---------------|
| | Balance | Interest rate | Balance | Interest rate |
| Loans and advances to customers | 5,539 | 3.43-6.55% | 17,152 | 3.43-6.55% |
| Due to customers | 11,381 | 0.05-4.75% | 24,159 | 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

| Name | 31 December 2020 | | 31 December 2019 | |
|------------------------------------------|------------------|---------------|------------------|---------------|
| | Balance | Interest rate | Balance | Interest rate |
| Sino Russian Financial Union (Harbin) | 5,842 | 0.42% | 5,825 | 0.42% |

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46. RELATED PARTY DISCLOSURES (Continued)

(b) Related party transactions (Continued)

2. Balances with related parties (Continued)

(iv) Balances between the Group and its subsidiaries

| Transaction | 31 December 2020 | | 31 December 2019 | |
|-------------------------------------------------|------------------|---------------|------------------|---------------|
| | Balance | Interest rate | Balance | Interest rate |
| Due from banks and other financial institutions | 18,268,578 | 3.25-5.00% | 11,182,388 | 3.11-4.80% |
| Due to banks | 8,801,447 | 0.72-3.90% | 5,622,725 | 0.72-3.75% |
| Due to customers | 332,502 | 0.42-0.99% | 1,127,104 | 0.42-0.99% |

47. SEGMENT INFORMATION

(a) Operating segments

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

Corporate financial business

Corporate financial business covers the provision of financial products and services to corporate customers. The products and services include deposits, loans, settlement and clearing and other products and services relating to the trading business.

Retail financial business

Retail financial business covers the provision of financial products and services to retail customers. The products and services include deposits, bank cards and credit cards, personal loans and collateral loans, and personal wealth management services.

Interbank financial business

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

Other business

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

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

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47. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

| | Corporate financial business | Retail financial business | Interbank financial business | Other business | Total |
|-------------------------------------------|------------------------------------|---------------------------------|------------------------------------|-------------------|-------------|
| <u>Year ended 31 December 2020</u> | | | | | |
| External net interest income | 5,768,041 | (498,970) | 7,129,563 | (89,456) | 12,309,178 |
| Internal net interest income/(expense) | 928,722 | 3,962,596 | (4,891,318) | – | – |
| Net fee and commission income | 239,544 | 208,096 | 432,367 | – | 880,007 |
| Other income, net (i) | – | – | 1,317,380 | 99,775 | 1,417,155 |
| Operating income | 6,936,307 | 3,671,722 | 3,987,992 | 10,319 | 14,606,340 |
| Operating expenses | (1,737,100) | (1,367,174) | (1,694,453) | (97,260) | (4,895,987) |
| Credit impairment losses on: | | | | | |
| Loans and advances to customers | (4,160,273) | (3,115,519) | – | – | (7,275,792) |
| Others | (398,185) | (35,431) | (532,729) | (59,328) | (1,025,673) |
| Operating profit/(loss) | 640,749 | (846,402) | 1,760,810 | (146,269) | 1,408,888 |
| Profit/(loss) before tax | 640,749 | (846,402) | 1,760,810 | (146,269) | 1,408,888 |
| Income tax expense | | | | | (613,056) |
| Profit for the year | | | | | 795,832 |
| Other segment information: | | | | | |
| Depreciation and amortisation | 276,328 | 217,482 | 284,253 | 2,463 | 780,526 |
| Capital expenditure | 284,044 | 223,556 | 292,191 | 2,532 | 802,323 |
| <u>As at 31 December 2020</u> | | | | | |
| Segment assets | 210,195,475 | 157,451,419 | 228,983,037 | 1,973,686 | 598,603,617 |
| Segment liabilities | 196,423,993 | 284,384,197 | 65,359,341 | 1,326,954 | 547,494,485 |
| Other segment information: | | | | | |
| Credit commitments | 18,014,244 | 21,837,315 | – | – | 39,851,559 |

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

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(In RMB thousands, unless otherwise stated)**47. SEGMENT INFORMATION (Continued)****(a) Operating segments (Continued)**

| | Corporate financial business | Retail financial business | Interbank financial business | Other business | Total |
|----------------------------------------|------------------------------------|---------------------------------|------------------------------------|-------------------|-------------|
| <u>Year ended 31 December 2019</u> | | | | | |
| External net interest income | 3,364,197 | 2,259,656 | 6,099,878 | (28,503) | 11,695,228 |
| Internal net interest income/(expense) | 2,100,864 | 1,979,859 | (4,080,723) | – | – |
| Net fee and commission income | 600,465 | 168,527 | 597,457 | – | 1,366,449 |
| 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/(loss) | 2,020,942 | 1,320,090 | 1,663,180 | (213,720) | 4,790,492 |
| Profit/(loss) 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 |
| <u>As at 31 December 2019</u> | | | | | |
| 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.

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47. SEGMENT INFORMATION (Continued)

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows:

| | |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Heilongjiang region: | Including Head Office, Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqihar, Yichun, Nongken, Harbin Bank Financial Leasing Co., Ltd. and Harbin Bank Consumer Finance Co., Ltd., as well as village and township banks operating within Heilongjiang. |
| Northeastern China: | Including Dalian, Shenyang, as well as village and township banks operating in Northeastern China excluding those in Heilongjiang. |
| Southwestern China: | Including Chengdu, Chongqing, as well as village and township banks operating in Southwestern China and mainly located in Sichuan and Chongqing. |
| Northern China: | Including Tianjin as well as village and township banks operating in Northern China which are mainly located in Beijing and Tianjin. |
| Other regions: | Including village and township banks operating in regions other than those listed above. |

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47. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

| | Mainland China | | | | | Total |
|--------------------------------------|---------------------|--------------------|--------------------|----------------|---------------|-------------|
| | Heilongjiang region | Northeastern China | Southwestern China | Northern China | Other regions | |
| Year ended 31 December 2020 | | | | | | |
| External net interest income | 8,098,312 | 1,401,912 | 1,517,475 | 954,396 | 337,083 | 12,309,178 |
| Internal net interest income/(loss) | (1,000,935) | 226,931 | 472,728 | 260,612 | 40,664 | – |
| Net fee and commission income/(loss) | 679,554 | 22,953 | 141,968 | 36,870 | (1,338) | 880,007 |
| Other income, net (i) | 1,411,380 | 1,022 | 1,253 | 2,125 | 1,375 | 1,417,155 |
| Operating income | 9,188,311 | 1,652,818 | 2,133,424 | 1,254,003 | 377,784 | 14,606,340 |
| Operating expenses | (3,624,088) | (324,803) | (528,454) | (222,687) | (195,955) | (4,895,987) |
| Credit impairment losses on: | | | | | | |
| Loans and advances to customers | (3,747,881) | (677,118) | (1,040,671) | (1,449,329) | (360,793) | (7,275,792) |
| Others | (990,965) | (5,527) | (17,942) | (9,982) | (1,257) | (1,025,673) |
| Operating profit/(loss) | 825,377 | 645,370 | 546,357 | (427,995) | (180,221) | 1,408,888 |
| Profit/(loss) before tax | 825,377 | 645,370 | 546,357 | (427,995) | (180,221) | 1,408,888 |
| Income tax expense | | | | | | (613,056) |
| Profit for the year | | | | | | 795,832 |
| Other segment information: | | | | | | |
| Depreciation and amortisation | 584,318 | 46,608 | 119,743 | 13,724 | 16,133 | 780,526 |
| Capital expenditure | 504,750 | 90,727 | 117,317 | 68,821 | 20,708 | 802,323 |
| As at 31 December 2020 | | | | | | |
| Segment assets | 446,086,000 | 39,816,874 | 59,162,350 | 42,862,559 | 10,675,834 | 598,603,617 |
| Segment liabilities | 427,857,061 | 25,602,363 | 47,498,012 | 37,339,629 | 9,197,420 | 547,494,485 |
| Other segment information: | | | | | | |
| Credit commitments | 25,341,897 | 2,318,433 | 7,526,001 | 4,187,012 | 478,216 | 39,851,559 |

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

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47. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

| | Mainland China | | | | | |
|-----------------------------------------|------------------------|-----------------------|-----------------------|-------------------|------------------|-------------|
| | Heilongjiang region | Northeastern China | Southwestern China | Northern China | Other regions | Total |
| <u>Year ended 31 December 2019</u> | | | | | | |
| External net interest income | 8,173,825 | 484,425 | 1,196,493 | 1,423,222 | 417,263 | 11,695,228 |
| Internal net interest income/(loss) | (2,453,860) | 1,179,138 | 1,157,888 | 101,035 | 15,799 | – |
| Net fee and commission income/(loss) | 1,098,850 | 34,108 | 185,486 | 51,131 | (3,126) | 1,366,449 |
| 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 |
| <u>As at 31 December 2019</u> | | | | | | |
| 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. 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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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry, or geographic location or have comparable economic characteristics.

Measurement of ECLs

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

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

- Stage 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.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Measurement of ECLs (Continued)

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

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

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

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

- Criteria for judging a significant increase in credit risk
- Definition of credit-impaired financial assets
- Models and parameters for measuring ECLs
- Forward-looking information
- Individual impairment assessment

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each 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.

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.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

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:

- The issuer or the debtor encounters significant financial difficulty;
- The debtor is 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;
- An active market for that financial asset disappears because of financial difficulties of the issuer or the debtor;
- The purchase or origination of a financial asset at a deep discount reflects the incurred credit losses; and
- 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.

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.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Parameters of ECL measurement (Continued)

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, and PPI.

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.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Modification of contractual cash flows

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

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

Reverse repurchase business is mainly collateralised by bills or investment securities. As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners.

Corporate loans are mainly collateralised by properties or other assets. As at 31 December 2020, the carrying value of corporate loans covered by collateral amounted to RMB85,959 million (31 December 2019: RMB80,461 million).

Personal loans are mainly collateralised by residential properties. As at 31 December 2020, the carrying value of personal loans covered by collateral amounted to RMB61,510 million (31 December 2019: RMB65,285 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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48. 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 48(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 | |
|---------------------------------------------------------------------|-------------------|-------------|
| | 2020 | 2019 |
| Balances with the central bank | 61,988,382 | 51,556,882 |
| Due from banks and other financial institutions | 6,206,118 | 3,731,686 |
| Loans and advances to customers | 272,350,602 | 258,496,366 |
| Derivative financial assets | 16,395 | 28,521 |
| Financial investments | | |
| – Financial assets at fair value through profit or loss | 53,296,007 | 59,327,969 |
| – Financial assets at fair value through other comprehensive income | 19,901,669 | 26,638,045 |
| – Financial assets at amortised cost | 143,123,445 | 145,508,966 |
| Finance lease receivables | 23,089,177 | 23,124,389 |
| Others | 3,410,364 | 880,717 |
| | 583,382,159 | 569,293,541 |
| Credit commitments | 39,788,101 | 42,885,721 |
| Total maximum credit risk exposure | 623,170,260 | 612,179,262 |

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The credit risk exposures of the Group mainly comprise loans and advances to customers, finance lease receivables and investments in debt securities. Details of the composition of the Group's investments in debt securities are set out in note 48(a)(v) to the consolidated financial statements. The composition of the Group's gross loans and advances to customers by industry is analysed as follows:

| | As at 31 December | |
|------------------------------------------------------------------------|--------------------------|-------------|
| | 2020 | 2019 |
| Corporate loans and advances | | |
| Agriculture, forestry, animal husbandry and fishing | 1,624,309 | 1,740,981 |
| Mining | 124,225 | 99,890 |
| Manufacturing | 6,277,753 | 7,789,212 |
| Production and supply of electricity, heating, gas and water | 4,920,067 | 2,292,813 |
| Construction | 10,919,784 | 7,734,028 |
| Commercial trade | 30,656,796 | 34,834,845 |
| Transportation, storage and postal services | 3,389,690 | 3,958,554 |
| Lodging and catering | 3,639,735 | 3,675,118 |
| Information transmission, software and information technology services | 406,836 | 398,395 |
| Finance | 60,000 | 820,700 |
| Real estate | 35,201,566 | 29,665,983 |
| Leasing and commercial services | 49,221,834 | 35,644,303 |
| Scientific research and technological services | 327,099 | 187,936 |
| Water, environment and public utility management | 10,454,268 | 10,061,229 |
| Resident services and other services | 172,061 | 147,951 |
| Education | 195,413 | 277,227 |
| Health and social affair | 636,989 | 941,167 |
| Culture, sports and entertainment | 323,362 | 308,000 |
| Subtotal | 158,551,787 | 140,578,332 |
| Discounted bills | 1,841,061 | 3,941,883 |
| Personal loans | | |
| Personal business | 36,890,084 | 38,300,001 |
| Mortgages | 15,081,309 | 16,665,280 |
| Personal consumption | 53,064,995 | 51,430,941 |
| Loans to farmers | 15,137,940 | 12,687,674 |
| Subtotal | 120,174,328 | 119,083,896 |
| Total | 280,567,176 | 263,604,111 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Collateral (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 | |
|-------------------------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Heilongjiang region | 124,181,453 | 106,676,648 |
| Northeastern China excluding Heilongjiang | 38,928,038 | 41,994,814 |
| Northern China | 40,689,820 | 42,702,850 |
| Southwestern China | 57,043,279 | 52,226,748 |
| Other regions | 19,724,586 | 20,003,051 |
| Total | 280,567,176 | 263,604,111 |

By type of guarantee

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

| | As at 31 December | |
|----------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Unsecured loans | 52,491,070 | 45,981,746 |
| Guaranteed loans | 78,765,213 | 67,935,353 |
| Loans secured by mortgages | 131,004,937 | 128,209,922 |
| Pledged loans | 18,305,956 | 21,477,090 |
| Total | 280,567,176 | 263,604,111 |

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(In RMB thousands, unless otherwise stated)**48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)****(a) Credit risk (Continued)***Collateral (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 | |
|-------------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Corporate loans and advances | | |
| Neither past due nor impaired | 141,520,933 | 136,289,563 |
| Past due but not impaired | 9,151,739 | 5,571,184 |
| Impaired | 9,720,176 | 2,659,468 |
| Subtotal | 160,392,848 | 144,520,215 |
| Personal loans | | |
| Neither past due nor impaired | 113,016,709 | 113,509,033 |
| Past due but not impaired | 2,774,287 | 2,982,788 |
| Impaired | 4,383,332 | 2,592,075 |
| Subtotal | 120,174,328 | 119,083,896 |
| Total | 280,567,176 | 263,604,111 |

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 2020 | | |
|------------------------------|------------------------|--------------------|--------------------|
| | Pass | Special Mention | Total |
| Corporate loans and advances | 138,868,727 | 2,652,206 | 141,520,933 |
| Personal loans | 112,877,348 | 139,361 | 113,016,709 |
| Total | 251,746,075 | 2,791,567 | 254,537,642 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Collateral (Continued)

(iii) Loans and advances to customers (Continued)

Neither past due nor impaired (Continued)

| | 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 |

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:

| Overdue days | As at 31 December 2020 | | | |
|------------------------------|---------------------------|-------------------------|--------------------------|-------------------|
| | Within 1 month | 1 – 3 months | Over 3 months | Total |
| Corporate loans and advances | 5,699,079 | 3,452,660 | – | 9,151,739 |
| Personal loans | 1,194,625 | 1,579,662 | – | 2,774,287 |
| Total | 6,893,704 | 5,032,322 | – | 11,926,026 |

| Overdue days | As at 31 December 2019 | | | |
|------------------------------|------------------------|------------------|------------------|------------------|
| | 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 2020, the fair value of collateral that the Group holds relating to corporate loans which are past due but not impaired amounted to RMB10,257,557 thousand (31 December 2019: RMB7,766,948 thousand), and the fair value of collateral that the Group holds relating to personal loans which are past due but not impaired amounted to RMB3,080,058 thousand (31 December 2019: RMB3,203,172 thousand).

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(In RMB thousands, unless otherwise stated)**48. FINANCIAL INSTRUMENT RISK MANAGEMENT** (Continued)**(a) Credit risk** (Continued)***Collateral*** (Continued)***(iii) Loans and advances to customers*** (Continued)Impaired

Impaired loans and advances are defined as those loans and advances which have objective evidence of impairment as a result of one or more events that occurred after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

| | As at 31 December | |
|------------------------------|--------------------------|-----------|
| | 2020 | 2019 |
| Corporate loans and advances | 9,720,176 | 2,659,468 |
| Personal loans | 4,383,332 | 2,592,075 |
| Total | 14,103,508 | 5,251,543 |

As at 31 December 2020, the fair value of collateral that the Group holds relating to loans individually determined to be impaired amounted to RMB8,375,638 thousand (31 December 2019: RMB3,317,628 thousand). The collateral mainly consists of land, buildings, equipment and others.

Loans and advances rescheduled

Loans and advances rescheduled represent the loans and advances whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans and advances according to contractual terms. Forms of loans and advances rescheduled include deferral of payments, borrowing for repayment, deduction of interest or part of the principal, modification of the repayment method, improvement of collateral, changing the type of guarantee, etc. As at 31 December 2020, the gross value of the loans and advances rescheduled held by the Group amounted to RMB13,429 million (31 December 2019: RMB6,693 million).

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Collateral (Continued)

(iv) Finance lease receivables

| | As at 31 December | |
|---------------------------------------|-------------------|------------|
| | 2020 | 2019 |
| Finance lease receivables, net | | |
| Neither past due nor impaired | 23,239,279 | 23,204,373 |
| Past due but not impaired | 1,033 | – |
| Impaired | 747,740 | 628,601 |
| | 23,988,052 | 23,832,974 |
| Less: Allowance for impairment losses | (1,198,574) | (962,329) |
| Net amount | 22,789,478 | 22,870,645 |

(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 2020 | | | |
|-------------|------------------------|---------|---------|------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| AAA | 4,718,213 | – | – | 4,718,213 |
| AA- to AA+ | 3,815,742 | – | – | 3,815,742 |
| A+ or below | – | – | 68,557 | 68,557 |
| Unrated | 10,915,144 | – | – | 10,915,144 |
| Total | 19,449,099 | – | 68,557 | 19,517,656 |

| | 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 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Collateral (Continued)

(v) *Financial assets (Continued)*

Financial assets at amortised cost

| | As at 31 December 2020 | | | |
|---------------------------------|------------------------|-----------|-------------|-------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| AAA | 12,089,896 | – | – | 12,089,896 |
| AA- to AA+ | 10,776,140 | – | – | 10,776,140 |
| A+ or below | – | – | 59,700 | 59,700 |
| Unrated | 109,960,550 | 5,676,579 | 6,917,076 | 122,554,205 |
| Total | 132,826,586 | 5,676,579 | 6,976,776 | 145,479,941 |
| Allowance for impairment losses | (743,992) | (322,254) | (3,414,515) | (4,480,761) |
| Net balance | 132,082,594 | 5,354,325 | 3,562,261 | 140,999,180 |

| | 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 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(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.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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

| 31 December 2020 | 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 | - | 15,208,465 | - | - | - | - | - | 47,562,631 | 62,771,096 |
| Due from banks and other financial institutions | - | 3,984,020 | 1,349,430 | 22,176 | 384,788 | 465,395 | 309 | - | 6,206,118 |
| Loans and advances to customers | 17,774,633 | - | 23,241,193 | 14,982,176 | 64,714,667 | 76,485,687 | 75,152,246 | - | 272,350,602 |
| Derivative financial assets | - | - | 13,892 | 2,503 | - | - | - | - | 16,395 |
| Financial investments | 7,098,041 | 7,663,828 | 5,338,261 | 4,011,743 | 57,299,420 | 94,133,928 | 40,775,900 | - | 216,321,121 |
| Finance lease receivables | 169,353 | - | 1,192,308 | 1,910,530 | 7,044,531 | 12,724,729 | 47,726 | - | 23,089,177 |
| Other financial assets | 1,047,565 | 228,271 | 243,955 | 44,812 | 1,789,922 | 53,482 | 2,357 | - | 3,410,364 |
| Total financial assets | 26,089,592 | 27,084,584 | 31,379,039 | 20,973,940 | 131,233,328 | 183,863,221 | 115,978,538 | 47,562,631 | 584,164,873 |
| Financial liabilities: | | | | | | | | | |
| Due to the central bank | - | - | 551 | 721,772 | 2,916,896 | - | - | - | 3,639,219 |
| Borrowings from banks and other financial institutions | - | - | 1,835,461 | 2,278,006 | 5,734,464 | - | - | - | 9,847,931 |
| Due to banks | - | 55,610 | 1,146,396 | 5,084,669 | 9,634,794 | - | - | - | 15,921,469 |
| Derivative financial liabilities | - | - | 13,892 | 2,503 | - | - | - | - | 16,395 |
| Repurchase agreements | - | - | - | 481,434 | 1,018,008 | - | - | - | 1,499,442 |
| Due to customers | - | 161,029,669 | 16,225,117 | 49,226,273 | 138,511,604 | 111,340,476 | - | - | 476,333,139 |
| Debt securities issued | - | - | 1,288,024 | 9,596,532 | 13,710,554 | 1,000,000 | 8,000,000 | - | 33,575,110 |
| Other financial liabilities | - | 1,367,081 | 349,178 | 169,384 | 949,330 | 1,659,200 | 99,593 | - | 4,593,766 |
| Total financial liabilities | - | 162,452,360 | 20,838,619 | 67,560,573 | 172,475,650 | 113,999,676 | 8,099,593 | - | 545,426,471 |
| Net position | 26,089,592 | (135,367,776) | 10,540,420 | (46,586,633) | (41,242,322) | 69,863,545 | 107,878,945 | 47,562,631 | 38,738,402 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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

| 31 December 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 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(iii) 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 2020 | 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 | 15,208,465 | - | - | - | - | - | 47,562,631 | 62,771,096 |
| Due from banks and other financial institutions | 3,986,817 | 1,356,158 | 17,781 | 509,353 | 348,303 | 309 | - | 6,218,721 |
| Loans and advances to customers | - | 24,711,203 | 17,770,347 | 74,371,673 | 103,527,888 | 105,558,721 | 19,948,823 | 345,888,655 |
| Financial investments | 7,663,828 | 6,077,684 | 5,401,424 | 62,944,760 | 110,336,735 | 49,535,087 | 7,174,784 | 249,134,302 |
| Finance lease receivables | - | 1,267,318 | 2,060,052 | 7,685,404 | 14,337,452 | 52,770 | 169,353 | 25,572,349 |
| Other financial assets | 228,271 | 243,955 | 44,812 | 1,784,922 | 58,482 | 2,357 | - | 2,362,799 |
| Total financial assets | 27,087,381 | 33,656,318 | 25,294,416 | 147,296,112 | 228,608,860 | 155,149,244 | 74,855,591 | 691,947,922 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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

| 31 December 2020 | Repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Overdue/ Undated | Total |
|--------------------------------------------------------------|------------------------|------------------------|---------------------------|--------------------------------|----------------------|-------------------------|---------------------|-------------|
| Financial liabilities: | | | | | | | | |
| Due to the central bank | - | 7,879 | 736,347 | 2,938,686 | - | - | - | 3,682,912 |
| Borrowings from banks and other financial institutions | - | 1,870,558 | 2,332,965 | 5,823,807 | - | - | - | 10,027,330 |
| Due to banks (*) | 55,610 | 1,208,293 | 5,650,706 | 10,734,710 | - | - | - | 17,649,319 |
| Due to customers | 161,029,669 | 16,805,525 | 50,712,329 | 143,361,151 | 119,876,099 | - | - | 491,784,773 |
| Debt securities issued | - | 1,270,000 | 9,660,000 | 14,092,300 | 2,327,500 | 8,320,000 | - | 35,669,800 |
| Other financial liabilities | 1,367,081 | 349,623 | 169,620 | 957,686 | 1,680,353 | 99,800 | - | 4,624,163 |
| Total financial liabilities | 162,452,360 | 21,511,878 | 69,261,967 | 177,908,340 | 123,883,952 | 8,419,800 | - | 563,438,297 |
| Net position | (135,364,979) | 12,144,440 | (43,967,551) | (30,612,228) | 104,724,908 | 146,729,444 | 74,855,591 | 128,509,625 |
| Derivative cash flows | | | | | | | | |
| Derivative financial instruments settled on a gross basis | - | 13,892 | 2,503 | - | - | - | - | 16,395 |
| Total inflow | - | 13,892 | 2,503 | - | - | - | - | 16,395 |
| Credit commitments | 22,441,220 | 398,870 | 6,349,548 | 9,828,066 | 833,855 | - | - | 39,851,559 |

(*) Includes repurchase agreements

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48. 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 | | | | | | | | |
| 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 |

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48. 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 |
|--------------------------------------------------------------|------------------------|------------------------|------------------------|--------------------------------|----------------------|-------------------------|---------------------|-------------|
| 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

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on-and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group's market risk contains interest rate risk and currency risk.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly results from the risk arising from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities, and off-balance sheet foreign exchange positions arising from derivative transactions.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank uses different management methods to control market risks, including trading book and banking book risks.

(i) Currency risk

The Group conducts its 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.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies in which the Group has significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis shows the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, has not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

The Group sets trading limits, stop-loss limits and exposure limits to foreign exchange transactions to manage foreign exchange risk and to keep currency risk within limits. Based on the guidelines provided by the Risk Management Committee, laws and regulations as well as evaluation of the current market, the Group sets its risk limits and minimises the possibility of mismatch through more reasonable allocation of foreign currency sources and deployment.

| Currency | Change in rate | Effect on profit before tax | |
|----------|----------------|-----------------------------|----------|
| | | As at 31 December | |
| | | 2020 | 2019 |
| USD | -1% | (14,668) | (11,449) |
| HKD | -1% | 187 | 192 |
| RUB | -1% | (264) | (208) |

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.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

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

| 31 December 2020 | 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 | 62,726,267 | 27,766 | 784 | 14,335 | 1,944 | 62,771,096 |
| Due from banks and other financial institutions | 4,886,429 | 917,022 | 15,760 | 18,483 | 368,424 | 6,206,118 |
| Loans and advances to customers | 272,264,306 | 86,221 | - | - | 75 | 272,350,602 |
| Derivative financial assets | 16,395 | - | - | - | - | 16,395 |
| Financial investments | 215,851,328 | 469,793 | - | - | - | 216,321,121 |
| Finance lease receivables | 23,089,177 | - | - | - | - | 23,089,177 |
| Other financial assets | 3,410,364 | - | - | - | - | 3,410,364 |
| Total financial assets | 582,244,266 | 1,500,802 | 16,544 | 32,818 | 370,443 | 584,164,873 |
| Financial liabilities: | | | | | | |
| Due to the central bank | 3,639,219 | - | - | - | - | 3,639,219 |
| Borrowings from banks and other institutions | 9,847,931 | - | - | - | - | 9,847,931 |
| Due to banks | 15,916,795 | 888 | - | 3,786 | - | 15,921,469 |
| Derivative financial liabilities | 16,395 | - | - | - | - | 16,395 |
| Repurchase agreements | 1,499,442 | - | - | - | - | 1,499,442 |
| Due to customers | 475,962,182 | 33,126 | 928 | 2,642 | 334,261 | 476,333,139 |
| Debt securities issued | 33,575,110 | - | - | - | - | 33,575,110 |
| Other financial liabilities | 4,559,473 | - | 34,293 | - | - | 4,593,766 |
| Total financial liabilities | 545,016,547 | 34,014 | 35,221 | 6,428 | 334,261 | 545,426,471 |
| Net position | 37,227,719 | 1,466,788 | (18,677) | 26,390 | 36,182 | 38,738,402 |
| Credit commitments | 39,647,373 | 186,416 | - | - | 17,770 | 39,851,559 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

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

| 31 December 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 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk

The Group's bank account interest rate risk mainly arises from the mismatches of the repricing dates between interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes interest rate policy for RMB which includes a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have an impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The sensitivity of the net interest income is the effect of the assumed changes in interest rates on the net interest income, arising from the financial assets and financial liabilities held at the year end that are subject to repricing within the coming year. The sensitivity of equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing 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-evaluates the market value of trading account assets daily, sets trading limits, stop-loss limits and risk limitation for the purpose of limit management, and monitors and controls the limits by frequency.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net interest income and equity.

| | Effect on net interest income | | Effect on equity | |
|------------------------|-------------------------------|-----------|------------------|-----------|
| | 31 December | | 31 December | |
| | 2020 | 2019 | 2020 | 2019 |
| Change in basis points | | | | |
| +100 basis points | (718,597) | (743,095) | (468,680) | (725,601) |
| – 100 basis points | 718,597 | 743,095 | 502,248 | 775,867 |

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.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(iii) 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 2020 | 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 | 61,964,097 | - | - | - | 806,999 | 62,771,096 |
| Due from banks and other financial institutions | 5,349,678 | 510,622 | 333,396 | 309 | 12,113 | 6,206,118 |
| Loans and advances to customers | 98,849,311 | 57,672,759 | 61,975,558 | 33,250,072 | 20,602,902 | 272,350,602 |
| Derivative financial assets | - | - | - | - | 16,395 | 16,395 |
| Financial investments | 7,323,857 | 31,971,189 | 78,947,395 | 40,488,197 | 57,590,483 | 216,321,121 |
| Finance lease receivables | 20,702,516 | 636,553 | 1,281,056 | - | 469,052 | 23,089,177 |
| Other financial assets | - | - | - | - | 3,410,364 | 3,410,364 |
| Total financial assets | 194,189,459 | 90,791,123 | 142,537,405 | 73,738,578 | 82,908,308 | 584,164,873 |
| Financial liabilities: | | | | | | |
| Due to the central bank | 721,320 | 2,897,576 | - | - | 20,323 | 3,639,219 |
| Borrowings from banks and other financial institutions | 4,079,600 | 5,648,012 | - | - | 120,319 | 9,847,931 |
| Due to banks | 6,196,895 | 9,557,334 | - | - | 167,240 | 15,921,469 |
| Derivative financial liabilities | - | - | - | - | 16,395 | 16,395 |
| Repurchase agreements | 470,200 | 999,965 | - | - | 29,277 | 1,499,442 |
| Due to customers | 225,076,625 | 134,437,964 | 109,765,422 | - | 7,053,128 | 476,333,139 |
| Debt securities issued | 10,864,556 | 13,465,363 | 1,000,000 | 8,000,000 | 245,191 | 33,575,110 |
| Other financial liabilities | - | 221,804 | 171,037 | - | 4,200,925 | 4,593,766 |
| Total financial liabilities | 247,409,196 | 167,228,018 | 110,936,459 | 8,000,000 | 11,852,798 | 545,426,471 |
| Total interest sensitivity gap | (53,219,737) | (76,436,895) | 31,600,946 | 65,738,578 | N/A | N/A |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

The tables below summarise the contractual repricing or maturity dates, whichever are earlier, of the Group's financial assets and financial liabilities: (continued)

| 31 December 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 |

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(d) Capital management

The Group's objectives on capital management are:

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to support the Group's stability and growth;
- to allocate capital using an efficient and risk-based approach to optimise the risk adjusted return to the shareholders; and
- to maintain an adequate capital base to support the development of its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust its profit distribution policy, issue or redeem own shares, issue long-term subordinated bonds, etc.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by the CBIRC. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

The capital adequacy ratios and related components of the Group are computed in accordance with the statutory financial statements of the Group prepared under PRC GAAP. During the year, the Group has fully complied with all the externally imposed capital requirements. The requirements pursuant to these regulations may have significant differences comparing to those applicable in Hong Kong and other countries.

Since 1 January 2013, the Group has begun to disclose the capital adequacy ratio in accordance with the "Capital Rules for Commercial Banks (Provisional)" and will continue to promote the content of this disclosure. According to the requirements of the CBIRC, commercial banks should meet the regulatory requirement of the capital adequacy ratio by the end of 2018. The regulatory requirements request a commercial bank to maintain its core tier 1 capital adequacy ratio above 7.5%, the tier 1 capital adequacy ratio above 8.5% and the capital adequacy ratio above 10.5%.

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48. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

| | As at 31 December | |
|---------------------------------------------|-------------------|-------------|
| | 2020 | 2019 |
| Core capital | | |
| Qualified part of share capital | 10,995,600 | 10,995,600 |
| Qualified part of capital reserves | 7,661,124 | 7,663,342 |
| Surplus reserve and general reserves | 11,437,656 | 11,303,245 |
| Undistributed profits | 19,056,263 | 19,544,558 |
| Qualified part of non-controlling interests | 826,252 | 700,603 |
| Other comprehensive income | 96,484 | 319,926 |
| Core tier 1 capital deductible items: | | |
| Fully deductible items | (397,844) | (306,710) |
| Net core tier 1 capital | 49,675,535 | 50,220,564 |
| Net other tier 1 capital | 110,167 | 93,344 |
| Net tier 1 capital | 49,785,702 | 50,313,908 |
| Net tier 2 capital | 11,676,143 | 11,277,333 |
| Net capital | 61,461,845 | 61,591,241 |
| Total risk-weighted assets | 488,192,700 | 491,476,578 |
| Core tier 1 capital adequacy ratio | 10.18% | 10.22% |
| Tier 1 capital adequacy ratio | 10.20% | 10.24% |
| Capital adequacy ratio | 12.59% | 12.53% |

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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(In RMB thousands, unless otherwise stated)**49. 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 2020 | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------------------------------------|----------------|----------------|----------------|--------------|
| <u>Financial assets measured at fair value</u> | | | | |
| Derivative financial assets | – | 16,395 | – | 16,395 |
| Financial assets at fair value through profit or loss | | | | |
| Debt securities | – | 3,842,218 | – | 3,842,218 |
| Funds | – | 7,663,828 | – | 7,663,828 |
| Trust investments and asset management plans | – | 41,731,606 | – | 41,731,606 |
| Equity instruments | – | 277,626 | – | 277,626 |
| Subtotal | – | 53,515,278 | – | 53,515,278 |
| Financial assets at fair value through other comprehensive income | | | | |
| Debt securities | – | 19,517,656 | – | 19,517,656 |
| Equity investments | – | 250,561 | – | 250,561 |
| Subtotal | – | 19,768,217 | – | 19,768,217 |
| Total | – | 73,299,890 | – | 73,299,890 |
| <u>Financial liabilities measured at fair value</u> | | | | |
| Derivative financial liabilities | – | 16,395 | – | 16,395 |
| <u>Financial assets disclosed at fair value</u> | | | | |
| Financial assets at amortised cost | | | | |
| Debt securities | – | 57,526,459 | – | 57,526,459 |
| Trust investments and asset management plans | – | 83,663,995 | – | 83,663,995 |
| Certificate treasury bonds | – | 97,008 | – | 97,008 |
| Total | – | 141,287,462 | – | 141,287,462 |
| <u>Financial liabilities disclosed at fair value</u> | | | | |
| Financial bonds issued | – | 2,009,716 | – | 2,009,716 |
| Tier 2 capital bonds issued | – | 7,983,800 | – | 7,983,800 |
| Negotiable certificates of deposit issued | – | 23,113,712 | – | 23,113,712 |
| Total | – | 33,107,228 | – | 33,107,228 |

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49. 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 2019 | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------------------------------------|---------|-------------|---------|-------------|
| <u>Financial assets measured at fair value</u> | | | | |
| 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 instruments | – | 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 |
| <u>Financial liabilities measured at fair value</u> | | | | |
| Derivative financial liabilities | – | 26,881 | – | 26,881 |
| <u>Financial assets disclosed at fair value</u> | | | | |
| 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 |
| <u>Financial liabilities disclosed at fair value</u> | | | | |
| 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 |

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49. 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.

The carrying amounts of following financial instruments are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently:

| Assets | Liabilities |
|-------------------------------------------------|--------------------------------------------------------|
| Balances with the central bank | Due to the central bank |
| Due from banks and other financial institutions | Borrowings from banks and other financial institutions |
| Reverse repurchase agreements | Due to banks |
| Loans and advances to customers | Repurchase agreements |
| Finance lease receivables | Due to customers |
| Other financial assets | Other financial liabilities |

50. SUBSEQUENT EVENTS

As approved at the Board of Directors' meeting held on 31 March 2021, the profit distribution plan of 2020 was as follows: 10% of 2020 net profit amounting to RMB104 million is appropriated to the statutory surplus reserve.

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

51. COMPARATIVE FIGURES

In accordance with the presenting pattern of the financial statements, the Group has reclassified some comparative figures.

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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 | |
|---------------------------------------------------------------------|--------------------|--------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Cash and balances with the central bank | 60,532,808 | 50,653,561 |
| Due from banks and other financial institutions | 22,012,820 | 13,971,605 |
| Loans and advances to customers | 249,364,567 | 238,494,263 |
| Derivative financial assets | 16,395 | 28,521 |
| Financial investments | 216,849,308 | 231,843,228 |
| – financial assets at fair value through profit or loss | 53,573,633 | 59,606,966 |
| – financial assets at fair value through other comprehensive income | 20,152,230 | 26,727,296 |
| – financial assets at amortised cost | 143,123,445 | 145,508,966 |
| Investments in subsidiaries | 4,710,420 | 4,117,420 |
| Property and equipment | 8,485,285 | 8,486,227 |
| Deferred income tax assets | 3,209,170 | 2,243,194 |
| Other assets | 4,100,932 | 1,468,181 |
| TOTAL ASSETS | 569,281,705 | 551,306,200 |
| LIABILITIES | | |
| Due to the central bank | 2,554,018 | 3,077,553 |
| Due to banks | 24,721,000 | 18,186,023 |
| Derivative financial liabilities | 16,395 | 26,881 |
| Repurchase agreements | 1,499,442 | 18,361,742 |
| Due to customers | 456,161,838 | 414,916,689 |
| Income tax payable | 750,934 | 654,149 |
| Debt securities issued | 32,537,355 | 44,926,588 |
| Other liabilities | 3,303,548 | 3,140,824 |
| TOTAL LIABILITIES | 521,544,530 | 503,290,449 |
| EQUITY | | |
| Share capital | 10,995,600 | 10,995,600 |
| Capital reserves | 7,639,362 | 7,639,362 |
| Other comprehensive income | 96,484 | 319,926 |
| Surplus reserves | 3,886,909 | 3,782,467 |
| General and regulatory reserves | 6,922,570 | 6,922,570 |
| Undistributed profits | 18,196,250 | 18,355,826 |
| TOTAL EQUITY | 47,737,175 | 48,015,751 |
| TOTAL EQUITY AND LIABILITIES | 569,281,705 | 551,306,200 |

DENG Xinquan

Chairman

LYU Tianjun

President

YANG Dazhi

Assistant to the
President
(in Charge of Finance)

CHEN Liyang

General Manager of
Finance and Accounting
Department

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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 2020 | 10,995,600 | 7,639,362 | 319,926 | 3,782,467 | 6,922,570 | 18,355,826 | 48,015,751 |
| Movements during the year | | | | | | | |
| Total comprehensive income | - | - | (223,442) | 104,442 | - | (159,576) | (278,576) |
| Profit distribution | - | - | (223,442) | - | - | 1,044,426 | 820,984 |
| 1. Appropriation to surplus reserves | - | - | - | 104,442 | - | (1,204,002) | (1,099,560) |
| 2. Distribution to shareholders | - | - | - | 104,442 | - | (104,442) | - |
| Balance as at 31 December 2020 | 10,995,600 | 7,639,362 | 96,484 | 3,886,909 | 6,922,570 | 18,196,250 | 47,737,175 |
| 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 during the year | | | | | | | |
| Total comprehensive income | - | - | (31,297) | 357,139 | 280,997 | 2,933,253 | 3,540,092 |
| Profit distribution | - | - | (31,297) | - | - | 3,571,389 | 3,540,092 |
| 1. Appropriation to surplus reserves | - | - | - | 357,139 | 280,997 | (638,136) | - |
| 2. Appropriation to general and regulatory reserves | - | - | - | 357,139 | - | (357,139) | - |
| 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 |

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2021.

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2020
(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 | |
|-------------------------------------------------------------------------|-------------------|---------|
| | 2020 | 2019 |
| RMB current assets to RMB current liabilities | 57.56% | 42.82% |
| Foreign currency current assets to foreign currency current liabilities | 372.83% | 129.01% |

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 2020 | | | | | |
| Spot assets | 1,500,802 | 16,544 | 32,818 | 370,443 | 1,920,607 |
| Spot liabilities | (34,014) | (35,221) | (6,428) | (334,261) | (409,924) |
| Net long/(short) position | 1,466,788 | (18,677) | 26,390 | 36,182 | 1,510,683 |
| 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 |

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2020
(In RMB thousands, unless otherwise stated)

Directors, Supervisors, Senior
Management and Employees
Financial Statements
Documents for Inspection

(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 are included in Due from banks and other financial institutions.

International claims have been disclosed by major country or geographical area. A country or geographical area is reported when the claims from the country or area constitute 10% or more of the aggregate amount of international claims, after taking into account risk transfers.

| | Banks | Others | Total |
|---------------------------------------|------------------|--------|------------------|
| 31 December 2020 | | | |
| Asia Pacific excluding Mainland China | 147,461 | – | 147,461 |
| – of which attributed to Hong Kong | 79,053 | – | 79,053 |
| Europe | 640,880 | – | 640,880 |
| North America | 793,696 | – | 793,696 |
| Total | 1,582,037 | – | 1,582,037 |
| 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 |

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2020
(In RMB thousands, unless otherwise stated)

(d) LOANS AND ADVANCES TO CUSTOMERS

(i) Overdue loans and advances to customers

| Overdue days | 31 December 2020 | | | | |
|----------------------------|-------------------|----------------------|------------------|-----------------|-------------------|
| | Within 90 days | 91 days to 1 year | 1 to 5 years | Over 5 years | Total |
| Unsecured loans | 665,931 | 1,168,446 | 93,731 | 4,179 | 1,932,287 |
| Guaranteed loans | 5,671,450 | 3,556,585 | 1,485,983 | 8,823 | 10,722,841 |
| Loans secured by mortgages | 5,922,387 | 3,414,172 | 2,727,714 | 44,231 | 12,108,504 |
| Pledged loans | 26,091 | 661,931 | 76,352 | 310 | 764,684 |
| Total | 12,285,859 | 8,801,134 | 4,383,780 | 57,543 | 25,528,316 |

| Overdue days | 31 December 2019 | | | | |
|----------------------------|-------------------|----------------------|------------------|-----------------|-------------------|
| | 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 |

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

| | As at 31 December | |
|-------------------------------------------|-------------------|-------------------|
| | 2020 | 2019 |
| Heilongjiang region | 6,931,319 | 5,500,668 |
| Northeastern China excluding Heilongjiang | 4,084,608 | 2,045,445 |
| Northern China | 9,241,578 | 2,958,444 |
| Southwestern China | 4,433,295 | 2,491,299 |
| Other regions | 837,516 | 744,842 |
| Total | 25,528,316 | 13,740,698 |

Unaudited Supplementary Financial Information

For The Year Ended 31 December 2020
(In RMB thousands, unless otherwise stated)

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

As at 31 December 2020 and 2019, 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 2020 and 2019, 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 | |
|----------------------------|--------------------|-------------|
| | 2020 | 2019 |
| On-balance sheet exposure | 295,367,756 | 282,068,594 |
| Off-balance sheet exposure | 39,788,101 | 42,885,721 |

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

By order of the Board of Directors
Harbin Bank Co., Ltd.
Deng Xinquan
Chairman

Harbin, the PRC, 31 March 2021

As at the date of this announcement, the Board of the Bank comprises Deng Xinquan, Lyu Tianjun and Sun Feixia as executive directors; Zhao Hongbo, Zhang Xianjun, Yu Hong and Lang Shufeng as non-executive directors; Sun Yan, Zhang Zheng, Hou Bojian and Jin Qinglu as independent non-executive directors.

* *Harbin Bank Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.*