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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)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

The board of directors (the “**Board**”) of Harbin Bank Co., Ltd. (the “**Bank**”) is pleased to announce the unaudited consolidated interim results of the Bank and its subsidiaries (the “**Group**”) for the six months ended 30 June 2017. This results announcement, containing the full text of the 2017 Interim 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 announcement of interim results. The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017 have been reviewed by Ernst & Young in accordance with International Standard on Review Engagements. Such interim 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 interim report of the Bank for the six months ended 30 June 2017 will be dispatched to shareholders of the Bank and will be available on the above websites in due course.

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

Definitions

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

“A Shares”	ordinary shares of a nominal value of RMB1.00 each proposed to be issued pursuant to the A Share Offering by the Bank, which will be subscribed for and traded in RMB, will be applied for listing on the Shanghai Stock Exchange
“A Share Offering”	the Bank’s proposed initial public offering of not more than 3,666,000,000 A Shares and application for the Listing of such A Shares on the Shanghai Stock Exchange
“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
“CBRC”	the China Banking Regulatory Commission
“Chief Financial Officer”	the chief financial officer of the Company
“Company” or “Bank” or “Group”	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, and all its subsidiaries and branches
“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 fully-paid in RMB
“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 for and traded in HKD
“Harbin Economic Development”	Harbin Economic Development and Investment Company
“HB Leasing”	Harbin Bank Financial Leasing Co., Ltd.
“HBCF”	Harbin Bank Consumer Finance 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
“Hong Kong SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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
“PRC”	the People’s Republic of China, only for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Reporting Period”	the six months ended 30 June 2017
“Supervisor(s)”	the supervisor(s) of the Company

Company Profile

Basic Information

Legal Chinese Name:

哈爾濱銀行股份有限公司 (Abbreviation: 哈爾濱銀行)

English Name:

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

Legal Representative:

Guo Zhiwen

Authorised Representatives for the Hong Kong Stock Exchange:

Liu Zhuo and Sun Feixia

Board Secretary:

Sun Feixia

Company Secretary:

Sun Feixia

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Place Where this Report is Available:

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

Place of Listing, Stock Name and Stock Code:

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

Corporate Uniform Social Credit Code:

912301001275921118

Finance Permit Institution Number:

B0306H223010001

Date of Initial Registration:

25 July 1997

Initial Registration Authority:

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

Legal Adviser as to Laws of the PRC:

Beijing Jun He Law Offices

Legal Adviser as to Laws of Hong Kong:

Linklaters

Auditors:

Overseas auditor: Ernst & Young, Certified Public Accountants in Hong Kong

Domestic auditor: Ernst & Young Hua Ming LLP

H Share Registrar and Transfer Office in Hong Kong:

Computershare Hong Kong Investor Services Limited

Company Profile

Company Profile

The Bank, headquartered in Harbin, was granted its finance permit to carry on financial business by the PBOC in February 1997, and obtained its corporate business license on 25 July 1997. At present, the Bank has established 17 branches in Tianjin, Chongqing, Dalian, Shenyang, Chengdu, Harbin, Daqing, etc. and 32 village and township banks (including two village and township banks in construction) in 14 provinces and municipalities, including Beijing, Guangdong, Jiangsu, Jilin and Heilongjiang. The Bank, as a controlling shareholder, has promoted the establishment of HB Leasing, the first financial leasing company in Northeastern China, and HBCF, the first consumer finance company in Heilongjiang Province, respectively. As at 30 June 2017, the Group had 366 business outlets with branches and sub-branches across seven administrative regions in China.

As at 30 June 2017, the Bank had total assets of RMB546.9271 billion, total loans and advances to customers of RMB225.9057 billion and total customer deposits of RMB344.9012 billion.

In the first half of 2017, the Bank was ranked 195th in “Brand Finance Banking 500 for the Year 2017” published by Brand Finance (a famous UK-based branded business valuation consultancy), moving up 161 places compared to last year thanks to our 199% growth in brand value. The Bank was ranked 1,130th in the “2017 Forbes Global listed company 2000” published by Forbes of the US. The Bank was ranked 217th in the “Top 1000 World Banks” in terms of total tier 1 capital and was ranked 35th among Chinese Banks in 2017 published by the Banker of United Kingdom. In addition, the Bank also received the acclaims of 2015-2016 Advanced Organisation in Corporate Culture Construction of the National Financial System (2015-2016年全國金融系統企業文化建設先進單位), 2016 Model Bank of Advanced Press Release in China (2016年中國銀行業好新聞先進宣傳示範單位獎), 2016 Bond Business Progress Award of Excellent Bond Institution in China (2016年中國債券市場優秀成員“債券業務進步獎”), 2016 Active Interbank Trader of Domestic Currency (2016年度銀行間本幣市場活躍交易商), 2016 MasterCard Best Commercial Bank Partner Award (2016萬事達卡最佳合作商業銀行獎), 2016 MasterCard Outstanding Contribution Award (2016萬事達卡突出貢獻獎), 2016 Top Ten Innovative Institutions for Rural Financial Brand of China (2016全國農村金融十佳品牌創新機構), etc. Three of the featured products, namely Syndicated Loans to Russia (俄易融), Medical Loan Tong (醫貸通) and Harvest E-loan (豐收e貸), received Top Ten Innovative Financial Products Awards (十佳金融產品創新獎) and Top Ten Internet Finance Innovation Awards (十佳互聯網金融創新獎) under 2017 China Financial Innovation Award (2017中國金融創新獎) published by the Banker respectively; Online Harbin Marathon Gala (哈馬線上嘉年華) received the Most Influential Award (極具影響力獎) under the 3rd session of Golden Chestnut Award (“金栗子獎”) of China Financial Marketing.

Major Subsidiaries

The details of major subsidiaries of the Bank as of 30 June 2017 are as follows:

Company Name	Place of incorporation/ registration and operation place in the PRC	Nominal value of issued share/ paid-up capital RMB million	Percentage of ownership/ voting rights directly owned by the Bank (%)	Amount invested by the Bank RMB million
Bayan Rongxing Village and Township Bank Co., Ltd.	Bayan, Heilongjiang	50	100.00	53.4
Huining Huishi Village and Township Bank Co., Ltd.	Huining, Gansu	30	100.00	30
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	Huairou, Beijing	200	85.00	207.6
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30	100.00	30
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	220	70.00	140
Yanshou Rongxing Village and Township Bank Co., Ltd.	Yanshou, Heilongjiang	30	100.00	30
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	150	80.00	144.4
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80	75.00	60
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	50	98.00	49
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	30	100.00	30
Yanshi Rongxing Village and Township Bank Co., Ltd.	Yanshi, Henan	30	100.00	30
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	30	100.00	30
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	100	80.00	80
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30	100.00	30
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	55	80.00	40
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50	70.00	35

Company Profile

Company Name	Place of incorporation/ registration and operation place in the PRC	Nominal value of issued share/ paid-up capital RMB million	Percentage of ownership/ voting rights directly owned by the Bank (%)	Amount invested by the Bank RMB million
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	30	100.00	30
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30	100.00	30
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	30	100.00	30
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50	100.00	50
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30	96.67	29
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100	80.00	80
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	50	100.00	50
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	Youyang, Chongqing	60	100.00	60
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000	80.00	1,600
Harbin Bank Consumer Finance Co., Ltd.	Harbin, Heilongjiang	500	59.00	295
Ning'an Rongxing Village and Township Bank Co., Ltd.	Ning'an, Heilongjiang	30	100.00	30
Tianshui Maiji Rongxing Village and Township Bank Co., Ltd.	Tianshui, Gansu	50	98.00	49
Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd.	Pingliang, Gansu	50	90.00	45
Zhongjiang Rongxing Village and Township Bank Co., Ltd.	Deyang, Sichuan	50	70.00	35
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

Summary of Accounting Data and Financial Indicators

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

	For the six months ended 30 June		For the year ended 31 December	
	2017	2016	2017 vs. 2016	2016
(In RMB million, except percentages)				
Results of operations			Rate of change	
Net interest income	6,324.2	5,413.2	16.83%	11,573.3
Net fee and commission income	1,213.0	1,262.9	-3.95%	2,393.4
Operating income	7,472.1	6,859.5	8.93%	14,172.0
Operating expenses	(1,858.6)	(2,064.8)	-9.99%	(4,522.2)
Impairment losses	(1,972.2)	(1,691.2)	16.62%	(3,294.8)
Profit before tax	3,641.3	3,163.1	15.12%	6,445.6
Net profit	2,689.2	2,459.3	9.35%	4,962.2
Net profit attributable to				
shareholders of the Bank	2,659.7	2,417.7	10.01%	4,876.6
For each share (RMB)			Rate of change	
Net assets per share attributable to				
shareholders of the Bank	3.54	3.11	13.83%	3.32
Earnings per share	0.24	0.22	9.09%	0.44
Profitability indicators			Changes	
Return on average total assets ⁽¹⁾	0.99%	1.07%	decreased by 0.08 percentage point	1.01%
Return on average equity ⁽²⁾	14.09%	14.36%	decreased by 0.27 percentage point	14.01%
Net interest spread ⁽³⁾	2.23%	2.49%	decreased by 0.26 percentage point	2.47%
Net interest margin ⁽⁴⁾	2.42%	2.68%	decreased by 0.26 percentage point	2.65%
Net fee and commission income to operating income ratio	16.23%	18.41%	decreased by 2.18 percentage point	16.89%
Cost-to-income ratio ⁽⁵⁾	24.02%	24.85%	decreased by 0.83 percentage point	28.60%

Summary of Accounting Data and Financial Indicators

	For the six months ended 30 June	For the year ended 31 December	
	2017	2016	The first half of 2017 vs. 2016
(In RMB million, except percentages)			
Capital adequacy indicators			Changes
Core tier-1 capital adequacy ratio	9.46%	9.34%	increased by 0.12 percentage point
Tier-1 capital adequacy ratio	9.48%	9.35%	increased by 0.13 percentage point
Capital adequacy ratio	12.02%	11.97%	increased by 0.05 percentage point
Total equity to total assets	7.32%	6.93%	increased by 0.39 percentage point
Assets quality indicators			Changes
NPL ratio ⁽⁶⁾	1.65%	1.53%	increased by 0.12 percentage point
Impairment coverage ratio ⁽⁷⁾	168.49%	166.77%	increased by 1.72 percentage points
Impairment losses on loans ⁽⁸⁾	2.77%	2.55%	increased by 0.22 percentage point
Other indicators			
Loan-deposit ratio	65.50%	58.76%	increased by 6.74 percentage points
Scale indicators			Rate of change
Total assets	546,927.1	539,016.2	1.47%
Of which: total loans and advances to customers	225,905.7	201,627.9	12.04%
Total liabilities	506,872.0	501,681.2	1.03%
Of which: due to customers	344,901.2	343,151.0	0.51%
Share capital	10,995.6	10,995.6	—
Equity attributable to shareholders of the Bank	38,971.9	36,507.8	6.75%
Non-controlling interests	1,083.2	827.2	30.95%
Total equity	40,055.1	37,335.0	7.29%

Notes:

- (1) The percentage of net profit during the Reporting Period to the average balance of the total assets at the beginning and the end of the Reporting Period.
- (2) The percentage of net profit attributable to the equity shareholders of the Bank during the Reporting Period to the average balance of total equity attributable to equity holders of the parent company at the beginning and the end of the Reporting Period.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (5) Calculated with the operating cost after the tax and surcharges and divided by the operating income.
- (6) Calculated with the total NPLs divided by the total loans to customers.
- (7) Calculated with the allowance for impairment loss divided by the total NPLs.
- (8) Calculated with the allowance for impairment loss on loan divided by the total loans to customers.

Management Discussion and Analysis

I. Past Economic and Environment and Operation Overview

(I) Past Economic and Environment

Global economic recovery starting from 2017 has increased total demand as well as growth in manufacturing and trading while the risk of economic downturn still exists. Alongside the stable macro economy in the Mainland, the thorough implementation of supply-side structural reform, the economic growth and enhanced efficiency, the market is expected to improve. Growth in tertiary industry to GDP and growth in end-customer consumption to GDP continue to contribute to the market. Consumption prices smoothly rise and employment remains stable. Meanwhile, the tightening financial regulation in the Mainland allows a greater support from the Bank to the real economy and the underperformed social development. As at the end of June 2017, the gross domestic product (GDP) of China was RMB38.149 trillion, representing a year-on-year increase of 6.9% and the consumer price index (CPI) increased by 1.4% year-on-year. M2 balance was RMB163.13 trillion, representing a year-on-year increase of 9.4% while M1 balance was RMB51.02 trillion, representing an increase of 15%, and M0 balance was RMB6.7 trillion, representing an increase of 6.6%. The balance of RMB loans amounted to RMB114.57 trillion. New RMB loans amounted to RMB7.97 trillion, representing a year-on-year increase of RMB436.2 billion. The balance of RMB deposits amounted to RMB159.66 trillion. New RMB deposits amounted to RMB9.07 trillion, representing a year-on-year decrease of RMB1.46 trillion. Increment of social financing scale was RMB11.17 trillion, representing a year-on-year increase of RMB1.36 trillion.

For the first half of 2017, the economy of Heilongjiang Province was expanding. With sound momentum in the development of primary and tertiary industries, further optimised industry structure, successful development in new momentum and new growing sectors, substantial progress made in railway, water conservancy and shantytown renovation and major breakthroughs achieved in Sino-Russia cooperation, people's livelihood was improved amidst downward pressure in the economy. During the strategic opportunity period for the implementation of the Northeast revitalisation plan in the Thirteenth Five-year Plan, Heilongjiang Province co-ordinated and pushed forward the overall layout and strategic layout adhering to the ideas of "Five in One" and "Four Comprehensives" while setting up new development philosophy so as to adapt to, grasp on and lead the new norm of economic development. By completing the "Three Major Articles" and implementing the "Five Major Plans" in an innovative way, the development of ten key industries was accelerated and the construction of the "Heilongjiang Silk Road Belt" was further implemented. Leveraging the international economic and trading channel under the regional cooperation while focusing on Sino-Russia cooperation and opening up border areas as new models, the establishment of a comprehensive open development pattern was accelerated.

(II) Operation Overview

For the first half of 2017, against the backdrop of China's domestic stable and improved economic growth, accelerated market-oriented financial reform and intensified industry competition, under the leadership of the Board and supervision of the Board of Supervisors, the Bank proactively responded to the changes and challenges, accelerated business transformation, insisted on microcredit development strategy, maintained sound operations, strengthened risk management, maintained stable profitability against the market trend and basically fulfilled its pre-set goals.

Management Discussion and Analysis

Steady business development

As at 30 June 2017, the Bank's total assets amounted to RMB546,927.1 million, up by RMB7,910.9 million or 1.5% from the end of last year. The Bank's total loans and advances to customers amounted to RMB225,905.7 million, up by RMB24,277.8 million or 12.0% from the end of last year. The Bank's deposits from customers amounted to RMB344,901.2 million, up by RMB1,750.2 million or 0.5% from the end of last year.

Stable profitability

For the first half of 2017, the Bank recorded net profit attributable to shareholders of RMB2,659.7 million, up by RMB242.0 million or 10.0% year-on-year, mainly due to increases in net interest income. For the first half of 2017, the Bank recorded net interest income of RMB6,324.2 million, up by RMB911.0 million or 16.8% year-on-year, and net fee and commission income of RMB1,213.0 million, down by RMB49.9 million or 4.0% year-on-year. The return on average total assets decreased slightly to 0.99% as compared with 1.07% for the same period in 2016. The return on average equity was 14.09%, representing a decrease as compared with 14.36% over the same period in 2016.

Slight increase in NPLs

As at 30 June 2017, the Bank had NPLs balance of RMB3,720.2 million, representing an increase of RMB638.2 million from the end of last year. NPL ratio, impairment losses on loans ratio and impairment coverage ratio amounted to 1.65%, 2.77% and 168.49%, increased by 0.12 percentage point, 0.22 percentage point and 1.72 percentage points from the end of last year, respectively.

Stable development of subsidiaries

For the first half of 2017, HB Leasing, HBCF and the 30 village and township banks, which were under the control of the Bank, endured great hardship and moved forward. HB Leasing had total assets of RMB17,380.7 million as at 30 June 2017, up by 0.89% from the end of last year, and net profit of RMB61.3 million for the first half of 2017. The village and township banks under control recorded total net profit of RMB119 million for the first half of 2017, representing a year-on-year decrease of more than 40%, mainly attributable to the increase in provision amid the more cautious loan risk classification of the village and township banks.

Compliance with applicable laws and regulations

The Bank has been in compliance throughout its operation 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 by the Bank.

(III) Analysis of Key Issues

1. *Net interest margin*

For the first half of 2017, net interest spread and net interest margin of the Bank were 2.23% and 2.42%, respectively. Both net interest spread and net interest margin decreased by 0.26 percentage point as compared to the same period last year, mainly attributable to (1) separation of VAT resulting in a decrease of net carrying interest income; (2) the sluggish economic recovery and the deteriorating quality of assets leading to a drop of loan yield; (3) the increasing market rate resulting in the soared average cost ratio of the interbank placements and the newly issued debt bond; (4) the proactive improvement in the security level of liquidity to prevent liquidity risk. In view of the stable and neutral monetary policy of Central Bank as well as tighter liquidity in the market during the year, the Bank has gradually enhanced its liquidity reserve and reduced maturity mismatch by active liabilities since the beginning of the year, the interbank placements with higher average cost ratio as well as the average balance of the issued debt bond to that of the total interest earning liabilities increased from 26.7% in the first half of 2016 to 35.9% in the first half of 2017. There is an increase in the cost on liquidity interest payment. Looking forward to the second half of 2017, it is expected that the decline of the return on loans will continue and net interest spread and net interest margin will be subject to greater downward pressure and greater difficulties in cost control following complete deposit rate liberalisation and intensified competition. To this end, the Bank will further strengthen its active management of assets and liabilities, proactively adjust its credit structure, timely adjust its investment portfolios, strengthen its risk control and optimise pricing mechanisms which perform customer-oriented differentiating 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 liberalisation from the market by strengthening its liquidity management, consolidating its customer base, optimising its debt structure and endeavouring to maintain its cost of debt to ensure a stable net interest spread and net interest margin.

2. *Quality of key assets*

As at 30 June 2017, the NPL ratio of the Bank amounted to 1.65%, representing an increase of 12 basis points from the end of last year, with the ratio of loans of special attention and the impairment losses on loans amounted to 2.97% and 2.77%, increased by 36 basis points and 22 basis points respectively as compared to the end of last year. The NPL ratio and the ratio of loans of special mention of the Bank increased since enterprise manufacturing activities maintained low level under the pressure of sluggish economic growth, the slow capital inflow and the relatively higher NPL ratios for the small and micro business legal and natural person to customer groups that are more sensitive to cash flow. Meanwhile, the Bank adopts a more cautious approach to risk classification for the better illustration of the level of quality of the bank. The Bank's asset quality was relatively stable, and the risk level was generally controllable.

Management Discussion and Analysis

The NPLs of the Bank primarily concentrated in the wholesale and services industry and the manufacturing industry, which amounted to RMB975.1 million and RMB383.3 million with NPL ratio of 3.49% and 3.09%, respectively. Loans to the manufacturing sector faced downward pressure on asset quality due to the economic restructuring in the northeast region. The Bank was active in responding to external macroeconomic changes and took pre-emptive measures against risks of industries in over-capacity and high-risk regions. As at 30 June 2017, the Bank's loans to the manufacturing sector amounted to RMB12,422.6 million, which increased by RMB818.2 million from the end of last year and the relevant proportion to total loans decreased by 0.30 percentage point.

In respect of regional risk prevention and control, the Bank formulated a differentiated regional credit policy and optimised allocation of portfolios. Through management measures such as rigid control on thresholds and risk limit standard, dynamic authorisation, products' trading suspension and resumption, dynamic adjustments to credit size and strengthening evaluation of asset quality in order to strengthen regional risk control, promote regional client structural adjustment and improve risk monitoring and early-warning ability within the regions.

3. *Capital management*

Throughout the Reporting Period, the Bank further improved the capital management mechanism, effectively disseminated the regulation requirements, and strived for fulfilling requirements of its capital management plans by continuously strengthening its relevant fundamental capability, further enhancing the role of capital in leading and restraining its business development. On the one hand, the Bank, based on its strategic goals and developmental stage of establishing a microcredit bank, prioritised microcredit and IT construction in allocating its capital. On the other hand, it placed its capital in areas with a higher output-to-input ratio in accordance with the Measures for Capital Management of Commercial Banks (Provisional). During the Reporting Period, the Bank met the minimum capital requirement, reserve capital requirement and countercyclical capital buffer for the transitional period as required by the CBRC.

As at 30 June 2017, the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio of the Bank were 9.46%, 9.48% and 12.02%, respectively, representing an increase of 0.12 percentage point, 0.13 percentage point and 0.05 percentage point, respectively, as compared to the end of last year. The increase in the core tier-1 capital adequacy ratio, tier-1 capital adequacy and capital adequacy ratio was mainly because of the Bank's replenishment of capital through its own profit and the slowdown in the growth of risk-weighted assets. As at the end of the Reporting Period, risk-weighted assets of the Bank amounted to RMB414,683.1 million, representing an increase of RMB20,068.2 million, or 5.1% from the end of last year, where the growth decelerated as compared to last year. The slowdown in the growth of risk-weighted assets was primarily because the Company has complied with the MPA assessment requirement of the PBOC, to strengthen the capital restraint mechanism and ensure that the business development is in line with the capital strength and risk management capability. Looking forward into the second half of 2017, the Bank will continue to strengthen its capital management by: (1) continuing its differentiated competition strategy of characteristic development to further enhance internal capital generation; (2) actively responding to current changes in various situations and strengthening its active capital management to continuously optimize its business structure and raise awareness of intensive capital use; and (3) establishing multi-layered and multi-channel mechanisms for capital replenishment to ensure regulatory capital requirements to be satisfied on an ongoing basis.

4. Debt instruments classified as receivables

As at 30 June 2017, debt instruments classified as receivables amounted to RMB152,176.1 million, increased by 5.5%, as compared to the end of last year. Pursuant to the Notice on Regulating Interbank Business of Financial Institutions (Yin Fa [2014] No. 127), the Bank consistently performed rigid review on risk and compliance with respect to capital use and accurately measured risks. It accurately measured risks and made provision therefore based on the principle of “substance over formality” and the nature of the underlying assets. Following loan provision requirements, it raised the coverage ratio for debt instruments classified as receivables in a steady, prudent and dynamic manner based on results of evaluation on both portfolios and individual investments. As at 30 June 2017, balance of provision on debt instruments classified as receivables and the coverage ratio of the Bank amounted to RMB2,299.1 million and with the percentage of 1.51%, and increased by RMB461.0 million and 0.24 percentage point from the end of last year respectively.

5. Impact of new policies for wealth management business

Since the first quarter of this year, off-balance sheet wealth management was included into the scope of credit in a broader sense under the MPA assessment of PBOC, which restrained the rapid growth of the off-balance sheet wealth management of banks. However, since the liabilities for wealth management of the Bank mainly focused on individual wealth management products with a relatively stable source of funds and scale of growth, the impact of the inclusion of off-balance sheet wealth management into the scope of credit in a broader sense under the MPA assessment on the current wealth management business of the Company was relatively minor. In the long run, upon the inclusion of off-balance sheet wealth management into the MPA assessment system, the Company will make relevant adjustments to the investment and operation model of its wealth management business such that the investment income from wealth management can be increased by improving its own asset management standard within the extent of the maximum size of wealth management business; or income from wealth management intermediary services can be increased by issuing open-ended net value products, reducing costs of liabilities or other ways.

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II. Analysis on Income Statement

	For the six months ended 30 June			
	2017	2016	Change in amount	Rate of change
(In RMB million, except percentages)				
Interest income	13,618.2	10,478.6	3,139.6	30.0%
Interest expense	(7,294.0)	(5,065.4)	(2,228.6)	44.0%
Net interest income	6,324.2	5,413.2	911.0	16.8%
Fee and commission income	1,269.6	1,342.4	(72.8)	-5.4%
Fee and commission expense	(56.6)	(79.5)	22.9	-28.8%
Net fee and commission income	1,213.0	1,262.9	(49.9)	-4.0%
Net trading income or loss	(8.7)	24.2	(32.9)	-136.0%
Net gain or loss on financial investments	(41.5)	4.3	(45.8)	-1,065.1%
Other operating income or loss, net	(14.9)	154.9	(169.8)	-109.6%
Operating income	7,472.1	6,859.5	612.6	8.9%
Operating expenses	(1,858.6)	(2,064.8)	206.2	-10.0%
Impairment losses:				
Loans and advances to customers	(1,439.9)	(1,147.4)	(292.5)	25.5%
Others	(532.3)	(543.8)	11.5	-2.1%
Operating profit	3,641.3	3,103.5	537.8	17.3%
Share of profits of an associate	-	59.6	(59.6)	-100.0%
Profit before tax	3,641.3	3,163.1	478.2	15.1%
Income tax expense	(952.1)	(703.8)	(248.3)	35.3%
Net profit	2,689.2	2,459.3	229.9	9.3%

For the first half of 2017, the Bank recorded profit before tax of RMB3,641.3 million and net profit of RMB2,689.2 million, representing an increase of 15.1% and 9.3%, respectively, as compared to the same period of last year.

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

For the first half of 2017, the Bank recorded a net interest income of RMB6,324.2 million, representing an increase of RMB911.0 million or 16.8% as compared to the same period of last 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 of these interest-earning assets and the average cost ratio of these interest-bearing liabilities.

For the six months ended 30 June						
	2017			2016		
	Average balance ⁽⁶⁾	Interest income	Average yield	Average balance ⁽⁶⁾	Interest income	Average yield
(In RMB million, except percentages)						
Interest-earning assets						
Loans and advances to customers	213,768.1	6,603.0	6.23%	168,767.0	5,432.4	6.47%
Investments in debt securities ⁽¹⁾	203,295.2	5,549.4	5.50%	132,252.1	3,608.6	5.49%
Cash and balances with Central Bank	49,950.8	361.9	1.46%	40,163.4	292.4	1.46%
Due from banks and other financial institutions ⁽²⁾	45,623.2	710.2	3.14%	51,330.7	787.2	3.08%
Long-term receivables	16,159.1	393.7	4.91%	13,954.3	358.0	5.16%
Total interest-earning assets	528,796.4	13,618.2	5.19%	406,467.5	10,478.6	5.18%
For the six months ended 30 June						
	2017			2016		
	Average balance ⁽⁶⁾	Interest expense	Average Cost ratio	Average balance ⁽⁶⁾	Interest expense	Average Cost ratio
(In RMB million, except percentages)						
Interest-bearing liabilities						
Due to customers	317,393.3	3,952.8	2.51%	276,506.9	3,382.6	2.46%
Due to banks ⁽³⁾	108,834.0	1,903.9	3.53%	76,427.2	1,221.7	3.21%
Debt securities issued	69,003.7	1,426.5	4.17%	24,804.5	452.7	3.67%
Due to Central Bank	783.7	10.8	2.79%	699.0	8.4	2.42%
Total interest-bearing liabilities	496,014.7	7,294.0	2.96%	378,437.6	5,065.4	2.69%
Net interest income	6,324.2			5,413.2		
Net interest spread⁽⁴⁾	2.23%			2.49%		
Net interest margin⁽⁵⁾	2.42%			2.68%		

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Notes:

- (1) Include available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.
- (2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.
- (3) Include due to banks, financial assets sold under repurchase agreements and borrowing from banks and other financial institutions.
- (4) Calculated as the difference between the average yield 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 average 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 rates are measured by changes in the average rates of the Bank's interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volumes and interest rates have been allocated to changes in interest rate.

	For the six months ended 30 June		
	2017 vs. 2016		
	Increase/(decrease) due to Volume ⁽¹⁾	Interest rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
	(In RMB million)		
Interest-earning assets			
Loans and advances to customers	1,435.0	(264.4)	1,170.6
Investments in debt securities	1,930.0	10.8	1,940.8
Cash and balances with the Central Bank	70.1	(0.6)	69.5
Due from banks and other financial institutions	(88.7)	11.7	(77.0)
Long-term receivables	55.9	(20.2)	35.7
Change in interest income	3,402.3	(262.7)	3,139.6
Interest-bearing liabilities			
Due to customers	494.0	76.2	570.2
Due to banks	513.2	169.0	682.2
Debt securities issued	803.8	170.0	973.8
Due to the Central Bank	1.0	1.4	2.4
Change in interest expense	1,812.0	416.6	2,228.6

Notes:

- (1) Represents the average balance for the Reporting Period minus the average balance for the previous period, multiplied by the average yield/cost for such previous period.
- (2) Represents the average yield/cost ratio for the Reporting Period minus the average yield/cost ratio for the previous period, multiplied by the average balance for the Reporting Period.
- (3) Represents interest income/expense for the Reporting Period minus interest income/expense for the previous period.

(II) Interest Income

For the first half of 2017, the Bank's interest income increased by RMB3,139.6 million or 30.0% to RMB13,618.2 million as compared to the same period of last year. The increase in the Bank's interest income was primarily due to the increase in the Bank's average balance of interest-earning assets by 30.1% from RMB406,467.5 million for the same period of last year to RMB528,796.4 million for the first half of 2017 attributable to increases in the Bank's loans and advances to customers, investments in debt securities, deposit at the Central Bank and long-term receivables. The increase in the Bank's interest income was also due to the increase in the average yield of the Bank's interest earning assets from 5.18% for the same period of last year to 5.19% for the first half of 2017. The increase in the average yield of the Bank's interest-earning assets was primarily the result of an increase in average yield of investments in debt securities, due from banks and other financial institutions for the first half of 2017.

1. Interest income from loans and advances to customers

For the first half of 2017, interest income from loans and advances to customers increased by RMB1,170.6 million or 21.5% to RMB6,603.0 million year-on-year, primarily as a result of a 26.7% increase in the average balance of loans and advances to customers being partially offset by a 0.24 percentage point decrease in the average yield. The increase in the average balance of loans and advances to customers was attributable to the Bank's efforts to develop the Bank's microcredit business, and increase in credits granted for better real economy, while the 0.24 percentage point decrease in the average yield was primarily due to the separation of VAT, the slowdown in economic growth and the deteriorating quality of some assets.

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

	For the six months ended 30 June					
	2017			2016		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
(In RMB million, except percentages)						
Corporate loans	99,734.1	2,835.2	5.73%	93,289.3	2,903.2	6.26%
Personal loans	113,188.0	3,747.4	6.68%	70,206.4	2,411.8	6.91%
Discounted bills	846.0	20.4	4.85%	5,271.3	117.4	4.48%
Total loans and advances to customers	213,768.1	6,603.0	6.23%	168,767.0	5,432.4	6.47%

2. Interest income from investments in debt securities

For the first half of 2017, interest income from investments in debt securities increased by RMB1,940.8 million or 53.8% to RMB5,549.4 million as compared to the same period of last year, principally attributable to a 53.7% increase in the average balance of the Bank's investments in debt securities while the average yield of the Bank's investments in debt securities slightly increased as compared to the same period of last year. The increase in the average balance of the Bank's investments in debt securities was primarily attributable to an expanded and diversified investment portfolio as a result of increased capital sources from customers.

3. Interest income from cash and balances with central bank

For the first half of 2017, interest income from cash and balances with Central Bank increased by RMB69.5 million or 23.8% to RMB361.9 million as compared to the same period of last year, primarily attributable to the average deposit balance at the Central Bank increased by 24.4% due to the increase in provision for statutory deposit reserve and the increase in deposit.

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

For the first half of 2017, interest income from amounts due from banks and other financial institutions decreased by RMB77.0 million or 9.8% to RMB710.2 million as compared with the same period of last year, primarily attributable to a 11.1% decrease of average balance of underlying assets offset by a 0.06 percentage point increase of average yield. Such decrease was primarily attributable to the resources allocation to assets with higher yield under the soaring market liquidity upon the assets structure adjustment of the Bank, while the increase of average yield was primarily attributable to the soaring market liquidity.

5. Interest income from long-term receivables

For the first half of 2017, interest income from long-term receivables increased by RMB35.7 million or 10.0% to RMB393.7 million as compared with the same period of last year, primarily attributable to a 15.8% increase in the average balance of long-term receivables being partially offset by a 0.25 percentage point decrease in the average yield. The increase in the average balance of such assets was primarily attributable to the accumulation of leasing customers resources and the enhancement in market development capacity, whereas the decline in the average yield of the relevant assets was primarily attributable to factors such as the increasingly competitive financial leasing industry.

(III) Interest Expense

For the first half of 2017, the Bank's interest expense increased by RMB2,228.6 million or 44.0% to RMB7,294.0 million as compared to the same period of last year, primarily attributable to an increase in the average cost ratio of the interest-bearing liabilities from 2.69% for the same period of last year to 2.96% for the first half of 2017, and an increase in the average balance of the interest-bearing liabilities from RMB378,437.6 million for the same period of last year to RMB496,014.7 million for the first half of 2017. The increase in the average cost ratio of the interest-bearing liabilities was mainly due to the increases of the average cost ratio in amounts due to banks and debt securities issued and due to the Central Bank in the first half of 2017.

1. Interest expense on due to customers

For the first half of 2017, the Bank's interest expense on due to customers increased by RMB570.2 million or 16.9% to RMB3,952.8 million as compared to the same period of last year, primarily attributable to a 14.8% increase in the average balance of amount due to customers and a 0.05 percentage point increase in average costs ratio. The increase of average balance of customer deposit was mainly attributable to the Bank's pricing management, service and marketing capabilities enhancement while the increase in average costs ratio of customer deposits was mainly attributable to the increasing competition due to further interest rate liberalisation.

For the six months ended 30 June						
	2017			2016		
	Average Balance	Interest expense	Average cost ratio	Average Balance	Interest expense	Average cost ratio
(In RMB millions, except percentages)						
Corporate deposits						
Demand	85,495.5	278.1	0.66%	73,438.4	206.7	0.57%
Time	125,598.1	2,487.8	3.99%	112,349.3	2,212.0	3.96%
Subtotal	211,093.6	2,765.9	2.64%	185,787.7	2,418.7	2.62%
Personal deposits						
Demand	34,200.6	60.2	0.35%	33,126.4	58.5	0.35%
Time	72,099.1	1,126.7	3.15%	57,592.8	905.4	3.16%
Subtotal	106,299.7	1,186.9	2.25%	90,719.2	963.9	2.14%
Total deposits from customers	317,393.3	3,952.8	2.51%	276,506.9	3,382.6	2.46%

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2. *Interest expense on due to banks*

For the first half of 2017, the Bank's interest expense on due to banks increased by RMB682.2 million or 55.8% to RMB1,903.9 million as compared to the same period of last year, primarily attributable to an increase in the average cost ratio of the underlying liabilities from 3.21% for the same period of last year to 3.53% for the first half of 2017 and a 42.4% increase in the average balance of relevant liabilities from RMB76,427.2 million for the same period of last year to RMB108,834.0 million for the first half of 2017. The increase in the average cost ratio was mainly due to the soaring market liquidity while the increase in the average balance of relevant liabilities was mainly due to the liabilities structure adjustments proactively initiated by the Bank in order to provide for the liquidity and expand sources of fund in a view to preferably allocate to the assets business.

3. *Interest expense on debt securities issued*

For the first half of 2017, the Bank's interest expense on debt securities issued amounted to RMB1,426.5 million, up by RMB973.8 million or 215.1% as compared to the same period of last year, mainly attributable to an increase in the average cost ratio of the underlying liabilities from 3.67% for the same period of last year to 4.17% for the first half of 2017 and a 178.2% increase in the average balance of relevant liabilities from RMB24,804.5 million for the same period of last year to RMB69,003.7 million for the first half of 2017. The increase in the average cost ratio of the underlying liabilities was mainly due to the soaring market liquidity while the increase in the average balance of relevant liabilities was mainly attributable to the liabilities structure adjustments proactively initiated by the Bank, the issuance of green financial bond in the first half of 2017 in a view to preferably allocate to the assets business and the increase in the average balance of interbank negotiable certificates of deposit.

(IV) Net Interest Spread and Net Interest Margin

The Bank's net interest spread decreased from 2.49% for the same period of last year to 2.23% for the first half of 2017 and the net interest margin ratio decreased from 2.68% for the same period of last year to 2.42% for the first half of 2017, mainly attributable to the backdrop of the separation of VAT, the sluggish economic recovery, the deteriorating quality of some assets and interest rate hike resulting in the narrowing down of interest spread between the Bank's deposit and loan.

(V) Non-interest Income

1. Net fee and commission income

For the first half of 2017, the Bank's net fee and commission income decreased by RMB49.9 million or 4.0% to RMB1,213.0 million as compared with the same period of last year, primarily due to the decrease in the Bank's settlement fee, agency and custodian fee as well as the decrease in other fees and commission income.

For the six months ended 30 June				
	2017	2016	Change in amount	Rate of change
(In RMB million, except percentages)				
Fee and commission income	1,269.6	1,342.4	(72.8)	-5.4%
Advisory and consultancy fee	513.1	474.9	38.2	8.0%
Settlement fee	35.4	67.7	(32.3)	-47.7%
Agency and custodian fee	560.4	655.7	(95.3)	-14.5%
Of which: non-principal protected wealth management agency fee	271.2	196.0	75.2	38.4%
Bank card fee	125.5	102.7	22.8	22.2%
Others	35.2	41.4	(6.2)	-15.0%
Fee and commission expense	(56.6)	(79.5)	22.9	-28.8%
Net fee and commission income	1,213.0	1,262.9	(49.9)	-4.0%

For the first half of 2017, the Bank's advisory and consultancy fee income reached RMB513.1 million, up by RMB38.2 million or 8.0% as compared with the same period of last year, mainly attributable to the expansion of the Bank's advisory and consultancy businesses, resulting in an increase in the number of the Bank's customers and a sustained growth in business volume.

The Bank realized an income of RMB35.4 million from settlement fees for the first half of 2017, representing a decrease of RMB32.3 million or 47.7% year-on-year, mainly attributable to the change in volume of the settlement business and the adjustment of the relevant fee policy.

For the first half of 2017, the Bank's agency and custodian fee income was RMB560.4 million, down by 14.5% or RMB95.3 million as compared with the same period of last year, mainly attributable to the change in volume of the agency and custodian business and the adjustment of the relevant fee policy.

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For the first half of 2017, the Bank earned RMB125.5 million from bank card fee, up by 22.2% or RMB22.8 million as compared with the same period of last year.

For the first half of 2017, other charges and commission generated income was RMB35.2 million, down by 15.0% or RMB6.2 million as compared with the same period of last year.

2. *Net trading income or loss*

For the first half of 2017, the Bank's net trading loss decreased by RMB32.9 million or 136.0% to RMB8.7 million as compared with the same period of last year, mainly attributable to the decrease in interest income from bonds held for trading and the changes in fair value.

3. *Net gains or loss on financial investments*

For the first half of 2017, the Bank's net loss decreased by RMB45.8 million or 1,065.1% to RMB41.5 million as compared with the same period of last year, mainly attributable to net loss on disposal of available-for-sale financial assets.

4. *Other operating income or loss, net*

For the first half of 2017, the Bank's other operating loss, net decreased by RMB169.8 million or 109.6% to RMB14.9 million as compared with the same period of last year, mainly due to the decrease in government grants and subsidies and change in foreign exchange.

(vi) Operating Expenses

For the first half of 2017, the Bank's operating expenses decreased by RMB206.2 million or 10.0% to RMB1,858.6 million as compared with the same period of last year.

	For the six months ended 30 June			
	2017	2016	Change in amount	Rate of change
(In RMB million, except percentages)				
Staff costs	890.1	816.3	73.8	9.0%
Tax and surcharges	63.6	360.2	(296.6)	-82.3%
Depreciation and amortization	269.3	255.5	13.8	5.4%
Others	635.6	632.8	2.8	0.4%
Total operating expenses	1,858.6	2,064.8	(206.2)	-10.0%

Staff costs are the largest component of the Bank's operating expenses, representing 47.9% and 39.5% of the Bank's total operating expenses for the first half of 2017 and 2016, respectively.

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

	For the six months ended 30 June			
	2017	2016	Change in amount	Rate of change
(In RMB million, except percentages)				
Staff costs				
Salaries, bonuses and allowances	680.8	639.1	41.7	6.5%
Social insurance	108.0	94.3	13.7	14.5%
Housing fund	47.6	36.7	10.9	29.7%
Staff benefits	45.6	39.2	6.4	16.3%
Labor's union expenditure and education costs	8.0	6.9	1.1	15.9%
Early retirement benefits	0.1	0.1	0.0	0.0%
Total	890.1	816.3	73.8	9.0%

For the first half of 2017, the staff costs of the Bank were RMB890.1 million, up by 9.0% or RMB73.8 million as compared with the same period of last year, primarily attributable to more branches being established by the Bank, the increase in wages and benefits, the improved remuneration structure, and enhanced performance and results linked appraisal.

For the first half of 2017, the Bank had to pay taxes and surcharges of RMB63.6 million, down by 82.3% or RMB296.6 million as compared with the same period of last year, primarily attributable to the shift from business tax to value added tax under the full implementation of the "BT to VAT" policy in the domestic financial sector of China since May 2016.

For the first half of 2017, depreciation and amortization were RMB269.3 million, up by 5.4% or RMB13.8 million as compared with the same period of last year, primarily as a result of an expansion of the Bank's distribution network and an increase in the capital costs relating to operating properties.

For the first half of 2017, the Bank's other operating expenses were RMB635.6 million, up by 0.4% or RMB2.8 million as compared with the same period of last year, primarily attributable to stepping up business expansion.

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(VII) Impairment Losses

For the first half of 2017, the Bank's impairment losses increased by RMB281.0 million or 16.6% to RMB1,972.2 million as compared with the same period of last year, primarily attributable to collective impairment provision for assets on a prudent and dynamic basis given the comprehensive consideration as to the uncertainties in economic environment, and pursuant to the relevant requirements of the regulatory authorities.

For the six months ended 30 June				
	2017	2016	Change in amount	Rate of change
(In RMB million, except percentages)				
Loans and advances to customers	1,439.9	1,147.4	292.5	25.5%
Others	532.3	543.8	(11.5)	-2.1%
Total impairment losses	1,972.2	1,691.2	281.0	16.6%

(VIII) Income Tax Expenses

For the first half of 2017, the Bank's income tax increased by RMB248.3 million or 35.3% to RMB952.1 million as compared to the same period of last year.

For the six months ended 30 June				
	2017	2016	Change in amount	Rate of change
(In RMB million, except percentages)				
Current income tax expenses	1,278.0	1,039.8	238.2	22.9%
Deferred income tax expenses	(325.9)	(336.0)	10.1	-3.0%
Effective income tax expenses	952.1	703.8	248.3	35.3%

III. Analysis of Key Items of Financial Position

(I) Assets

As at 30 June 2017, the Bank's total assets increased by RMB7,910.9 million or 1.5% to RMB546,927.1 million from the end of last year. The increase was mainly attributable to the increase in the Bank's loans and advances to customers and investment securities and other financial assets.

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans and advances to customers, gross	225,905.7	41.3%	201,627.9	37.4%
Allowance for impairment losses	(6,268.1)	-1.1%	(5,139.7)	-0.9%
Loans and advances to customers, net	219,637.6	40.2%	196,488.2	36.5%
Investment securities and other financial assets, net	206,480.5	37.8%	192,157.4	35.6%
Cash and balances with the Central Bank	55,131.8	10.1%	67,010.3	12.4%
Due from banks and other financial institutions	16,138.5	2.9%	34,000.1	6.3%
Reverse repurchase agreements	14,518.9	2.6%	14,538.6	2.7%
Other assets	35,019.8	6.4%	34,821.6	6.5%
Total assets	546,927.1	100.0%	539,016.2	100.0%

1. Loans and advances to customers

As at 30 June 2017, the Bank's total loans and advances to customers increased by RMB24,277.8 million to RMB225,905.7million, representing an increase of 12.0% as compared with the end of last year.

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

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate loans	104,442.9	46.2%	95,024.7	47.1%
Personal loans	120,801.8	53.5%	105,793.3	52.5%
Discounted bills	661.0	0.3%	809.9	0.4%
Total loans and advances to customers	225,905.7	100.0%	201,627.9	100.0%

Management Discussion and Analysis

(1) Corporate loans

As at 30 June 2017, the Bank's corporate loans increased by RMB9,418.2 million to RMB104,442.9 million, representing an increase of 9.9% as compared with the end of last year, mainly due to the increasing support in the loans to the Bank's customers for continuously sustaining real economy development.

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

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans to Small Enterprises ⁽¹⁾	60,810.9	58.2%	61,907.2	65.1%
Other corporate loans excluding loans to Small Enterprises	43,632.0	41.8%	33,117.5	34.9%
Total corporate loans	104,442.9	100.0%	95,024.7	100.0%

Note:

- (1) Loans to Small Enterprises include corporate loans to small enterprises and micro enterprises as defined in the SME Classification Standards. According to the SME Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but less than 1,000 employees and generating more than RMB3 million in operating income in a year are classified as small enterprises, while enterprises having more than 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. For example, industrial enterprises having less than 20 employees or generating less than RMB3 million in operating income in a year are classified as micro enterprises, while enterprises having less than 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 30 June 2017, the Bank's loans to small enterprises decreased by RMB1,096.3 million or 1.8% to RMB60,810.9 million. As at 30 June 2017 and 31 December 2016, the Bank's loans to small enterprises accounted for 58.2% and 65.1%, respectively, of the Bank's total corporate loans.

(2) Personal loans

As at 30 June 2017, the Bank's personal loans increased by RMB15,008.5 million to RMB120,801.8 million, representing an increase of 14.2% as compared with the end of last year. This increase was mainly attributable to the Bank's continued development of personal loans in response to the PRC government's policies to encourage financial institutions to provide financial services to SMEs and rural areas. The Bank's personal loans (including loans to small enterprise owners, personal consumption loans and loans to farmers) are an important component of the Bank's microcredit business, which increased accordingly under the Bank's strategy of focusing on the microcredit business.

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

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans to small enterprise owners	27,971.8	23.2%	26,768.0	25.3%
Personal consumption loans	79,605.1	65.9%	69,405.1	65.6%
Loans to farmers	13,224.9	10.9%	9,620.2	9.1%
Total personal loans	120,801.8	100.0%	105,793.3	100.0%

As at 30 June 2017, loans to small enterprise owners, personal consumption loans and loans to farmers increased as compared with the end of last year, representing an increase of 4.5%, 14.7% and 37.5%, respectively.

2. Investment securities and other financial assets

As at 30 June 2017, the total amount of the Bank's investment securities and other financial assets was RMB208,779.7 million, representing an increase of RMB14,784.2 million or 7.6% as compared with the end of last year. The increase in such assets for the first half of 2017 was mainly due to the Bank's efforts to increase various types of investments, and expand the Bank's capital allocation channels, in order to improve the efficiency of the Bank's funds.

Management Discussion and Analysis

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

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Debt instruments classified				
as receivables	152,176.1	72.9%	144,193.0	74.3%
Held-to-maturity investments	29,681.9	14.2%	30,501.0	15.7%
Available-for-sale financial assets	25,605.8	12.3%	17,597.3	9.1%
Financial assets held for trading	1,315.9	0.6%	1,704.2	0.9%
Total investment securities				
and other financial assets	208,779.7	100.0%	193,995.5	100.0%

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

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Debt investments:				
Bond investments	55,035.2	26.4%	49,474.6	25.5%
Debt instruments issued by				
financial institutions ⁽¹⁾	153,719.9	73.6%	144,496.3	74.5%
Subtotal	208,755.1	100.0%	193,970.9	100.0%
Equity investment	24.6	0.0%	24.6	0.0%
Total investment securities				
and other financial assets	208,779.7	100.0%	193,995.5	100.0%

Note:

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

As at 30 June 2017, the Bank's investment in debt instruments issued by financial institutions was RMB153,719.9 million, representing an increase of RMB9,223.6 million or 6.4% as compared with the end of last year. As a percentage of total investment securities and other financial assets, such investments decreased from 74.5% as at 31 December 2016 to 73.6% as at 30 June 2017.

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Government bonds	12,556.2	22.8%	8,075.1	16.3%
Bonds issued by financial institutions	6,313.6	11.5%	4,657.6	9.4%
Corporate bonds	5,590.8	10.2%	3,597.9	7.3%
Bonds issued by policy banks	30,574.6	55.5%	33,144.0	67.0%
Total bond investments	55,035.2	100.0%	49,474.6	100.0%

3. Other components of the Bank's assets

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

As at 30 June 2017, the Bank's cash and balances with Central Bank decreased by RMB11,878.5 million or 17.7% to RMB55,131.8 million as compared with the end of last year.

As at 30 June 2017, the Bank's due from banks and other financial institutions decreased by RMB17,861.6 million or 52.5% to RMB16,138.5 million as compared with the end of last year. The change of due from banks and other financial institutions is mainly because the Bank adjusted the weight of such non-credit assets based on its capital and changes in liquidity in the market to ensure both liquidity and capital efficiency.

As at 30 June 2017, the Bank's financial assets held under reverse repurchase agreements decreased by RMB19.7 million or 0.1% to RMB14,518.9 million as compared with the end of last year.

Management Discussion and Analysis

(II) Liabilities

As at 30 June 2017, the Bank's total liabilities were RMB506,872.0 million, representing an increase of RMB5,190.8 million or 1.0% as compared with the end of last year.

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Due to customers	344,901.2	68.0%	343,151.0	68.4%
Due to banks ⁽¹⁾	73,354.8	14.5%	92,895.8	18.5%
Repurchase agreements	—	—	13,694.1	2.7%
Debt securities issued	78,372.3	15.5%	41,883.4	8.4%
Due to Central Bank	510.7	0.1%	507.0	0.1%
Other liabilities ⁽²⁾	9,733.0	1.9%	9,549.9	1.9%
Total liabilities	506,872.0	100.0%	501,681.2	100.0%

Notes:

- (1) Due to banks also includes borrowing from banks and other financial institutions.
- (2) Other liabilities primarily consist of negative fair value of derivatives, income tax payable and other tax payable, interest payable, items in the process of clearance and settlement as well as staff salary payable.

1. Due to customers

As at 30 June 2017, the Bank's due to customers was RMB344,901.2 million, representing an increase of RMB1,750.2 million or 0.5% as compared with the end of last year. This increase was primarily attributable to the strengthening of pricing management, improvement of services and strengthening of marketing capabilities by the Bank.

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate deposits				
Demand deposits	97,171.5	28.2%	105,653.9	30.8%
Time deposits	129,067.7	37.4%	130,044.2	37.9%
Subtotal	226,239.2	65.6%	235,698.1	68.7%
Personal deposits				
Demand deposits	39,219.1	11.4%	40,145.4	11.7%
Time deposits	79,442.9	23.0%	67,307.5	19.6%
Subtotal	118,662.0	34.4%	107,452.9	31.3%
Total due to customers	344,901.2	100.0%	343,151.0	100.0%

2. Due to banks

As at 30 June 2017, the amount due to banks was RMB73,354.8 million, representing a decrease of RMB19,541.0 million or 21.0% as compared with the end of last year. The changes of due to banks reflected the Bank's consideration to match assets and liabilities. Based on market liquidity and the Bank's needs for funds, the Bank adjusted the portion of due to banks in its liabilities.

3. Repurchase agreement amounts

As at 30 June 2017, the Bank's repurchase agreement amounts were nil, representing a decrease of RMB13,694.1 million or 100.0% as compared with the end of last year. The changes in the Bank's repurchase agreement amounts reflected the Bank's consideration to match assets and liabilities. Based on market liquidity and the Bank's capital needs for funds, the Bank decreased the repurchase agreement amount.

4. Debt securities issued

As at 30 June 2017, the Bank's debt securities issued were RMB78,372.3 million, representing an increase of RMB36,488.9 million or 87.1% as compared to the end of last year, mainly due to the Bank's newly issued green financial bonds and the increase of the balance of the interbank certificates of deposit.

(III) Shareholders' Equity

As at 30 June 2017, the Bank's shareholders' equity was RMB40,055.1 million, representing an increase of RMB2,720.1 million or 7.3% as compared with the end of last year. As at 30 June 2017, equity attributable to shareholders of the parent company was RMB38,971.9 million, representing an increase of RMB2,464.1 million or 6.7% as compared with the end of last year. The increase in shareholders' equity was mainly due to the increase of net profit.

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Share capital	10,995.6	27.4%	10,995.6	29.5%
Reserves	16,571.7	41.4%	15,498.1	41.5%
Retained profit	11,404.6	28.5%	10,014.1	26.8%
Equity attributable to equity				
holders of the Bank	38,971.9	97.3%	36,507.8	97.8%
Non-controlling interests	1,083.2	2.7%	827.2	2.2%
Total equity	40,055.1	100.0%	37,335.0	100.0%

Management Discussion and Analysis

IV. Off-balance Sheet Commitments

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

	As at 30 June 2017	As at 31 December 2016
	(In RMB million)	
Credit commitments:		
Bank bills acceptance	41,296.9	54,883.0
Issued letters of guarantee	9,247.3	8,504.7
Issued letters of credit	5,675.2	5,460.1
Credit limit of credit card	7,071.8	4,152.5
Subtotal	63,291.2	73,000.3
Capital expenditure commitments	817.4	894.2
Operating lease commitments	1,048.9	1,053.3
Treasury bond redemption commitments	2,875.0	2,986.0
Relief obligation under risk cooperative fund	180.0	180.0
Total	68,212.5	78,113.8

In addition, as at 30 June 2017, significant legal proceedings exceed RMB10 million outstanding against the Group (for itself or as a third party) amounted to RMB60 million. It is expected that no loss will be caused by these litigations and no provisions need to be made. As at the date of this report, the Bank had no significant contingent liabilities. Details of off-balance sheet commitments contracts are disclosed in "Commitments and Contingent Liabilities" in the notes to financial statements.

V. Analysis on Loan Quality

During the Reporting Period, the Bank closely monitored changes in external environment, practically strengthened management of the whole process of loan granting, accelerated the credit restructuring, increased the efforts in collection and disposal of NPLs and strengthened performance appraisal on risk management, so that the loan quality was generally kept at a manageable level. However, the Bank faced an upward pressure on non-performing loans ("NPL(s)") due to changes in the external business environment, economic slowdown and difficulties in operations of SMEs. As at 30 June 2017, the balance of NPLs was RMB3,720.2 million. The NPL ratio amounted to 1.65%, up by 0.12 percentage point as compared with the end of last year.

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

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

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Pass	215,481.8	95.4%	193,292.7	95.9%
Special mention	6,703.7	3.0%	5,253.2	2.6%
Substandard	1,327.4	0.6%	1,174.2	0.6%
Doubtful	1,483.1	0.6%	1,398.5	0.7%
Loss	909.7	0.4%	509.3	0.2%
Total loans to customers	225,905.7	100.0%	201,627.9	100.0%
NPLs and NPL ratio ⁽¹⁾	3,720.2	1.65%	3,082.0	1.53%

Note:

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

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

Management Discussion and Analysis

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

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

	As at 30 June 2017			As at 31 December 2016		
	Loan amount	NPL amount	NPL ratio	Loan amount	NPL amount	NPL ratio
(In RMB million, except percentages)						
Corporate loans						
Loans to small enterprises	60,810.9	1,419.9	2.33%	61,907.2	1,227.4	1.98%
Other corporate loans excluding loans to small enterprises	43,632.0	314.6	0.72%	33,117.5	288.1	0.87%
Subtotal	104,442.9	1,734.5	1.66%	95,024.7	1,515.5	1.59%
Personal loans						
Loans to small enterprise owners	27,971.8	1,085.5	3.88%	26,768.0	682.5	2.55%
Personal consumption loans	79,605.1	615.1	0.77%	69,405.1	524.7	0.76%
Loans to farmers	13,224.9	285.1	2.16%	9,620.2	359.3	3.73%
Subtotal	120,801.8	1,985.7	1.64%	105,793.3	1,566.5	1.48%
Discounted bills	661.0	—	—	809.9	—	—
Total	225,905.7	3,720.2	1.65%	201,627.9	3,082.0	1.53%

In the first half of 2017, the Bank actively responded to the national policies by strengthening the adjustment of loans structure and continuing to develop microcredit business rapidly (corporate loans to small enterprises and personal loans). At the end of the Reporting Period, the NPL ratio of corporate loans rose by 0.07 percentage point as compared to the end of last year to 1.66%. The NPL ratio of loans to small enterprises increased during its rapid development. The NPL ratio of personal loans increased by 0.16 percentage point as compared to the end of last year to 1.64%, of which the NPL for small business and natural person loan increased to 3.88%. Since small and micro business customers are the customer groups that are more sensitive to cash flow, under the Bank's effort to develop small and micro business loan, the NPL ratio raised against the backdrop of macro economy downturn. Under the backdrop of rapid increase in the general credit scale of retail credit business, the Bank insisted to adopt policy of high risk and high pricing particularly towards loans to farmers with higher risk. The Bank also efficiently lowered the NPL ratio through pertinence measures such as changing the way of risk mitigation, optimizing the customer base and the thorough application of internal assessment system. The NPL ratio of loans to farmers decreased by 1.57 percentage point. Meanwhile, amid the considerable increase of the Bank's individual consumption loan, we effectively controlled the access to personal loan through internal rating and effectively controlled the NPL ratio through several measures targeting risk controls. The NPL ratio only increased one basis point to 0.77% as compared to the end of last year. Also, the Bank enhanced the guarantee structure to ensure a reliable source of guarantor and the risk of end asset quality under control. In the first half of 2017, the Bank enhanced its sub-divided risk management by strengthening risk alerts of different types business, rigid quota control, concerning the source of guarantor, enhancing the guarantee structure, and client list management of businesses, setting rigorous loan granting thresholds, establishing additional NPL collection institutions, enhancing cooperation with external institutions and redoubling collection and disposal of overdue loans, thus ensure that loan quality was relatively stable. Aiming at the NPL of small business legal and natural person, the Bank actively address the issue and put great emphasis on the credit reference of the PBOC before and after the loan, strictly control the quality of customers by the Bank's internal rating, prohibit loans with additional joint and mutual guarantee to gradually back down NPL, and strictly control the access of guarantee business of state-owned guarantee enterprises, select high-quality collateralized loans business to ensure end risks under control. Aiming at the features of retail credit business risks, the Bank set up a specialized collection and disposal mechanism, built up the NPL elimination mechanism at the beginning of product design, enhanced the application of third-party data to prevent fraud risk, increased the application of internal assessment results and the tracking and monitoring of rating card rules and strategies, in order to make timely adjustment and realize the unification of risk appetite and the immediate transmission of policies.

(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 at the dates indicated.

	As at 30 June 2017				As at 31 December 2016			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
(In RMB million, except percentages)								
Agriculture, forestry, husbandry and fishery	2,949.3	1.3%	91.8	3.11%	2,847.5	1.4%	85.6	3.01%
Mining	343.8	0.2%	33.0	9.60%	305.6	0.2%	3.0	0.98%
Manufacturing	12,422.6	5.5%	383.3	3.09%	11,604.4	5.8%	337.5	2.91%
Production and supply of electricity, gas and water	3,882.0	1.7%	63.3	1.63%	3,892.3	1.9%	–	–
Construction	5,997.4	2.6%	72.6	1.21%	4,228.5	2.1%	12.0	0.28%
Transportation, storage and postal services	3,369.5	1.5%	31.0	0.92%	1,840.5	0.9%	8.0	0.43%
Information transmission, computer services and software	920.3	0.4%	3.8	0.41%	1,101.5	0.5%	8.9	0.81%
Wholesale and services	27,930.9	12.3%	975.1	3.49%	30,356.6	15.0%	962.0	3.17%
Accommodations and catering	3,159.1	1.4%	24.7	0.78%	2,511.5	1.2%	61.7	2.46%
Finance	15.4	0.0%	–	–	51.3	0.0%	–	–
Real estate	13,938.4	6.2%	28.8	0.21%	14,062.8	7.0%	6.0	0.04%
Rental and commercial services	17,686.0	7.8%	18.8	0.11%	15,659.5	7.8%	22.4	0.14%
Scientific research, technical services and geological prospecting	392.2	0.2%	2.8	0.71%	425.1	0.2%	2.9	0.68%
Water conservation, environment, public utility management and investment	8,573.3	3.8%	5.5	0.06%	3,044.8	1.5%	5.5	0.18%
Residential and other services	396.3	0.2%	–	–	508.5	0.3%	–	–
Education	448.5	0.2%	–	–	384.9	0.2%	–	–
Health, social security and social welfare	1,109.4	0.5%	–	–	1,382.3	0.7%	–	–
Culture, sports and entertainment	483.5	0.2%	–	–	392.1	0.2%	–	–
Public management and social organization	425.0	0.2%	–	–	425.0	0.2%	–	–
Total corporate loans	104,442.9	46.2%	1,734.5	1.66%	95,024.7	47.1%	1,515.5	1.59%
Total personal loans	120,801.8	53.5%	1,985.7	1.64%	105,793.3	52.5%	1,566.5	1.48%
Discounted bills	661.0	0.3%	–	–	809.9	0.4%	–	–
Total	225,905.7	100.0%	3,720.2	1.65%	201,627.9	100.0%	3,082.0	1.53%

Management Discussion and Analysis

As at 30 June 2017, the NPLs of the Bank concentrated in the wholesale and service industry and the manufacturing industry, with NPL ratio of 3.49% and 3.09%, respectively. The Bank actively restructured the industry portfolio of its loans by withdrawing or tightening loans for overcapacity and high-risk industries. The loans for the manufacturing, wholesale and services, real estate reduced. The Bank developed with great efforts on the highly profitable personal loan business which was associated with controllable risks, green credit such as environmental protection, education and medication, which are supported by national policies and other clients in premium industries. In addition, multi-pronged measures were implemented to put in place rigorous control over existing NPLs.

(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 30 June 2017				As at 31 December 2016			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
(In RMB million, except percentages)								
Heilongjiang region	86,740.3	38.4%	2,420.2	2.79%	78,739.3	39.0%	2,098.3	2.66%
Other Northeast region	40,491.4	17.9%	290.7	0.72%	30,448.0	15.1%	264.0	0.87%
Southwest region	43,629.6	19.3%	533.0	1.22%	41,869.7	20.8%	382.4	0.91%
Northern China	27,242.9	12.1%	159.6	0.59%	24,334.0	12.1%	84.8	0.35%
Other regions	27,801.5	12.3%	316.7	1.14%	26,236.9	13.0%	252.5	0.96%
Total	225,905.7	100.0%	3,720.2	1.65%	201,627.9	100.0%	3,082.0	1.53%

As at 30 June 2017, a majority of the Bank's NPLs was concentrated in the Heilongjiang region, the Bank actively restructured the loans within geographical regions. The percentage of total loans in Heilongjiang region was slightly down as compared to the end of last year. However, the NPL ratio was slightly increased due to various factors such as changes in external operating environment, slowdown in economic growth and difficulties in operations of SMEs. Meanwhile, the Bank strengthened its management of regional industry quota and product quota for loans, credit facilities to related clients, distant loans, risk mitigation, credit facilities to specific business districts and loans overdue, established regional collection institutions and strengthened appraisal on loan quality to tackle the NPLs increase in preventive regions.

(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 30 June 2017				As at 31 December 2016			
	Amount	% of total	NPL amount	NPL ratio	Amount	% of total	NPL amount	NPL ratio
(In RMB million, except percentages)								
Unsecured loans	42,494.1	18.8%	666.1	1.57%	39,507.5	19.6%	574.3	1.45%
Guaranteed loans	56,064.7	24.8%	1,113.2	1.99%	50,186.4	24.9%	975.5	1.94%
Collateralized loans	102,866.0	45.5%	1,867.8	1.82%	95,661.8	47.4%	1,457.6	1.52%
Pledged loans	24,480.9	10.9%	73.1	0.30%	16,272.2	8.1%	74.6	0.46%
Total	225,905.7	100.0%	3,720.2	1.65%	201,627.9	100.0%	3,082.0	1.53%

During the Reporting Period, the Bank took active measures in coping with the economic environment changes. It increased the ultimate control over risks by allocating more resources to the secured loan in order to enhance the guarantee structure which resulted in a higher growth rate of secured NPLs, but the loss given default was relatively low. Currently, the collateralized loans accounts for 52% of the NPL and the end risks are under control. During the year, the Bank promoted the application of collateral risk valuation system throughout the Bank. The Bank reinforced the management of collateral and prevented risks of false high valuation thereof and defects in relevant procedures through various measures such as conducting the advanced verification and post revaluation for the internal collateral risk and valuation results towards the collateral value, and adjustments of mitigation strategies. Meanwhile, the innovative implementation of adaptive management to business property collaterals allows the access of high-quality collaterals and the targeting and effectiveness of the management. Moreover, the Bank made active deployment for its retail credit, which resulted in an increase in NPLs of unsecured loan, the Bank strengthened cooperation with third-party institutions such as credit agencies. It made due reference to the credit ratings published by the PBOC and carried out dynamic monitoring and adjusting of its retail internal assessment model to prevent credit risk in a timely and accurate manner. Furthermore, it implemented stronger collection through both internal institutions and judicial proceedings to ensure the effective control of credit risk and the overall stability of loan quality.

Management Discussion and Analysis

(VI) Concentration of Borrowers

As at 30 June 2017, the Bank was in compliance with the lending limit of 10% of the Bank's net capital to any single borrower. The following table sets out, as at 30 June 2017, the Bank's 10 largest single borrowers (excluding group borrowers) in terms of loan balance, none of which was a NPL.

		As at 30 June 2017		
Industry		Loan balance	% of Total loans	% of Net capital
(In RMB million, except percentages)				
Borrower A	K- Real estate	1,568.3	0.69%	3.15%
Borrower B	N- Water conservation, environment and public utility management	1,400.0	0.62%	2.81%
Borrower C	N- Water conservation, environment and public utility management	1,150.0	0.51%	2.31%
Borrower D	K- Real estate	1,060.0	0.47%	2.13%
Borrower E	F- Transportation, storage and postal services	1,000.0	0.44%	2.01%
Borrower F	K- Real estate	1,000.0	0.44%	2.01%
Borrower G	H- Wholesale and services	964.0	0.43%	1.93%
Borrower H	N- Water conservation, environment and public utility management	890.0	0.39%	1.78%
Borrower I	N- Water conservation, environment and public utility management	800.0	0.36%	1.60%
Borrower J	K- Real estate	781.4	0.35%	1.57%
Total		10,613.7	4.70%	21.30%

(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 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Current loans	214,363.1	94.9%	194,341.1	96.4%
Loans past due: ⁽¹⁾				
For 1 to 90 days	7,296.4	3.2%	4,074.5	2.0%
For 91 days to 1 year	2,211.0	1.0%	1,549.0	0.8%
For 1 year and above	2,035.2	0.9%	1,663.3	0.8%
Subtotal	11,542.6	5.1%	7,286.8	3.6%
Total loans to customers	225,905.7	100.0%	201,627.9	100.0%

Note:

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

As at 30 June 2017, the amount of overdue loans totaled RMB11,542.6 million, and increased by RMB4,255.8 million as compared to the end of last year, mainly the loans within 90 days overdue; the overdue loans accounted for 5.1% of the total loans, and increased by 1.5 percentage points as compared to the end of last year, of which the loans within 90 days overdue accounted for 63.2% of the total loans. The overdue loans were mainly temporary, primarily due to the slower capital turnover and longer repayment period of certain clients affected by the operating environment. The Bank conducts the whole process management of loan granting. According to different stages and different risk level of the loans being exposed to, it adopted specific preventive measures to prevent overdue loans from increasing and loan quality from declining.

(VIII) Movements of Allowance for Impairment Losses on Loans

The Bank adopts individual assessment and collective assessment on impairment loss on loans as of the balance sheet dates. The Bank takes prudence as its principle and makes provision for impairment in the full amount. As at 30 June 2017, impairment losses on loans amounted to RMB6,268.1 million, and increased by RMB1,128.4 million as compared to the end of last year. The impairment losses on loans ratio was 2.77%, and increased by 0.22 percentage point as compared to the end of last year.

Movements of allowance for impairment losses are as follows:

Items	As at 30 June 2017	As at 31 December 2016
		(In RMB million)
Balance at the beginning of the period	5,139.7	3,613.3
Exchange difference	(1.5)	5.0
Impairment loss:	1,439.8	1,857.2
Impairment allowances charged	1,564.6	1,912.3
Reversal of impairment allowances	(124.8)	(55.1)
Accreted interest on impaired loans	(46.9)	(97.8)
Write-off	(289.3)	(341.4)
Recoveries of loans and advances previously written off	26.3	103.4
Balance at the end of the period	6,268.1	5,139.7

Management Discussion and Analysis

VI. Segment Report

(I) Geographical Segment Report

The description of the geographical areas 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 village and township banks, Harbin Bank Leasing and HBCF operating within Heilongjiang;
Other northeast region:	Branches in Dalian and Shenyang, as well as village and township banks operating in Northeastern China excluding the ones in Heilongjiang;
Southwest region:	Branches in Chengdu and Chongqing, as well as village and township banks operating mainly in Sichuan and Chongqing and located in Southwest region;
Northern China:	Branches in Tianjin, as well as village and township banks operating mainly in Beijing and Tianjin and located in Northern China;
Other regions:	Village and township banks operating in regions other than those listed above.

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

	Mainland China					
	Heilongjiang region	Other Northeast region	Southwest region	Northern China	Other regions	Total
	(In RMB million)					
For the six months ended						
30 June 2017						
Operating income	5,044.3	636.0	1,115.1	481.4	195.3	7,472.1
Operating expenses	(1,257.6)	(165.3)	(237.5)	(111.2)	(87.0)	(1,858.6)
Impairment losses	(1,461.0)	(159.7)	(240.5)	(71.6)	(39.4)	(1,972.2)
Operating profit	2,325.7	311.0	637.1	298.6	68.9	3,641.3
As at 30 June 2017						
Segment assets	407,290.1	49,481.8	52,271.8	27,052.2	10,831.2	546,927.1
Segment liabilities	308,987.2	67,489.1	70,825.1	49,954.1	9,616.5	506,872.0

Management Discussion and Analysis

	Mainland China					Total
	Heilongjiang region	Other	Southwest region	Northern China	Other regions	
		Northeast region				
(In RMB million)						
For the six months ended						
30 June 2016						
Operating income	4,887.5	467.3	943.0	368.2	193.5	6,859.5
Operating expenses	(1,396.4)	(184.5)	(294.0)	(125.1)	(64.8)	(2,064.8)
Impairment losses	(1,323.6)	(101.7)	(131.8)	(97.0)	(37.1)	(1,691.2)
Operating profit	2,167.5	181.1	517.2	146.1	91.6	3,103.5
As at 30 June 2016						
Segment assets	344,970.8	34,491.3	67,819.7	21,231.3	9,452.2	477,965.3
Segment liabilities	265,933.2	55,853.5	82,557.4	30,111.1	8,476.2	442,931.4

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 six months ended 30 June			
	2017		2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Heilongjiang region	5,044.3	67.5%	4,887.5	71.3%
Other Northeast region	636.0	8.5%	467.3	6.8%
Southwest region	1,115.1	14.9%	943.0	13.7%
Northern China	481.4	6.5%	368.2	5.4%
Other regions	195.3	2.6%	193.5	2.8%
Total operating income	7,472.1	100.0%	6,859.5	100.0%

Management Discussion and Analysis

(II) Business Segment Report

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

	For the six months ended 30 June			
	2017		2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate finance business	2,256.4	30.2%	2,653.6	38.7%
Retail finance business	2,284.3	30.6%	1,760.5	25.7%
Financial institutions business	2,879.5	38.5%	2,386.7	34.8%
Other businesses ⁽¹⁾	51.9	0.7%	58.7	0.8%
Total operating income	7,472.1	100.0%	6,859.5	100.0%

Note:

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

VII. Analysis of Capital Adequacy Ratio

The Group continued to optimize its business structure and strengthen capital management, and as at 30 June 2017, the capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 12.02%, 9.48% and 9.46%. The core tier 1 capital adequacy ratio, the tier 1 capital adequacy ratio and the capital adequacy ratio increased by 0.12 percentage point, 0.13 percentage point and 0.05 percentage point respectively as compared to the end of last year, which were in line with the regulatory requirements during the transition period provided in the Measures of Capital Management of Commercial Banks (Provisional) issued by the CBRC. The increase in the core tier 1 capital adequacy ratio, the tier 1 capital adequacy ratio and the capital adequacy rate were mainly due to the capital injection through its own profit and the sluggish growth of risk weight assets.

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

	As at 30 June 2017	As at 31 December 2016
	(In RMB million, except percentages)	
Core capital	39,395.5	36,999.9
Core Tier 1 Capital deductibles items:		
Full deductibles items	(155.7)	(158.8)
Net core tier 1 capital	39,239.8	36,841.1
Net other tier 1 capital	56.5	43.3
Net tier 1 capital	39,296.3	36,884.4
Net tier 2 capital	10,532.6	10,343.0
Net capital	49,828.9	47,227.4
Credit risk-weighted assets	386,459.6	367,765.6
Market risk-weighted assets	5,582.8	4,189.9
Operational risk-weighted assets	22,640.7	22,659.5
Total risk-weighted assets	414,683.1	394,614.9
Core tier 1 capital adequacy ratio	9.46%	9.34%
Tier 1 capital adequacy ratio	9.48%	9.35%
Capital adequacy ratio	12.02%	11.97%

VIII. Business Operation

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

(I) Corporate Finance Business

In the first half of 2017, the Bank developed its corporate finance business based on the principle of “stable and steady progress”. Following the idea of “transforming into an investment bank” for corporate finance business, the Bank strengthened its efforts in building core customer base and core product mix. While optimising its traditional banking credit business and electronic settlement services, the Bank also carried out comprehensive innovation and deep development with respect to the government market, capital market, bond market and equity market and pushed forward green credit, asset securitisation and other characteristic business.

Management Discussion and Analysis

During the Reporting Period, the Bank constantly strengthened the corporate finance business products development. It developed more complete product lines, steadily improved its professional services capabilities, and achieved steady progress and development of its corporate finance business. During the Reporting Period, the corporate finance business of the Bank recorded profit before tax of RMB906.2 million (accounting for 24.9% of profit before tax of the Bank) and operating income of RMB2,256.4 million (representing a decrease of 15.0% as compared to the same period of last year and accounting for 30.2% of operating income of the Bank).

Corporate customers

Leveraging the advantages in its cross-regional outlet laid-outs, and closely following the national strategy, the Bank explored business opportunities with strategic customers in promising industries such as energy saving and environmental protection, circular economy as well as water conservancy, transportation and other key projects for the Thirteenth Five-year Plan. It carried out product design and business marketing based on the needs of its strategic customers, thereby gradually establishing a flexible and refined marketing mechanism for the purposes of optimising customer structure, enhancing customer loyalty and improving customer value. As at the end of June 2017, the Bank had 91,000 corporate customers.

Adhering to the idea of being “customer-oriented and market-oriented”, the Bank actively identified customers’ needs for making innovations in business development. Through product innovation, the Bank actively satisfied demands for sophisticated financing and consulting characterised by comprehensive asset and liability management, wealth management and capital operation. The Bank also enhanced the overall customer quality to drive business growth.

Corporate deposits

During the Reporting Period, the Bank further increased the proportion of green deposits to optimise its gearing structure and control its cost on interest payment. The Bank made great efforts in extending funding sources for corporate liabilities business, formulated segment marketing strategies and strengthened cooperation with securities companies and enterprises. As at 30 June 2017, corporate deposits of the Bank amounted to RMB226,239.2 million with demand deposits accounting for 43.0%. The average daily deposit of the Bank amounted to RMB211,093.6 million, up by 13.6% compared to the same period of last year.

According to the statistics provided by the Harbin branch of the PBOC, as at the end of the Reporting Period, the balance of corporate deposits of the Harbin branch of the Bank accounted for 14.6% of corporate deposits in the local market, ranking the first in this region.

Corporate loans

During the Reporting Period, the Bank formulated an allocation plan on its credit size for reasonable management in loans assignment and enhanced its pricing management mechanism with the use of limited credit size so as to optimise its comprehensive income. Conforming to the policy direction of returning to its roots, the Bank focused its support on the real economy, especially livelihood projects and green industry projects. Support for livelihood projects in terms of products was also further strengthened by innovation on financial products such as industry funds and merger and acquisition loans. Taking the issuance of green financial bonds as an opportunity, the Bank allocated more resources to green industry projects in terms of pricing and size so as to contribute to the take-off of green economy. As at 30 June 2017, the corporate loan balance of the Bank amounted to RMB104,442.9 million, representing an increase of 9.9% as compared to the beginning of the year and accounting for 46.2% of total loans. Being conscious of observing the risk baseline, the Bank kept the overall quality of its loan assets under control in general with the balance of NPLs at RMB1,734.5 million.

Intermediary services

During the Reporting Period, the Bank continued to strengthen its management of the intermediary services by rationalising its existing product portfolio of intermediary services. To get in line to the idea of being responsible for customers, the Bank further enhanced and optimised the products of intermediary services and strived to provide one-stop comprehensive financial solutions and services covering the whole transaction process for customers with significant enhancement in both market competitiveness and profitability.

The Bank adhered to sub-categorise customers, adopted differentiated marketing strategies, applied advanced technology and developed its teams. It also continuously promoted business development and ancillary system establishment in corporate settlement and cash management, aiming to further enhance its capability in payment, settlement and capital management for corporate customers. Furthermore, the Bank set up a modernised marketing framework with multiple layers and perspectives, enabling it to take initiative in promoting different kinds of financial services and business to customers and to improve customer experience.

(II) Retail Finance Business

The Bank was dedicated to providing “comprehensive retail finance” and adopted “customer-oriented” business philosophy by strengthening research and trend analysis in retail business and striving to achieve breakthroughs in key areas such as customer marketing, segmentation management, professional capability in wealth management, differentiated operation of retail loans and cross-selling. It also improved operational efficiency by optimising business process. It continues to strengthen its brand of “comprehensive retail finance” so as to improve the comprehensive competitiveness of the retail finance business.

In the first half of 2017, the Bank continued to improve its pricing mechanism and system establishment of retail finance business, and therefore enhancing the risk pricing capability and creating a new profit model. During the Reporting Period, retail finance business of the Bank recorded profit before tax of RMB1,075.4 million (accounting for 29.5% of profit before tax of the Bank) and operating income of RMB2,284.3 million, representing a year-on-year increase of 29.8% and accounting for 30.6% of the operating income of the Bank.

Retail customers

By leveraging the mobile internet business platform and consolidating its online and offline resources, the Company further strengthened its retail customer base. By and through its consumer finance business, the Bank achieved rapid growth in the number of customers by penetrating into more long-tail customers of the middle to low income levels, such as young white collars, fresh graduates and migrant workers, and expanded and diversified its cooperation channels and achieved wider consumption coverage, and thereby increased the number of customers it served. As at 30 June 2017, the Bank had approximately 22.91 million retail customers, up by approximately 4.2 million as compared to the beginning of the year, of which over 14.70 million were customers with existing loans.

Retail deposits

The Bank provides demand and time deposits service to retail customers based on statutory interest rate and the floating interest rate range. Such deposits are mostly denominated in RMB with only a small portion being denominated in foreign currencies. As at 30 June 2017, the total retail customer deposits of the Bank amounted to RMB118,662.0 million, representing an increase of RMB11,209.1 million or 10.4% from the end of last year. The number of customers with personal financial assets (in RMB and other foreign currencies) over RMB50,000 amounted to 486,100, up by 9.04% as compared to the end of last year. The average balance of retail deposits amounted to RMB106,299.7 million, representing an increase of 17.2% as compared to the end of last year. Demand deposits accounted for 33.1% of retail customer deposits. According to the statistics provided by the Harbin branch of the PBOC, during the Reporting Period, the balance of retail deposits of the Harbin branch of the Bank accounted for 13.7% of corporate deposits in the local market, ranking the second in this region.

Retail loans

During the Reporting Period, the retail loans business was customer-oriented by following the basic principles including improving comprehensive income of customers, cutting costs and enhancing efficiency when conducting business, and specified its customer positioning while motivating the simultaneous growth of other business of the Bank through cross-selling to improve comprehensive income and establish its core competitiveness by further optimisation and innovation on its products. In the first half of 2017, the retail loans business set up and established a variety of cross-selling campaigns, achieving the multi-dimensional collaborative development of intermediary services for assets and liabilities. At the same time, the key customers of retail loan business were middle class in cities, new agricultural entities, individual businesses, small and micro business owners, university students and consumer groups involving different scenarios. Taking microcredit loan as its major development strategy, the Bank iterated and optimised its major retail loan products including White-collar E-Loans, Harvest E-Loans and Taxation E-Loan which significantly improved its market competitiveness. As at 30 June 2017, the Bank's retail loans amounted to RMB120,801.8 million, representing an increase of RMB15,008.5 million or 14.2% as compared to the beginning of the year. During the Reporting Period, one of the retail loan products, the Harvest E-Loans, was named one of the Top 10 Internet Financial Innovation Awards (十佳互聯網金融創新獎) of the China Financial Innovation Awards for 2017 (2017中國金融創新獎) organised by the Banker, and Medical Loan Tong was named one of the Top 10 Financial Innovative Products Award (十佳金融產品創新獎). In the first half of 2017, the retail loan business has been reported on 14 medias including television stations, newspapers, magazines and websites for a total of 15 times, which was beneficial to further improving the Bank's image and expanding its brand influence.

Bank cards

During the Reporting Period, the Bank carried out a comprehensive upgrade of its bank credit card business. Advanced business systems and management mechanisms were introduced in order to develop new stimulus of growth in the Bank's credit card business, in order to achieve faster expansion and become the top credit card brand among city commercial banks. As at 30 June 2017, the total number of issued credit cards by the Bank reached 394,800, of which 111,100 were newly issued during the Reporting Period, up by 39.2% as compared to the end of last year. The credit card asset balance amounted to RMB5,244 million, up by 101.93% as compared to the end of last year, mainly due to the official commencement and orderly development of credit card promotions. As at 30 June 2017, the number of debit cards issued by the Bank recorded a steady increase. The total number of issued debit cards reached 10.6449 million, of which 442,500 were newly issued during the Reporting Period.

Wealth management business

The Bank's wealth management business covers three major financial scenarios, namely housing, healthcare and education. Focusing on increasing income generated from intermediary business, the Bank enhances customers' loyalty, retains loyal customers, and strives to promote featured product innovation. The Bank constantly enhances its professionalism in wealth management capability to accelerate the development of the wealth management business. As at 30 June 2017, total personal wealth management products realised by the Bank was RMB98,327 million, representing an increase of RMB14,516 million as compared to the same period of last year.

(III) Interbank Finance Business

Under the complicated backdrop of the struggling global economic recovery, slowdown of economic growth in China, increasing financial risk exposures, intensified market fluctuation, and stricter regulatory environment, in order to implement the strategic goals for the development of interbank business, the interbank business, under special administration of the Interbank Finance Headquarters, took full advantage of the implementation of the guiding policy of "comprehensive asset management" and made a reasonable layout of investment banking business based on the financing requirement of corporate customers as the primary battlefield, and the note market, the bond market, the currency market, the wealth management market, the foreign exchange market and interbank investment as the secondary battlefields for diversification and coordination. In 2017, the Bank raised the funds required for green credit in the interbank bond market for the first time and successfully issued green financial bonds amounting to RMB5,000 million which would be used in supporting six major industries, namely energy saving, clean transportation, clean energy, pollution prevention and control, ecological protection and adaptation to climate change, in order to support the development of green industry. The Bank also facilitated the issuance of credit and asset-backed securities and financial bonds for small enterprises so as to, on one hand, improve its circulation of credit assets and, on the other hand, diversify the sources of funds which are stable in long term with low cost. According to the regulation policies intensively promulgated this year, the Bank initiated several rounds of self-examination based on the requirements of the regulatory documents and took active and effective measure to manage interbank financial risks.

During the Reporting Period, the interbank finance business of the Company recorded profit before tax of RMB1,636.5 million (accounting for 44.9% of profit before tax of the Bank and operating income of RMB2,879.5 million, representing a year-on-year increase of 20.6% and accounting for 38.5% of operating income of the Company).

Management Discussion and Analysis

Currency market transactions

During the Reporting Period, the domestic macroeconomic environment continued to face great downward pressure, together with the change in monetary policy of the Central Bank and stronger efforts in regulation, resulting in a moderately tight liquidity in the banking system. Overall market income declined, while pressure on capital adequacy ratio of financial institutions increased. Under the backdrop of the macroeconomic environment, the Bank made reasonable term of capital liquidity arrangements and, as a first-class dealer for open market business under the Central Bank, actively participated in the open market business in order to further expand its financing channels in the currency market. By safeguarding liquidity while minimising capital costs, the Bank secured stable increase in income and continued improvement in profitability.

As at 30 June 2017, the balance of our due from and placement with banks and other financial institutions and balance of financial assets held under reverse repurchase agreements was RMB30,657.4 million, representing a decrease of RMB17,881.3 million or 36.8% from the end of last year. The balance of our due to and placement from banks and balance of financial assets sold under repurchase agreements was RMB73,354.8 million, representing a decrease of RMB33,235.1 million or 31.2% from the end of last year.

Investments in securities and other financial assets

During the Reporting Period, the Company closely monitored the changes in the economic environment and market. Based on the judgment of the market interest rate trend, the Company adjusted the size of its bond investment in a flexible manner, properly arranged the timing for making investment, and effectively optimised its investment portfolio, aiming to achieve stable investment and timely profit-taking.

As at 30 June 2017, the Company's balance of securities investments and other financial assets amounted to RMB208,779.7 million, representing an increase of RMB14,784.2 million or 7.6% as compared to the end of last year. The total amount of the Company's bond investments was RMB55,035.2 million, representing an increase of RMB5,560.6 million or 11.2% from the end of last year. The total amount of the Bank's debt instruments issued by financial institutions amounted to RMB153,719.9 million, representing an increase of RMB9,223.6 million or 6.4% as compared to the end of last year. According to China Central Depository & Clearing Co., Ltd., the bonds traded by the Company in the first half of 2017 amounted to RMB3,377.7741 billion, representing 2.19 times as great as the same period of last year.

Wealth management business

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

In the first half of 2017, the Bank issued 454 tranches of wealth management products to its customers, and raised total proceeds of RMB131,827 million. As of 30 June 2017, the balance of wealth management products of the Bank was RMB136,747 million, representing an increase of 28.51% as compared to the same period of last year, of which non-principal protected wealth management products amounted to RMB62,658 million and principal protected wealth management products amounted to RMB74,089 million.

In terms of assets allocation, the Bank controlled the size of the investments in non-standard debt-based assets strictly in compliance with relevant regulations of regulatory authorities. As at 30 June 2017, the balance of wealth management investments in non-standard debt-based assets amounted to RMB18,440 million, accounting for 13.48% of the balance of the Bank's wealth management products as at 30 June 2017 and 3.42% of the Bank's total assets as at the end of 2016, which were in compliance with the regulatory requirements.

Asset Custody Services

During the Reporting Period, the Company introduced Internet financial capital custody business to provide depository services for Internet financial platforms such as online lending platforms with potential for sustainable development, financial asset exchanges and consumer finance institutions. Recently, the P2P capital depository system has commenced official operation, and the first platform has also commenced operation and entered in capital depository agreements with 4 large Internet financial P2P platforms. Being in line with the development trend of Internet finance and in compliance with the regulatory policies, the Company actively expanded its Internet financial capital depository business by selecting high quality platforms as partners for cooperation to achieve mutual development and supporting regulation in order to safeguard the safe and sound Internet financial environment together. The Company carried out intensive promotion on its trust custody business and private equity investment fund custody business and further improved its service quality, continuously optimised functions of its system and enhanced business operation.

During the Reporting Period, the assets under custody of the Company amounted to RMB40,250 million.

(IV) Mobile Finance

The Mobile Finance Headquarters of the Bank was responsible for organising innovation and marketing work of traditional electronic banking channels, mobile business and emerging mobile finance business. In 2017, the Bank continued to implement its strategy of developing mobile finance and further improved its existing service channels and methods to acquire customers while promoting innovation of online financial business and traditional business from offline to online, achieving great improvements in the total number of customers, business size and brand influence of the Bank.

1. Mobile finance

The Bank actively upgraded and enhanced the functions of its existing business channels, innovated the development approach of products and realised online application and processing of seven major loan products including Study Tour Bao (遊學寶) and civil E-loans. It successfully launched the sale of agent insurance products, which solved the problems arising from the limitation of selling the Bank's insurance products in counters. WeChat banking became more considerate for the needs of customers in daily life by introducing functions including notification of medical insurance account movement and checking the details of transactions such that the customers can know the transaction details and account balance of their personal medical insurance accounts via the Bank's WeChat banking at any time. In the first half of 2017, competitive edges of online wealth management product sale were outstanding. Among every hundred transactions on wealth management products, 86 transactions were completed via online channels with sales amounting to RMB72,100 million. Besides, featuring at two major marketing themes, "New Spring Season" and "Thanksgiving Season", the Bank organised various themed marketing activities and achieved good marketing results with a total number of participants reaching 1.1 million and nearly 16.20 million views. The Online Harbin Marathon Gala marketing activity of the Bank was awarded the Most Influential Award (極具影響力獎) of the 3rd session of Golden Chestnut Award of China Financial Brands (第三屆中國金融品牌「金栗子獎」). In the ranking of new media business in the banking industry in China, the new media business of the Bank was ranked first among city commercial banks.

2. *Internet finance*

With the smooth operation of its Internet finance business, the Company gradually pushed forward the establishment of direct banking and designated the development positioning of the four major business, namely wealth management, consumer loans, payment and settlement and mobile living. In the first half of 2017, in order to further meet the needs of customers, optimise platform construction and enrich product portfolio, the Company actively developed cooperation relationships with partners on direct banking, speeded up the construction of various channels and launched a number of marketing and promotion activities on the basis of the direct banking platform. Besides, the Bank regarded sports and livelihood as special elements to help developing and planning new products. Focusing on marathon hotspots and medical services, the Bank is now developing online marathon and medical registration platform so as to build the Bank's brand in direct banking with a healthy and green image that focuses on livelihood.

3. *Cross-border E-commerce payment and settlement*

The cross-border E-commerce financial business of the Company kept expanding, and the cross-border payment and settlement platform continued to develop and operate steadily, further increasing its market share in China's interbank market. As at 30 June 2017, there were 1,100 existing cross border customers in the platform in total, representing an increase of 563 customers as compared to the beginning of the year. In the first half of 2017, a total of 5.26 million cross-border payments were processed throughout the year, representing an increase of 134% as compared to the same period of last year with transaction volume of RMB1,600 million, representing an increase of 73.3% as compared to the same period of last first half of 2017, accounting for 13% of China's interbank market, and a turnover of RMB21.33 million was recorded. The platform was selected as the major project for Heilongjiang Luhai Silk Road Economic Belt by Heilongjiang Provincial Government, and was continued to be included under the management of the Major Construction Project Repository of the National Development and Reform Commission compiled as a major construction project of "Belt and Road".

(V) Key Featured Businesses

1. Microcredit business

For the first half of 2017, the Bank continued to focus on the innovation and R&D works in respect of technology and business mode for microcredit business. Focusing on the theme of “Year of Collaborative Development”, the Bank fully advanced the development of its specialised operating departments including the Microfinance SBU, the Consumer Finance SBU and the Housing Loan SBU. As at 30 June 2017, the balance of the Bank’s microcredit loans reached RMB181,612.7 million, representing an increase of 8.3% from the end of last year and accounting for 80.4% of the Bank’s total loans to customers. During the Reporting Period, the interest income from the Bank’s microcredit business was RMB4,635.3 million, accounting for 70.2% of the total interest income from loans to customers.

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

	As at 30 June 2017		As at 31 December 2016	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate loans to small enterprises	60,810.9	33.5%	61,907.2	36.9%
Personal loans	120,801.8	66.5%	105,793.3	63.1%
Total amount of microcredit loans	181,612.7	100.0%	167,700.5	100.0%

Small enterprise finance business

In the first half of 2017, the Bank's small enterprise finance focused on establishing the "new microcredit" business brand, and stuck to its microcredit development strategies. Centring on "improving brand value" by strengthening risk management, putting efforts in marketing and enhancing comprehensive contribution, the Bank smoothly launched its various strategic works. The Bank proactively optimised the product system for small enterprises by optimising and upgrading products including "Liquidity Loan for Small Enterprises (小企業流動貸)" and "Housing Loan for Small Enterprises (小企業惠房貸)", launching "Easy Loans for Tax (稅信易貸)" with respect to high quality enterprises in terms of assessment on tax payment under "interaction between banking and taxation (銀稅互動)" and launching "Online Revolving Loan for Small Enterprises (小企業網絡循環貸)" with respect to small enterprises. By expanding online distribution channels, the Bank provided its customers with a wider range of products and offered better services, thus increasing the comprehensive income of small enterprises. During the Reporting Period, the Bank innovated and implemented "Small Enterprise Customer League" comprehensive customer service and actively carried out work on cooperation with enterprises, which effectively facilitated the development of small enterprise loans business. In respect of asset quality management, the Bank implemented multi-dimensional supervision system and multi-dimensional defence mode. By fully leveraging the credit system, risk alert system and other systems, the Bank managed, discovered and analysed off-site data and discovered risk alert in a timely manner, thus achieving dynamic risk alert management. As at 30 June 2017, the Bank's balance of corporate loans to small enterprises amounted to RMB60,810.9 million, representing a decrease of RMB1,096.3 million as compared to the end of last year; the balance of NPLs amounted to RMB1,419.9 million, and the NPL ratio was 2.33%.

Consumer finance business

During the Reporting Period, the consumer finance business of the Bank strived to establish an all-rounded comprehensive consumer finance service (product) system and adhered to the principle of innovative development to expand the platform for quality business cooperation, enrich product lines and improve customer experience. By further accelerating the integration of big data technology of Internet and traditional financial services, the Company integrated online and offline and expanded the inclusiveness of consumer finance services so as to improve the coverage of consumer finance scenarios and customers. With its connection to external quality channels and data, the Company further optimised its existing risk management model and approaches in order to improve the overall risk management of its consumer finance business and control the overall business risk. During the Reporting Period, the Bank further expanded its cooperation with domestic private-run online banks by further exploring the service model of online consumer financial services, thus further characterising the financial scenario modelling, digitisation and information sharing. The Bank had launched consumer finance in several cities around China. As at 30 June 2017, the balance of personal consumption loans was RMB79,605.1 million, representing an increase of 14.7% as compared to the end of last year, of which the Consumer Finance SBU of the Bank granted new loans of RMB15,095 million with a balance of RMB21,271 million, representing an increase of 8.3% from the end of the last year, showing sound results of management.

Microfinance

During the Reporting Period, the microfinance business line of the Bank continued to enhance the product system, improve risk management on microcredit and solve the problem on small and micro customers' difficulty in financing by precise customer positioning, efficient operation model and excellent service experience. It continued to offer quality microfinance services for the self-employed and fee earners with stable occupation and income and good personal creditworthiness within its service network so as to put the Bank's philosophy of inclusive finance in practice. As at 30 June 2017, the balance of loans to small enterprise owners was RMB 27,971.8 million, representing a growth of 4.5% as compared to the end of last year, of which the balance of loans of the Bank from the Microfinance SBU amounted to RMB3,059 million, serving 15,522 customers.

Housing loans

During the Reporting Period, the Company focused on the promotion of "Property Mortgage Loan (房抵貸)" products with high yield and "An Ju Loan (安居貸)" products which satisfy customers' rigid demand on improvement on housing. By consolidating various resources such as online APP, WeChat and online banking, the Company achieved a full coverage of online and offline channels for customer acquisition. Green approval channels were opened on the basis of centralised approval, which significantly improved customer experience. The Company further optimised and upgraded system process to enhance operational efficiency. By dividing the existing customers into different segments, the Company carried out business monitoring and supervision in order to promote the refined management of housing loan business.

As at 30 June 2017, the Bank's personal housing loans amounted to RMB17,437.8 million, representing an increase of 24.2% from the end of last year.

Farmer loans business

For details of the commencement of the Bank's farmer loans business, please refer to the section headed "Key Featured Businesses" - "Modern agriculture finance business" herein.

2. *Sino-Russia financial services and international business*

The Bank's financial services to Russia generated operating income of RMB134.3 million during the Reporting Period. The Bank's balance of on-balance sheet and off-balance sheet asset businesses to Russia was RMB7,316 million as at 30 June 2017, representing an increase of RMB1,454 million or 24.8% from the same period last year. The Bank handled Ruble foreign exchange of RUB28,764 million during the Reporting Period, representing a decrease of 4.7% from the same period of last year.

In 2015, the Bank, as the Chinese promoter, together with Sberbank of Russia initiated the establishment of the first platform for the cooperation and interaction among financial institutions of China and Russia, namely the Sino-Russia Financial Council. During the Reporting Period, 5 institutions joined additionally, making the number of members reach 64.

Management Discussion and Analysis

During the Reporting Period, the Company organised two international commercial events. The first one was arranging 11 Chinese members in the council to participate in the 21st St. Petersburg International Economic Forum as representatives. In the forum, the council representatives participated in the general meeting of President of Russia, Putin, and leaders of various countries and established connection with financial institutions including Sberbank of Russia, Vnesheconombank and Russian Agricultural Bank as well as the Government of Saint Petersburg, which enhanced the international reputation and influence of the Company and the council. The second one was successfully convening the 3rd General Meeting of Sino-Russia Financial Council. The meeting was included in the important official agenda of the 4th China-Russia Expo. Over a hundred of council members and representatives of Chinese and Russia enterprises participated in the meeting. The meeting fully explored the potential of council cooperation in higher perspective, deeper level and broader scope to achieve complementation of advantages and lay a solid foundation for the future development of the council.

During the Reporting Period, the RMB10,000 million cross-border syndication led by the Bank achieved its first withdrawal in an amount of RMB50 million, marking the official implementation of the most influential cross-border interbank syndicated cooperation between Chinese and Russian financial institutions with the largest number of participants and the largest scale. It also participated in the US\$500 million cross-border syndicated interbank loan business of Credit Bank of Moscow, the third largest private bank in Russia, which deepened the cooperation between the Bank and the banks in core regions in Russia with respect to asset business. As at 30 June 2017, the Company total credit granted to Russian banks amounted to approximately RMB10,800 million, which played an important role for the development of Chinese and Russian financial cooperation.

As at 30 June 2017, the number of overseas correspondent banks of the Bank reached 523, including 140 correspondent banks in Russia. The Bank becomes one of the banks with the largest number of Sino-Russia correspondent banks in China. The Bank actively cooperated and interacted with its correspondent banks in respect of risk prevention regarding international business, anti-money laundering and anti-terrorism, as well as regional economic exchange.

During the Reporting Period, the “Syndicated Loans to Russia (俄易融)” products of the Bank was awarded the Top Ten Innovative Financial Products Awards under the 2017 China Financial Innovation Award selected by the Banker, showing the leading position of the Bank in Sino-Russia financial services.

3. *Modern agriculture finance business*

In the first half of 2017, leveraging the opportunities arising from the complementing reforms in facilitating modern agriculture development and in optimising financial supports, the Bank continued to put greater efforts into supporting agriculture development and implemented in Heilongjiang the concept of maintaining innovative, coordinated, environmentally friendly, open and sharing development, thus promoting the structural reform of agriculture supply and accelerating the transformation of the development mode of the agriculture industry. The Bank also focused on strengthening the financial support to the acceleration of agricultural modernisation, and striving to achieve continuous growth in agricultural loans. As of 30 June 2017, the Company's agriculture loans were RMB41,470.1 million, representing an increase of 9.6% from the end of last year, including loans to farmers of RMB13,224.9 million, representing an increase of 37.5% from the end of last year.

In 2017, the Bank continued to adhere to the national policy on modern agriculture development by putting more efforts in offering financial supports to new-type agriculture entities and enhancing innovation in rural financial products. During the Reporting Period, the Bank further promoted its new agriculture loan products with "Harvest E-Loan" as the flagship product and developed five models, namely third-party platform model, industrial cluster model, new guarantee model, industry chain model and high efficiency model. A total of RMB1,510 million was invested in the first half of the year. Risk prevention and control were also enhanced while making investment. The Bank fully upgraded its product internal assessment model and strengthened risk identification by managing elements such as credit rating and plantation output. During the Reporting Period, in order to support the country in accelerating the reform of collective property right shareholding system in rural areas, the Bank innovated and developed "Collective Loan Tong (集貸通)" products according to the recent financial situation of rural areas, which solved the problems arising from difficulties in lending loans by rural enterprises and individuals in some regions due to a lack of assets as collaterals. During the Reporting Period, the Bank devoted active efforts in the development of the pledged loan secured by live poultry, namely "Chu Bao Tong (畜保通)" by improving post-loan process and introducing the idea of "Internet Plus" into post-loan management, so the Bank can have remote monitoring on livestock farms via mobile phones to achieve real-time monitoring on the condition of live poultry as collaterals. During the Reporting Period, thanks to outstanding performance and contribution of the Bank in agriculture finance business, the Bank was awarded the Top Ten Innovative Institutions (Agriculture Finance) in China under the Agriculture Credit Cup – the Seventh Value Ranking of Rural Financial Brands election, and "Harvest E-Loan" was awarded the Top Ten Internet Financial Innovations Awards under the 2017 China Financial Innovation Award organised by the Banker.

Management Discussion and Analysis

During the Reporting Period, under the guidance of the national policy on modern agriculture development, the Bank continued to put increased efforts in offering financial supports to new-type agriculture entities. By consolidating the agricultural resources to carry out large scale plantation, the Bank improved efficiency of land and increased farmers' income to promote large scale plantation in new-type entities, agricultural cooperatives. By giving support to agricultural cooperatives, the Bank followed the policies under the supply-side reform of agriculture and high quality rice plantation adjustment. In the first half of 2017, the Company made investment in the "Intensive Agriculture Loan (集約農貸)" business in Fuyuan and Qing'an in an aggregate amount of RMB80 million, which encouraged the cooperatives to plant in an area over 100,000 mu covering more than 10 townships as well as 33 villages in Fuyuan and Qing'an, which in turn promoted the local agricultural production value exceeding RMB100 million and alleviated poverty for over 100 rural households in a targeted manner.

The Company created an innovative model by linking green agricultural investment with financing to guide the market capital for direct investment so as to provide liquidity resources needed in production for enterprises by way of "investment plus financing" and expand financing channels for enterprises. The Company also selected leading enterprises in agricultural industrialisation which intended to be listed on the Main Board and explored in equity investment amounted to RMB2 million for agricultural leading enterprises listed on the National Equities Exchange and Quotations, commencing the investment and loan collaboration business under agriculture sector of the Bank for the first time.

(VI) Information on Controlling Subsidiaries

1. Village and township banks

As at 30 June 2017, the Bank had a controlling interest in 30 village and township banks (with another two controlling village and township bank in preparation), 35 village and township sub-branches, which were mainly located in the eastern, central and western regions of China. As at 30 June 2017, the total assets of the 30 village and township banks amounted to RMB23,866 million, of which the total amount of loans amounted to RMB12,730 million, representing a year-on-year increase of 9.7%. The balance of deposit amounted to RMB16,664 million, representing a year-on-year increase of 4.7%. For the first half of 2017, net profit amounted to RMB119 million, representing a year-on-year decrease of 40.8%, mainly attributable to the increase in provision in view of the more stringent loan risk classification of each village and township bank.

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

2. *HB Leasing*

HB Leasing made some achievements in respect of asset scale, accumulated investments and business innovation mode and initially maintained leading position in domestic leasing market to farmers. As at 30 June 2017, the total assets of HB Leasing amounted to RMB17,381 million. The accumulated investments of its leasing business for the Reporting Period amounted to RMB2,472 million, with net profit recognised for the Reporting Period of RMB61 million.

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

3. *Establishment of HBCF*

The Bank applied to the CBRC for the establishment of HBCF as the major founder with Harbin City, Heilongjiang as its place of incorporation and registered capital of RMB500 million. The Bank invested RMB295 million in HBCF, representing its 59% equity interest. HBCF obtained the approval for preparation (Yin Jian Fu [2016] No. 356) from the CBRC on 10 November 2016, obtained the approval for commencement of operations (Hei Yin Jian Fu [2017] No. 22) from the Heilongjiang Bureau of the CBRC on 22 January 2017, obtained its business license (uniform social credit code: 91230102MA1979M188) on 24 January 2017 and officially commenced operation on 11 April 2017. As of the end of June, HBCF had total assets of RMB505.1 million.

HBCF adheres to the business motto of “benefiting customers with trust” and the development principle of “consolidation, integrity, innovation, efficiency and professionalism”. Fully leveraging the experience in exploring small loan products, customers and technology as well as the resources advantage in big data, internet finance and diversified business occasions, it strives to build comprehensive integrated retail finance services, focuses on widening online channels and builds an integrated service platform for internet finance. Meanwhile, HBCF improves its customer experience through exploring local communities and providing tailoring services for customers with different needs and characteristics. It strives to speed up market penetration in the second and third tier cities in China in order to provide enough consumer finance and traditional banking service, satisfy the daily necessities of middle-and-low-income groups and freshmen, and position itself as a technology-driven and intelligence-led new power of consumer finance in China.

(VII) Distribution Channels

1. *Physical network*

As at 30 June 2017, the Bank had a total of 299 branch outlets, including 1 headquarters, 17 branches, 280 sub-branches and 1 branch-level financial service centre for small enterprises. Besides, the Group has controlling 30 village and township banks, 35 village and township branches, 1 consumption financial company and 1 financial leasing company.

2. *Electronic banking*

The Bank has gradually built up an electronic service system combining online means such as mobile phone banking, online banking, WeChat banking, phone banking and offline self-service terminals. Electronic modes of business have become the main business channels of the Bank. As at 30 June 2017, the replacement rate of business transactions through the Bank's electronic banking reached 84.93%, and that of mobile banking reached 43.74%, representing the increase of 1.93 percentage points and 4.74 percentage points as compared to the beginning of the year respectively.

(1) **Self-service banking**

The Bank has provided various convenient services to customers through self-service terminals, including deposit and withdrawal, account inquiry, bill payment, passcode changing and transfer services. While enriching the equipment functions, the Bank has proactively established management system with effective management skills and supervisory means. It has made scientific arrangement and assignment of the use of self-service terminals of customers, thus enhancing the management efficiency of all self-service terminals across the Bank. As at 30 June 2017, the Bank had 750 self-service terminals, including 382 ATMs, 395 BCDMs, 62 multi-media inquiry machines and 11 card issuance machines.

(2) **Online banking**

The Bank continued to expand the functions of online banking. As at 30 June 2017, a total of 1,500,700 customers opened their online banking accounts with the Bank, among which, corporate online banking customers amounted to 75,700, while personal online banking customers amounted to 1,425,000.

(3) **Phone banking**

The Bank provides 24-hour telephone banking services to customers through the unified national customer service hotline 95537. Such services include account inquiries, bill payment, credit card business, verbal report of card loss, operator inquiry and outgoing calls. In the first half of 2017, the telephone banking customer service centre recorded a total of 1,734,700 business calls.

(4) Mobile phone banking

The Bank accelerated the business development of mobile phone banking. It offered various transaction functions for its customers, including account management, basic wealth management, agent sales of funds, transfers, auto-payments, credit cards, loans and cardless cash withdrawal. Moreover, the Bank also provided different special services such as visual data, gesture and fingerprint log-in, face and fingerprint recognition, QR code (掃一掃), Shake It (搖一搖), Cloud Quick Pass (雲閃付) and corporate accounts. As at 30 June 2017, the Bank had more than 500,000 active mobile phone banking users, representing an increase of 56.3% as compared to the beginning of the year.

(5) WeChat banking

The WeChat banking has stretched banking services from traditional offline channels to finger tips of customers. By creating a new version of WeChat banking featuring at “Hui•Account, Hui•Wealth, Hui•Life (慧•賬戶、惠•財富、薈•生活)”, featured services including free account change notifications, social insurance information inquiry, loan willingness application and online purchase of wealth management products are provided for customers. As at 30 June 2017, WeChat banking reached 1.23 million followers, representing an increase of 44.7% as compared to the beginning of the year.

(6) Direct banking

The direct banking services of the Bank commenced internal trial promotion in October 2016 with a focus on internet customers to provide services integrating and intercommunicating online and offline channels via the Internet. In the first half of 2017, the size of its operation expanded significantly. As at the end of June 2017, there were a total of 89,055 registered users, representing an increase of 18 times as compared to the beginning of the year. 21 tranches of wealth management products were deployed in an amount of RMB937 million. Six agent fund products were provided with a subscription amount of RMB524 million and a stock of RMB45 million.

(VIII) Information Technology

In the first half of 2017, the Bank continued its work on information technology establishment and achieved good results in the promotion of internal and external collaborative development, protection of the new core system construction, enhancement in information technology management, promotion of infrastructure construction, exploration of the cloud computing platform establishment, formation of data management mechanism and optimisation of information security system, thus providing more comprehensive and effective IT support for business development of the Bank.

1. Stable operation of major systems and secure infrastructure

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

In order to further enhance the security of infrastructure, the Bank gave great impetus to the construction of three centres in two areas. Recently, the construction of the new data centre in Jiangbei has completed 70% and beginning to take shape. The centre will form an iron triangle with Dalian Off-Site Recovery Centre and Beijing Off-Site Recovery Centre to make sure the IT infrastructure being safe and sound.

2. *Orderly advancing the implementation of new core projects*

During the Reporting Period, the Bank completed 97% of the task of developing the new core system as well as the final development work of the peripheral system based on the latest released port, and entered into the stage of integration testing. The IT team provided full support to the new core construction. At present, the team comprises a total of 150 technical experts and key personnel covering core, data, operation and maintenance, testing and other lines and cooperates with the core and 81 peripheral system manufacturers for synchronous development. At present, the Bank has formulated nine categories of design plans including replacing business tax with value-added tax, deployed over 80 sets of development and testing environment and determined the selection plan of servers and databases, so as to make sure its business can be implemented properly.

3. *Strengthening technology management*

During the Reporting Period, the Bank pushed forward its technology management step by step by further deepening reform, optimising system and technical means. Structure management measures were formulated based on the strategies while taking the whole situation into account. With reference to its strategic development planning and the status of information construction, the Bank formulated the preliminary version of the Structure Management Guidance based on the division of its various IT structures in order to strengthen the management on the full life cycle of projects and promote the smooth implementation of planned projects. In 2017, the Bank's IT planned projects included 20 planned projects and two programs. 16 projects have been initiated among the 20 planned projects, accounting for 84% of the total number of projects. The Bank carried out post-project evaluation to summarise experience and improve management. During the evaluation, the Bank had about 20 interviews with various departments and distributed and received over a hundred of questionnaires.

4. *Enhancement in data management mechanism*

During the Reporting Period, the Bank formulated the Data Management Plan of Harbin Bank, which specified the fundamental strategy of the Bank's participation at all levels and determined the general direction of building awareness and culture of data management as well as environment for data governance and effective data management and control throughout the Bank. The Bank also initiated the research in data management and rationalised the data collaboration relationship and process across different departments and fields on data management for multiple times.

5. *Optimisation of information security system*

During the Reporting Period, in addition to passing the re-examination of ISO27001 standard and system, the Bank also established the baseline for information security management which comprises network equipment, operation systems, databases, middleware, application development and other aspects and set up approximately 390 security control points in total. At the same time, the Bank also pushed forward the data leakage prevention, anti-virus terminals, information technology risk management platform, information security evaluation, information security level protection evaluation and other projects as a whole in order to enhance its protection on information security.

IX. Risk Exposure and Management

During the first half of 2017, facing the challenges under the new trend in financial market, the Bank continued to adhere to the concept of “create value from risk management”. Leveraging on the “Year of Collaborative Development”, the Bank strived to improve the interactive prevention control system for the front, middle and back office as well as the headquarters and branches, thus forming collaborative risk management. The Bank continued to adhere to its basics and the concept of “customer-oriented”, and strengthened the policy direction and management standard for customer segmentation. Under the overall macroeconomic trend and on the basis of fulfilling the regulatory requirements of financial authorities, the Bank fully applied the achievements made under the New Basel Capital Accords, together with our strategic positioning and business development plan, the refined risk management control standards of the Bank have further enhanced.

(I) Credit Risk

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

During the Reporting Period, the Bank specified and confirmed its credit management policy. Centring on asset quality management and RAROC, through succeeding the bank-wide risk appetite involving quantitative standard for credit risk, business development strategies and asset quality of the Bank, and fully considered external economic environment and regulatory requirements, the Bank further expanded the scope of control functions of systems for risk policy standards on access and quota, and strengthened the rigid control of systems. Meanwhile, through conducting separated credit research, based on the performance of customers and leveraging data analytic instruments, the Bank observed customers’ performance in various indicators. Customer segmentation was conducted for the separation of retail customers and non-retail customers, thus forming the list for non-retail and retail customers. Different risk policies and standards will be implemented for customers at different segments.

During the Reporting Period, the Bank took the opportunity arising from the implementation of the new capital accord, continued to optimise internal rating system, deepen the application of internal assessment results for retail and non-retail customers, and strengthen system construction, thereby ensuring the continuous steady operation of the Bank’s internal rating system. The RWA project was progressed smoothly, which continued to improve system function and facilitate data management. Corresponding products under the RWA system will be upgraded and released based on the actual operation needs.

Management Discussion and Analysis

As at the date of this report, the Bank has completed its works on rating cards for retail credit card application, and optimisation of models for small enterprise behaviour rating and small enterprise demand rating cards, as well as the improvements of customer rating models for non-retail customers in larger-to-medium manufacturing industry, large-to-medium wholesale and retail industry, wide-service and others, small-to-micro manufacturing industry and small-to-micro wholesale and retail industry. It has also completed the preparation of development report and the allocation of model system. In addition, in respect of the comprehensive verification project for internal rating system, the comprehensive verification had completed before and after the commencement of production.

During the Reporting Period, the Bank strengthened the establishment of collateral risk valuation system. It continued to optimise its collateral valuation system, realised the exchange of collateral image and actual business management, updated collateral data and model management, and enhanced various system functions such as the optimisation of determining function of eligible mitigation instrument system. The Bank continued to commence its works on preliminary assessment and re-assessment of collateral risk value, and completed the re-assessment of all residential property collaterals. Moreover, the Bank conducted standardised management of collateral data, updated collateral data, as well as completed the optimisation of data standardisation of all residential property collaterals. Through site visits and researches, the Bank figured out the area where commercial property collaterals were put in a centralised way. On-site investigations and basic data collection are conducted for commercial indicators, thus forming a defined core commercial distribution map. The Bank also strengthened the management on commercial property collaterals, and optimised the establishment of commercial models for collateral risk valuation system. Hence, our works on collateral risk valuation maintained leading position among industry peers.

During the Reporting Period, the Bank improved the overall risk evaluation for various credit products, and strengthened the dynamic management of product quality of different institutions. It launched analysis of big data risk detection, introduced credit data, regulatory data and third party data, enriched risk alert signals, improved alert rules and system functions, conducted multi-dimension analysis, and adjusted the proportion, rules and strategies for rating of risk management. Therefore, the asset quality remained relatively stable. Meanwhile, the Bank practically enhanced the risk classification standard, strengthened its anti-fraud management, and put greater efforts on loan collection.

(II) Liquidity Risk

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

The Bank attaches great importance to the management of liquidity risk. It strives to maintain a balance between safety and efficiency by adopting prudential, diversified and coordinated strategies. The Assets and Liabilities Management Committee of the Bank is responsible for formulating liquidity risk management policies and strategies, reviewing the major problems arising from liquidity management activities, and conducting comprehensive management on liquidity risk. The Bank has established a comprehensive liquidity risk management system. It continued to optimise its liquidity risk management system, relevant management mechanisms and systems, quota controls, stress tests, contingency plans, risk reporting and internal cohesion mechanism, etc., thus achieving all-rounded, whole process management mode covering monitor, prevention, management, analysis and evaluation.

During the first half of 2017, in response to the fluctuations and changes in external market condition, the Bank adopted prudential, effective liquidity risk management measures, thus effectively identify and accurately measure liquidity risk with appropriate monitor and proper control. Within and outside the Group, the Bank continued to promote reserve management, optimise cash flow control, and actively adjusted asset and liability structure. It gradually increased the investment in high quality liquidity assets, controlled the proportion of interbank lending in a reasonable manner, and organised fund utilisation of the Group through internal fund transfer pricing and other means. Through conducting regular stress tests, as well as provisional and specific stress tests, the Bank fully evaluated its capability in handling liquidity events or liquidity risks, and prudentially assessed its future liquidity demand. The Bank formulated specific solution for special events. It continued to improve and optimise its emergency plan on liquidity risk, and improved the efficiency of liquidity risk handling and fund utilisation, thus ensuring safe payment and settlement of the Bank.

(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, and stock and commodity prices). The market risks currently faced by the Bank are interest rate risk and exchange rate risk. The Bank's objective of market risk management is to maximise risk-adjusted revenue while limiting the potential losses arising from market risk within a reasonably acceptable level based on the Bank-wide risk appetite. The Bank has defined the duties of the Board, the senior management and relevant departments under market risk management, aiming to ensure effective management on market risk. In 2017, the Bank actively and properly responded to the changes in market trends, continued to put greater efforts on market risk control, and strictly monitored the risk on credit defaults. It also gradually promoted the refined measurement on market risk, and continuously improved its market risk management level.

Interest rate risk refers to the risk of loss on the Bank's on-and-off balance sheet businesses as a result of adverse changes in interest rates. The Bank further defined the classification standards for trading accounts and bank accounts, thereby enhancing its control over trading accounts and bank accounts.

The interest rate risk associated with the Bank's trading accounts exists mainly in the trading businesses, including bond trading and derivative trading. For the management of interest rate risk of trading accounts, the Bank revaluated the market value of assets under the Bank's trading accounts on a daily basis, managed caps according to trading caps, stop-loss limits and risk limits, and monitored by frequency. It focused on enhancing its ability in analysing risk value of trading accounts. Risk value of local currency and foreign currency trading accounts will be calculated on daily basis (confidence level of 99%, with holding period of one trading day), thus effectively evaluate and measure potential position losses arising from changes in interest rate and exchange rate. For the management of interest rate risk of bank accounts, the Bank measured and analysed the interest rate risk of bank accounts through comprehensive utilisation of interest sensitivity gap, sensitivity analysis of net interest income and other measures, so as to ensure the overall interest risk level is within an acceptable scope.

Management Discussion and Analysis

Exchange rate risk refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in exchange rates. Our exchange rate risk exists mainly in our foreign currency-related trading and non-trading businesses, including foreign currency loans, foreign currency deposits, proprietary foreign exchange trading and foreign exchange settlement on behalf of customers. The Bank sets transaction caps, stop-loss limits and exposure limits to manage exchange rate risk arising from our foreign exchange business. The Bank closely monitors and assesses the impacts of the changes in foreign and domestic market environment on the exchange rate business of the Bank on time. With a market-oriented approach, the Bank makes active responses to the new situation in the foreign exchange markets, enhances the exchange risk management system under the macro-prudential framework with the collaborative use of various channels and platforms and strengthens quality control on data to improve the statistical monitoring and pre-warning capabilities. The Bank also continues to optimise the structure of monetary assets, strengthens the establishment of investment transaction capabilities, innovates and diversifies exchange rate risk management tools, enhances risk management means, maintains the risk-benefit balance of the overall foreign exchange assets, improves the effectiveness and pertinence of risk management and prevents and responds to exchange rate risk effectively. The Bank conducts overall assessment and management to the exchange rate risk, and is regularly monitoring all the risk indicators as well as their maximum threshold. If an indicator exceed the maximum threshold and illustrates the exchange rate risk, the Bank will timely communicate to the specific business line and put forward a series of remedies based on the severity of the risk and the actual business operations so as to mitigate the exchange rate risk. Meanwhile, the Bank continues to keep track of and control the overall situation in order to ensure the overall security of the exchange rate risk of the Bank.

During the Reporting Period, while taking into account its historical transactions, the Bank integrated the overall financial environment and its risk tolerance to set exposure limits and market risk value limits, and applied the Opics Risk system to measure risk by gradually introducing duration analysis, sensitivity analysis, historical VaR and stress VaR. The Bank also introduced the exchange rate scenarios stress testing step by step, included the whole stress testing procedures and alternatives into the system to conduct stress testing for market risk quarterly, and set up scientific stress scenarios and stress communication models to particularly assess the risk exposure and risk tolerance capability of the Bank under accidental or extremely unfavourable circumstances, thus enabling the Bank to adopt practical and effective measures to mitigate risks in response to possible extreme market changes so as to secure treasury operations.

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

During the Reporting Period, the Bank continued to promote the application of three major management tools of operational risk, and constructed a triggering assessment mechanism for key risk exposures to ensure controllable risks in the key fields and key areas on the basis of regular self-assessment on risks and control; increased key risk indicators of different dimensions such as internal assessment, collateral and information technologies, and expanded the monitoring dimensions and coverage of key risk indicators; and kept on conducting loss data collection and enhancing loss identification and collection capability of loss events. The Bank realised the online application of three major tools through the operation of its risk management information system, and conducted a more direct exhibition and analysis of operational risk management by using the system, thereby enhancing the automation and management efficiency of its standard of operational risk management.

(V) Information Technology Risk

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

The Bank has included management of information technology risk into its general risk management system and enhanced such management through risk identification, monitoring, evaluation and control by gradually establishing and improving its business continuity management system. It incorporated new products and new businesses in business continuity management scope; it carried out business continuity emergency drills to improve its emergency response ability for business stoppage. By enhancing system operation and maintenance capabilities, the stability and security of the systems are ensured and the continuity operation of its major businesses is secured by the enhanced contingency measures.

(VI) Anti-money Laundering Management

The Bank upheld the “risk-based” management philosophy and laid emphasis on the direction of regulatory policy. By enhancing customer identification and customer risk rating management, continuously optimising its anti-money laundering management system construction and improving the anti-money laundering monitoring personnel list, the Bank has consistently improved its ability to independently monitor suspicious transactions and the quality of its anti-money laundering monitoring work. Through continuously enhancing the anti-money laundering management mechanism, it has comprehensively improved the levels of its anti-money laundering and anti-terrorist financing management in fulfilment of its corporate social responsibilities. The Bank has actively assisted in anti-money laundering investigations initiated by the regulatory authorities, organised anti-money laundering special topic trainings and promotion campaigns and set up well internal and external anti-money laundering environments, thereby effectively contributing to the safety of the financial system.

Management Discussion and Analysis

(VII) Compliance Risk Management

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

During the Reporting Period, the Bank formulated and executed a risk-based compliance management plan. The Bank strived to realise the foundation of its compliance management, actively optimised the compliance system and mechanism construction, improved the compliance management policy standard, and enhanced the compliance awareness of the Bank to strictly prevent and effectively mitigate compliance risk. By leveraging its professional advantages, and emphasising on the substance of risks, and through pre-involved business research and development, it strongly supported and promoted business innovation and sound development of the Bank. By participating in various external supervision examinations, such as the "double registration" examination and credit risk inspection, and by rectifying problems identified during such examinations, it strengthened the implementation of accountability and improved its compliance risk management system. By enhancing the studies of regulatory policies and laws and regulations, it provided high-quality comprehensive legal compliance services. The Bank continued to strengthen incident prevention and control works, actively promoted consumer rights protection, and enhanced the compliance risk prevention capability. By implementing regular compliance education and training, it served to enhance the Bank's compliance professional standards.

X. Internal Control and Internal Audit

(I) Internal Control

Pursuant to the laws and regulations including the Commercial Banking Law of the People's Republic of China, the Basic Internal Control Norms for Enterprises and its relevant guidelines and the Guidelines for Internal Control of Commercial Banks issued by the CBRC, the Bank has implemented the requirement on internal control normative system for enterprises and established an internal control system covering the five major aspects of an internal control system, namely, internal control environment, risk assessment, control activities, information and communication, and internal supervision. This provides a comprehensive process control over various operational management activities of the Company. As the decision-making body of the Bank, the Board is responsible for the establishment and effective implementation of internal control; the management at various levels is responsible for coordinating the establishment and implementation of internal control and its daily operation; the various branch organisations and departments are responsible for establishing and continuously improving their own internal control systems in accordance with the requirements of laws and regulations; the compliance departments at different levels and the independent internal audit department are responsible for the supervision and evaluation of the internal control system of the Bank, forming an internal control management and organisational structure with reasonable division of labour, clear responsibilities and reporting relationships.

During the Reporting Period, the Bank implemented series of works on improving and optimising internal control, primarily including the following: firstly, the Bank improved its risk evaluation system. The Company continued to enhance the comprehensive risk management system and further strengthened the identification, measurement, monitoring and assessment of various risks. Secondly, the Bank strengthened the use of technology and continued its works on the establishment of automatic internal control. It has optimised the mechanism for the establishment of automatic internal control, and incorporated the rationalised and optimised internal control points into its key information systems. Through strengthening the automation rate of internal control at different processes, the Bank further realised the automation and normalisation of the internal control system, thereby ensuring the implementation of the results of internal control system establishment under an informatised environment. Thirdly, the Bank strengthened its system establishment. Based on regulatory requirements, existing business and reform of organisation structure, the Bank promptly streamlined and improved its systems, and standardised and guided the commencement of various businesses. The Bank also optimised its system evaluation mechanism, and improved the standardisation of system management. Fourthly, the Bank carried out special inspection including “double registration”, “three types of violations”, “three types of arbitrage”, “four types of improper behaviour”, and “banking market chaos” so as to take the initiative to discover problems. The Bank pushed forward the rectification of problems and strengthened accountability in order to enhance the quality and efficiency of internal control. Fifthly, the Bank, through measures such as anti-fraud self-evaluation and anti-fraud specific checks, investigated into its deficiencies and inadequacies, in order to deepen its anti-fraud prevention cautiously and to ensure the stable operation for the Bank. The Board and the senior management of the Bank put great emphasis on internal control training, consumer right protection and anti-money laundering management etc. in order to make sure all staff of the Bank to understand the importance of internal control, be familiar with the duty requirements for different positions, and understand and be in control of the key internal control points, thus building up an environment conducive to excellent internal control across the Bank. The Bank further promoted its compliance philosophy of “giving highest priority to compliance, making all employees in compliance, working in compliance actively, and creating value through compliance-related practices”, thereby building a corporate culture of “compliance with high efficiency”.

Management Discussion and Analysis

(II) Internal Audit

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

During the Reporting Period, based on the risk-oriented principle, the Internal Audit Department focused on improving service efficiency and continued to strengthen audit innovation. It strengthened supervision over "key risks, key business, key departments and key personnel". It organised and implemented comprehensive audit, audit for term of office, special audit and other projects. In addition, it assessed the effectiveness of internal control and risk management on the Bank and its village and township banks through comprehensive and continuous supervision on its IT-supported business via an off-site auditing system. The Board and the senior management put great importance on audit findings and transformation of audit results, actively promoted system optimisation and improvement of work process, as well as effective duty performance of the units being audited, thereby improving the Bank's risk prevention and control ability.

XI. Prospects

In the second half of 2017, commercial banks continued to face with the tough challenges arising from changes in business environment. Interest rate liberalisation, financial disintermediation and intensified cross-boundary competition of Internet finance posed great challenges to the operation of banking industry. Meanwhile, the recent economic condition also brings about new opportunities for development. Firstly, the supply side structural reform will stimulate the internal momentum of economic growth, release market vitality and impetus to innovate and facilitate economic growth, so as to build a more healthy, efficient and sustainable operating environment for the banking industry. Secondly, the accelerated implementation of major strategies such as "belt and road" initiative, new urbanisation, Made in China 2025, upgrade of consumption demands and "Internet Plus" and major construction projects will create room of development for various business, which will be beneficial to the banks in granting loans and optimising business structure. Thirdly, the new financial technology development will present opportunities for banks to create synergies with all channels, establish an Internet financial service system and implement precise marketing, favouring financial innovation. Fourthly, the improving financial regulation will further mitigate risks and regulate the order of financial market, thus providing a solid foundation for the stable and sound development of the financial industry.

Facing the increasingly complicated international and domestic economic situation and business environment, adhering to the business philosophy of "Inclusive Finance, Harmonious Co-Enrichment" as before, the Bank will seize the opportunities for comprehensive development under the guidance of the new five-year strategic plan while insisting in making progress in a stable and steady manner, focusing on collaborative development and deepening operation transformation for striving to open up a new era for the leaping development of Harbin Bank.

Changes in Shares and Information on Shareholders

I. Share Capital

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

II. Statement of Changes in Shares

								Unit: Shares	
	1 January 2017		Increase/decrease during the Reporting Period (+/-)					30 June 2017	
	Number	Percentage	Private placement	New Shares Issued	Bonus Issue	Others	Subtotal	Number	Percentage
Domestic Shares									
1. Non-listed shares held by corporations	7,908,539,178	71.92%	–	–	–	–	–	7,908,539,178	71.92%
Including: (1) Shares held by state-owned enterprises	2,194,789,800	19.96%	–	–	–	–	–	2,194,789,800	19.96%
(2) Shares held by private enterprises	5,713,749,378	51.96%	–	–	–	–	–	5,713,749,378	51.96%
2. Non-listed shares held by natural persons	63,490,375	0.58%	–	–	–	–	–	63,490,375	0.58%
H Shares									
3. Overseas-listed foreign shares	3,023,570,000	27.50%	–	–	–	–	–	3,023,570,000	27.50%
Total number of shares	10,995,599,553	100%	–	–	–	–	–	10,995,599,553	100%

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

Changes in Shares and Information on Shareholders

III. Shareholdings of Shareholders

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

Shareholdings of Top 10 Shareholders of Non Overseas-listed Shares

	Name of Shareholder	Nature of Shareholder	Number of Shares Held (Shares)	Shareholding Percentage	Number of Shares Pledged	Type of Shares
1	Harbin Economic Development and Investment Company	State-owned	2,160,507,748	19.65%	–	Non Overseas-listed
2	Harbin Kechuang Xingye Investment Company Limited	Private enterprise	720,262,554	6.55%	–	Non Overseas-listed
3	Heilongjiang Keruan Software Technologies Company Limited	Private enterprise	719,816,019	6.55%	–	Non Overseas-listed
4	Heilongjiang Xinyongsheng Trading Company Limited	Private enterprise	639,804,806	5.82%	184,966,105	Non Overseas-listed
5	Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	Private enterprise	572,253,048	5.20%	54,817,278	Non Overseas-listed
6	Heilongjiang Tuokai Economic and Trading Company Limited	Private enterprise	522,447,109	4.75%	–	Non Overseas-listed
7	Heilongjiang Tongda Investment Co., Ltd.	Private enterprise	377,620,219	3.43%	–	Non Overseas-listed
8	Harbin Jubang Investment Co., Ltd.	Private enterprise	301,170,095	2.74%	298,844,518	Non Overseas-listed
9	Beijing Xinrun Investment Co., Ltd.	Private enterprise	255,418,587	2.32%	–	Non Overseas-listed
10	Dongning Lizhi Architecture and Decoration Engineering Company Limited	Private enterprise	199,010,054	1.81%	194,982,174	Non Overseas-listed

Note: The above shareholding percentages of non overseas-listed shares is calculated based on the total share capital of the Bank of 10,995,599,553 shares as at 30 June 2017. In addition, the above pledged or frozen shares held by the shareholders are subject to pledge only and not judicial moratorium.

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

As at 30 June 2017, to the knowledge of the Directors, the interests and short positions of the following persons (excluding the Directors, Supervisors and the chief executive of the Bank) in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the Hong Kong SFO were as follows:

Changes in Shares and Information on Shareholders

Domestic Shares

Name of Shareholder	Capacity	Domestic Shares held (Long Position)	Percentage of Issued Domestic Share Capital of the Bank	Percentage of Total Issued Share Capital of the Bank
Harbin Economic Development and Investment Company ¹	Beneficial owner	2,160,507,748	27.10%	19.65%
Harbin Kechuang Xingye Investment Company Limited ²	Beneficial owner	720,262,554	9.03%	6.55%
Heilongjiang Keruan Software Technologies Company Limited ³	Beneficial owner	719,816,019	9.03%	6.55%
Heilongjiang Xinyongsheng Trading Company Limited ⁴	Beneficial owner	639,804,806	8.03%	5.82%
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited ⁵	Beneficial owner	572,253,048	7.18%	5.20%
Heilongjiang Tuokai Economic and Trading Company Limited ⁶	Beneficial owner	522,447,109	6.55%	4.75%

Notes:

1. Harbin Economic Development is wholly owned by Harbin Municipal Finance Bureau.
2. Harbin Kechuang Xingye Investment Company Limited is owned as to 93.92% by Harbin Shundaheng Investment Company Limited (哈爾濱順達恒投資有限公司), which is owned as to 20.6%, 33% and 46.4% by natural persons Wang Chuntian (王春田), Li Caixian (李彩先), and Li Xu (李旭), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Harbin Kechuang Xingye Investment Company Limited.
3. Heilongjiang Keruan Software Technologies Company Limited is owned as to 95.83% by Dalian Yujiaxin Technology Company Limited (大連宇嘉信科技有限公司), which in turn is owned as to 60% and 40% by two natural persons, Liang Yifeng (梁乙峰) and Diao Xiaoxi (刁小熙), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Keruan Software Technologies Company Limited.
4. Heilongjiang Xinyongsheng Trading Company Limited is owned as to 95.4% by Beijing Chengxinfenghui Technology and Trading Company Limited (北京誠信豐匯科貿有限公司), which in turn is owned as to 60% and 40% by two natural persons, Liu Kun (劉坤) and Zhao Yonghe (趙永和), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Xinyongsheng Trading Company Limited.
5. Heilongjiang Tiandi Yuanyuan Network Technology Company Limited is owned as to 93.61% by Beijing Huifutong International Investment Company Limited (北京匯富通國際投資有限公司), which in turn is owned as to 80% by a natural person Dong Yan (董雁). Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Tiandi Yuanyuan Network Technology Company Limited.
6. Heilongjiang Tuokai Economic and Trading Company Limited is owned as to 95.27% by Beijing Tailonghuasheng Technology Company Limited (北京泰隆華勝科技有限 公司), which in turn is owned as to 87.5% by Beijing Jieshentiancheng Trading Company Limited (北京傑勝天成貿易有限公司), which in turn is owned as to 70% by a natural person Chen Danyang (陳丹陽). Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Tuokai Economic and Trading Company Limited.

Changes in Shares and Information on Shareholders

H Shares

Name of Shareholder	Capacity	Number of H Shares Held (Long Position)	Percentage of Issued H Share Capital of the Bank	Percentage of Total Issued Share Capital of the Bank
Fubon Financial Holding Co., Ltd.	Interest of controlled corporation ¹	773,124,000	25.57%	7.03%
Huaxia Life Insurance Co., Ltd.	Beneficial owner	486,702,000	16.10%	4.43%
CITIC Capital Holdings Limited	Interest of controlled corporation ²	401,275,000	13.27%	3.65%

Notes:

1. Fubon Financial Holding Co., Ltd. held the interests in 773,124,000 H Shares of the Bank through its controlled corporation, Fubon Life Insurance Company Limited.
2. CITIC Capital Holdings Limited held the interests in the relevant number of H shares of the Bank through a series of controlled corporations.

Save as disclosed above, to the knowledge of the Directors, as at 30 June 2017 none of other persons (excluding the Directors, Supervisors and the chief executive of the Bank) had any interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the Hong Kong SFO.

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

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

As at 30 June 2017, Harbin Economic Development, the single largest shareholder of the Bank, held 19.65% of the total issued shares of the Bank. According to the Business License (Uniform Social Credit Code: 91230100424004064C) issued by Market Supervision and Administration Bureau of Harbin on 30 May 2012, and the Amendments to the Articles of Association of Harbin Economic Development and Investment Company made on 19 September 2011, Harbin Economic Development is a validly subsisting economic entity under the ownership by the whole people with the Harbin Municipal Finance Bureau as its sole shareholder.

Changes in Shares and Information on Shareholders

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

As at 30 June 2017, 239,783,383 shares of two shareholders each holding 5% or more of the Bank were pledged.

VI. Controlling Shareholder and Actual Controller

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

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

Please see III. "Shareholdings of Shareholders" above for the particulars of shareholders with shareholding of 5% or more of the Bank as at 30 June 2017.

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

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

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

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

Directors, Supervisors, Senior Management and Employees

Directors of the Bank

During the Reporting Period, the Directors of the Bank comprised of:

Directors

Name	Gender	Age	Position	Term of office
Guo Zhiwen	Male	50	Executive Director and Chairman of the Board	2015.6-2018.6
Liu Zhuo	Male	53	Executive Director and Vice Chairman of the Board	2015.6-2018.6
Zhang Qiguang	Male	44	Executive Director, President and Chief Financial Officer	2015.7-2018.6
Zhang Taoxuan	Male	55	Non-Executive Director	2015.6-2018.6
Ma Pao-Lin	Male	54	Non-Executive Director	2015.8-2018.6
Peng Xiaodong	Male	46	Non-Executive Director	2016.12-2018.6
Cui Luanyi	Male	37	Non-Executive Director	2015.6-2018.6
Chen Danyang	Male	44	Non-Executive Director	2015.6-2018.6
Zhang Shengping	Male	51	Independent Non-Executive Director	2015.6-2018.6
He Ping	Male	52	Independent Non-Executive Director	2015.6-2018.6
Du Qingchun	Male	46	Independent Non-Executive Director	2015.6-2018.6
Wan Kam To	Male	64	Independent Non-Executive Director	2015.6-2018.6
Kong Siu Chee	Male	70	Independent Non-Executive Director	2015.6-2018.6

Save as disclosed below, there were no changes to the biography of the Directors of the Bank for the period from the date of 2016 annual report to the date of this Report:

Mr. Wan Kam To, an independent non-executive director of the Bank, ceased as the independent non-executive Director of Dalian Port (PDA) Company Limited (HKSE stock code: 2880) and S. Culture International Holdings Limited (HKSE stock code: 1255) on 28 June 2017 and 10 July 2017, respectively.

Supervisors

Name	Gender	Age	Position	Term of office
Gao Shuzhen	Female	53	Chairman of the Board of Supervisors and Employee Representative Supervisor	2015.6-2018.6
Wang Ying	Female	46	Employee Representative Supervisor	2015.6-2018.6
Yang Dazhi	Male	40	Employee Representative Supervisor	2015.6-2018.6
Lu Yujuan	Female	33	Shareholder Representative Supervisor	2015.6-2018.6
Wang Jiheng	Male	52	External Supervisor	2015.6-2018.6
Bai Fan	Female	43	External Supervisor	2015.6-2018.6
Meng Rongfang	Female	51	External Supervisor	2015.6-2018.6

Directors, Supervisors, Senior Management and Employees

Senior Management

Name	Gender	Age	Position	Term of office
Zhang Qiguang	Male	44	Executive Director, President and Chief Financial Officer	2015.7-2018.6
Lv Tianjun	Male	50	Vice President and Chief Risk Officer	2015.6-2018.6
Lu Weidong	Male	46	Vice President and Chief Information Officer	2015.6-2018.6
Xu Shaoguang	Male	56	Chief Credit Approval Officer	2015.6-2018.6
Wang Haibin	Male	47	Vice President	2015.8-2018.6
Sun Jiawei	Female	47	Vice President	2015.8-2018.6
Sun Feixia	Female	46	Secretary of the Board and Company Secretary	2015.6-2018.6
Liu Yang	Male	48	Assistant to the President	2015.9-2018.6

Securities Transactions by Directors and Supervisors

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

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

Save as disclosed below, as at 30 June 2017, none of the Directors, Supervisors or the chief executive of the Bank or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (as defined in Part XV of the Hong Kong SFO) which were registered in the register as required to be kept pursuant to section 352 of the Hong Kong SFO or to be disclosed to the Bank and the Hong Kong Stock Exchange as provided by the Model Code.

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

Note:

- Chen Danyang, the non-executive Director, held the interests in the relevant number of Domestic Shares through a series of controlled corporations. Please refer to Note 6 on Page 71 of this report for details of such interest.

Directors, Supervisors, Senior Management and Employees

Employees

(I) Personnel Composition

As at 30 June 2017, the Bank (excluding subsidiaries) had 6,918 employees, among which 999 were headquarters staff, accounting for 14.53% of the total, and 2,413 were staff of Harbin branches, accounting for 35.1% of the total. Regarding the age composition, the average age of employees of the Bank is 33.89. 2,585 employees are between 26 and 30 years old, accounting for 37.6%. Regarding the educational background, there are 5,888 employees with bachelor degree or above, accounting for 85.64%. Regarding the working experience, the Bank had 1,412 employees with 10 years of banking experiences, accounting for 20.54% of the total. Staff turnover rate of the Bank (excluding subsidiaries) was 2.36%. The subsidiaries of the Bank had a total of 1,013 employees.

(II) Staff Training Programs

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

During the Reporting Period, the Bank formulated training programs according to the 2017 Training Plan, which were implemented among different levels of employees. Both training completion rate and coverage rate were 100%. The trainings covered all employees across the Bank, and primarily focused on retails innovation, new products introduction, collaborative development, skill training, compliance code, anti-money laundering and general management skills. As at 30 June 2017, departments at the headquarters of the Bank (excluding subsidiaries) implemented 78 trainings in total, including 46 internal trainings, and 32 external trainings for selected staff. The total attendance of the staff training sessions amounted to 2,417, and the total training hours amounted to 334.

(III) Staff Incentive Policy

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

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

(IV) Remuneration Policy for Employees

The Bank has successfully established a broadband salary management system with diversified composition, standardised management and systematic implementation and adopted a market-oriented and diversified management by region in order to scientifically and effectively motivate the Bank's employees and ensure the smooth implementation of the Bank's strategic development. The Bank's remuneration package is composed of fixed remuneration, short-term incentive, long-term incentive and welfare income, setting up differentiated combination of elements of remuneration for different groups. Meanwhile, the Bank is able to strictly comply with regulatory requirements in remuneration payment by adopting deferred payment and setting up a lock-up period for paying the senior management as well as employees holding positions that may exert significant influence to risks in order to tie job duties with risk management responsibilities. As at 30 June 2017, staff costs of the Bank were RMB890.1 million.

(V) Retirement and Benefits

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

I. Corporate Governance

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

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

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

(I) Establishment of HBCF

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

Important Events

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

As at 30 June 2017, seven out of the Bank's eight village and township banks have obtained approvals for their commencement of their operations from banking regulatory authorities. The Bank has been proactively working on the establishment of village and township banks strictly pursuant to the approval opinions. The details of establishment are as follows:

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

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

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

On 11 April 2017, Nehe Rongxing Village and Township Bank Co., Ltd. (訥河融興村鎮銀行有限責任公司), founded and established by the Bank, received the Reply on Approving the Commencement of Operations of Nehe Rongxing Village and Township Bank Co., Ltd. (《關於同意訥河融興村鎮銀行有限責任公司開業的批覆》) (Qi Yin Jian Fu [2017] No. 10) issued by the Qiqihar Branch of the CBRC. On 18 April 2017, it obtained the financial permit (institution code: S0026H323020001) issued by the Qiqihar Branch of the CBRC. On 19 April 2017, it obtained its business license (uniform social credit code: 91230281MA19CA4D1Y). Its registered address is Nos. 01, 02, 01/F, Unit 00, 5 Jia Tai Ming Yuan, Xibei Street, Nehe City, Qiqihar City, Heilongjiang, and its legal representative is Liu Min. It has a registered capital of RMB50 million, and the Bank holds 80% of its shares. Its scope of business includes: "accepting public deposits; issuing short-term, medium-term and long-term loans; handling domestic settlement; handling bill acceptance and discounted bill; engaging in interbank borrowing; engaging in bank card business (debit card); engaging in issuance agency, payment agency and underwriting of government bonds; conducting payment collection and insurance agency services; and other business approved by banking regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)".

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

On 20 April 2017, Huanan Rongxing Village and Township Bank Co., Ltd. (樺南融興村鎮銀行有限責任公司), founded and established by the Bank, received the Reply on Approving the Commencement of Operations of Huanan Rongxing Village and Township Bank Co., Ltd. (《關於同意樺南融興村鎮銀行有限責任公司開業的批覆》) (Jia Yin Jian Fu [2017] No. 6) issued by the Jiamusi Branch of the CBRC. On 20 April 2017, it obtained the financial permit (institution code: S0027H323080001) issued by the Jiamusi Branch of the CBRC. On 21 April 2017, it obtained its business license (uniform social credit code: 91230822MA19CJEU99). Its registered address is Wenjiao Road Central, Huanan Town, Huanan County, Jiamusi City, Heilongjiang, and its legal representative is Mao Yongchun. It has a registered capital of RMB30 million, and is wholly-owned by the Bank. Its scope of business includes: “accepting public deposits; issuing short-term, medium-term and long-term loans; handling domestic settlement; handling bill acceptance and discounted bill; engaging in interbank borrowing; engaging in bank card business (debit card); engaging in issuance agency, payment agency and underwriting of government bonds; conducting payment collection and insurance agency services; and other business approved by banking regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)”.

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

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

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

On 17 May 2017, Tianshui Maiji Rongxing Village and Township Bank Co., Ltd. (天水麥積融興村鎮銀行有限責任公司), founded and established by the Bank, received the Reply on Approving the Commencement of Operations of Tianshui Maiji Rongxing Village and Township Bank Co., Ltd. (《關於同意天水麥積融興村鎮銀行有限責任公司開業的批覆》) (Tian Yin Jian Fu [2017] No. 16) issued by the Tianshui Branch of the CBRC. On 18 May 2017, it obtained the financial permit (institution code: S0022H362050001) issued by the Tianshui Branch of the CBRC. On 2 June 2017, it obtained its business license (uniform social credit code: 91620500MA71WFMQ90). Its registered address is No. D5-1-101, Heng Shun Jiang Shan Yue, 6 Tianhe Road South, Maiji District, Tianshui City, Gansu, and its legal representative is An Ping. It has a registered capital of RMB50 million, and the Bank holds 98% of its shares. Its scope of business includes: “accepting public deposits; issuing short-term, medium-term and long-term loans; handling domestic settlement; handling bill acceptance and discounted bill; engaging in interbank borrowing; engaging in bank card business (debit card); engaging in issuance agency, payment agency and underwriting of government bonds; conducting payment collection and insurance agency services; and other business approved by banking regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)”.

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

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

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

On 29 June 2017, Langzhong Rongxing Village and Township Bank Co., Ltd. (閬中融興村鎮銀行有限公司), founded and established by the Bank, received the Reply on Approving the Commencement of Operations of Langzhong Rongxing Village and Township Bank Co., Ltd. (《關於同意閬中融興村鎮銀行有限公司開業的批覆》) (Nan Yin Jian Fu [2017] No. 29) issued by the Nanchong Branch of the CBRC. On 30 June 2017, it obtained the financial permit (institution code: S0052H351130001) issued by the Nanchong Branch of the CBRC. On 4 July 2017, it obtained its business license (uniform social credit code: 91511381MA63WUK55U). Its registered address is 26 Shangcheng Road, Bao Ning Town, Langzhong City, and its legal representative is Liang Hanchao. It has a registered capital of RMB50 million, and the Bank holds 90% of its shares. Its scope of business includes: “accepting public deposits; issuing short-term, medium-term and long-term loans; handling domestic settlement; handling bill acceptance and discounted bill; engaging in interbank borrowing; engaging in bank card business (debit card); engaging in issuance agency, payment agency and underwriting of government bonds; conducting payment collection and insurance agency services; and other business approved by banking regulatory authorities (business subject to approval by law shall be conducted upon approval by competent authorities)”.

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

On 29 December 2016, Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd. obtained the Approval on the Proposed Establishment of Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd. (Chuan Yin Jian Fu [2016] No. 508) from the Sichuan Bureau of the CBRC. It has a registered capital of RMB100 million and the Bank holds 70% of its shares. Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd. has not commenced its business operations as at the end of the Reporting Period.

II. Issuance of Debt Securities

(I) Bond Issuance during the Reporting Period

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

According to the “Approval for Harbin Bank to Issue Green Financial Bonds” issued by the Heilongjiang Bureau of the CBRC (Hei Yin Jian Fu [2016] No. 211) dated 2 November 2016 and the “Administrative Approval Decision of the People's Bank of China” (Banking Market License [2017] No. 5) dated 18 January 2017 issued by the PBOC, the issuance by the Bank of green financial bonds of not more than RMB5.0 billion in the interbank bond market was approved. The Bank obtained the consent and approval from the CBRC and the PBOC for the issuance of each of the 2017 First Tranche Green Financial Bonds on 6 April 2017, the 2017 Second Tranche Green Financial Bonds (Category I) on 5 May 2017 and the 2017 Second Tranche Green Financial Bonds (Category II) on 5 May 2017.

Important Events

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

(II) Previous Financial Bonds Issuance

1. *Financial bonds in 2012*

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

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

According to the “Prospectus for 2012 Financial Bonds Raising of Harbin Bank Co., Ltd.” prepared in May 2012, the terms of the bond issuance were as follows: the issuing scale was not more than RMB2.5 billion; the variety and maturity were as 5-year financial bonds of commercial banks; the coupon rate was a fixed interest rate; the final coupon rate shall be determined by book keeping and centralised allocation and shall not be changed during the bond duration; it shall be calculated annually in simple interest with no compound interest, and no more interest shall be accounted after maturity; its short name was “12 Harbin Bank Financial Bonds” (bond code: 1220008), and its principal and interests were due for payment by 16 May 2017.

2. *Financial bonds in 2014*

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

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

The 2014 first tranche of financial bonds of Harbin Bank Co., Ltd amounted to RMB2.0 billion with the term of three years. The coupon rate was 4.60% and the interest was calculated annually at a fixed rate. The short name of the bonds is "14 Harbin Bank 01" (bond code: 1420045).

3. *Financial bonds in 2015*

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

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

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

4. 2016 credit loan asset-backed securities

According to the resolutions of the 15th meeting of the fifth session of the Board on 1 November 2013 and the 7th meeting of the sixth session of the Board on 22 January 2016, the Board approved the issuance of the credit loan asset-backed securities of not more than RMB3.0 billion for the purpose of providing liquidity to the Bank's stock assets, optimising asset structure and improving the Bank's capital efficiency.

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

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

5. 2016 tier-2 capital bonds

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

The issuance size of the 2016 tier-2 capital bonds of Harbin Bank Co., Ltd. was RMB8.0 billion with right allowing issuer to redeem subject to conditions precedent at the end of the 5th year. The bonds have a term of 10 years with a fixed coupon rate of 4.00%, and its short name was "16 Harbin Bank Tier-2" (bond code: 1620026).

6. 2016 HB Leasing financial bonds

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

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

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

(III) Proposed Issuance of Financial Bonds

1. According to the resolutions of the 10th meeting of the sixth session of the Board on 15 August 2016 and the 2016 second extraordinary general meeting of the Bank on 13 October 2016, the Board and the shareholders' general meeting approved the proposal on the issuance of non-capital financial bonds, pursuant to which the public issuance of non-capital financial bonds of not more than RMB10.0 billion by the Bank in the interbank bond market of China was approved. The bond types include but not limited to non-capital financial bonds such as ordinary financial bonds and/or special financial bonds for small and micro enterprises, special financial bonds for "agriculture, rural area and farmer" and green financial bonds. Each bond will have a term of no longer than 10 years. In the planning of issue scale and before the planning of issuance, the specific proportion and size of various types of bonds would be finalised according to the Bank's actual demand, market conditions or investors' level of subscription. Relevant matters in respect of the proposed issuance of non-capital financial bonds have been disclosed in the circular dated 29 August 2016 and the announcement dated 13 October 2016.
2. According to the resolutions of the 15th meeting of the sixth session of the Board on 29 March 2017 and the 2016 annual general meeting of the Bank on 19 May 2017, the Board and the general meeting approved the proposal on the issuance of non-capital financial bonds, pursuant to which the public issuance of non-capital financial bonds of not more than RMB10.0 billion by the Bank in the interbank bond market of China was approved. The bond types include but not limited to non-capital financial bonds such as ordinary financial bonds and/or special financial bonds for small and micro enterprises, special financial bonds for "agriculture, rural area and farmer" and green financial bonds. Each bond will have a term of no longer than 10 years. In the planning of issue scale and before the planning of issuance, the specific proportion and size of various types of bonds would be finalised according to the Bank's actual demand, market conditions or investors' level of subscription. Relevant matters in respect of the proposed issuance of non-capital financial bonds were disclosed in the circular dated 30 March 2017 and the announcement dated 19 May 2017 by the Bank.

Important Events

III. Proposed Non-Public Issuance of Offshore Preference Shares

According to the resolution of the 12th meeting of the Sixth Session of the Board passed on 15 December 2016, the Proposal on the Non-Public Issuance of Offshore Preference Shares was considered and approved; and the Plan for Non-Public Issuance of Offshore Preference Shares was also considered and approved at each of the 2017 First Extraordinary General Meeting, the 2017 First Domestic Shareholders' Class Meeting and the 2017 First H Shareholders' Class Meeting held on 10 February 2017, pursuant to which the Bank proposed to conduct a non-public issuance of not more than 80 million offshore preference shares to raise proceeds not exceeding RMB8.0 billion or its equivalent to replenish the Bank's additional tier 1 capital. Relevant matters in respect of the proposed issuance of preference shares have been disclosed in the circular of the Bank dated 23 December 2016.

The Bank received the "Approval Concerning the Issuance of Offshore Preference Shares and Amendments to the Articles of Association by Harbin Bank Co., Ltd." (Hei Yin Jian Fu [2017] No. 57) and the "Letter of Regulatory Opinion Relating to Harbin Bank" (Hei Yin Jian Han [2017] No. 13) from CBRC Heilongjiang Bureau on 21 April 2017. On 21 April 2017, the Bank issued the Notice of Acquiring the Approval from Heilongjiang Bureau of the CBRC on the Issuance of Offshore Preference Shares and Amendments to the Articles of Association. On 25 April 2017, the Bank applied for offshore non-public issuance of preference shares to the CSRC. The Bank is working on the implementation of the non-public issuance of offshore preference shares as planned and will disclose further information and progress in due course.

IV. Initial Public Offering of A Shares

The Proposal on the Initial Public Offering and the Listing of A Shares was considered and approved at the 2015 first extraordinary general meeting, the 2015 first domestic shareholders' class meeting and the 2015 first H shareholders' class meeting of the Bank held on 30 June 2015. The proposal on the extension of the validity period of the plan of initial public offering and listing of A Shares was considered and approved at the 2015 annual general meeting, the 2016 first domestic shareholders' class meeting and the 2016 first H shareholders' class meeting of the Bank on 19 May 2016. The Proposal on the Extension of the Validity Period of the Plan of Initial Public Offering and Listing of A Shares was considered and approved at the 2016 annual general meeting, the 2017 second domestic shareholders' class meeting and the 2017 second H shareholders' class meeting of the Bank held on 19 May 2017. For the relevant matters in respect of the proposed offering of A Shares and the extension of the validity period of the plan of offering and listing of A Shares, please refer to the relevant circulars published by the Bank on 14 May 2015, 1 April 2016 and 30 March 2017, respectively.

The Bank submitted application materials in respect of the offering and listing of A Shares to the CSRC on 31 August 2015, and the CSRC accepted the application. The Bank also issued the announcement of the progress of A shares on 16 November 2015. On 25 March 2016, the Bank submitted application materials, including the supplementary A Share prospectus covering the financial information for the twelve months ended 31 December 2015, to the CSRC. On 9 September 2016, the Bank submitted application materials, including the supplementary A Share prospectus covering the financial information for the six months ended 30 June 2016, to the CSRC. On 29 March 2017, the Bank submitted the application materials including the Supplementary A Shares Prospectus setting out the financial data for the 12 months ended 31 December 2016 to the CSRC. The Bank will disclose further information and progress of the A Share Offering in due course.

V. Material Connected Transaction

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

VI. Material Legal Proceedings and Arbitrations

As at the end of the Reporting Period, the value of the subject matters of the material pending legal proceedings in which the Bank was involved as a defendant or a third party amounted to RMB60 million. In the opinion of the Bank, such legal proceedings would not have any material impact on the Bank's operating activities. Save for the above, during the Reporting Period, there were no other material legal proceedings or arbitrations which had substantial impact on the operating activities of the Bank.

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

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

VIII. Material Contracts and Their Performance

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

IX. Audit Review

The Bank's unaudited consolidated interim financial statements for 2017 prepared in accordance with International Financial Reporting Standards had been reviewed by Ernst & Young, who had issued an unqualified review report.

The Bank's 2017 interim report and 2017 unaudited interim consolidated financial statement had been reviewed by the Audit Committee of the Board and the Board of Directors.

X. Implementation of Share Incentive Plan during the Reporting Period

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

XI. Appointment and Dismissal of Auditors

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

Important Events

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

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

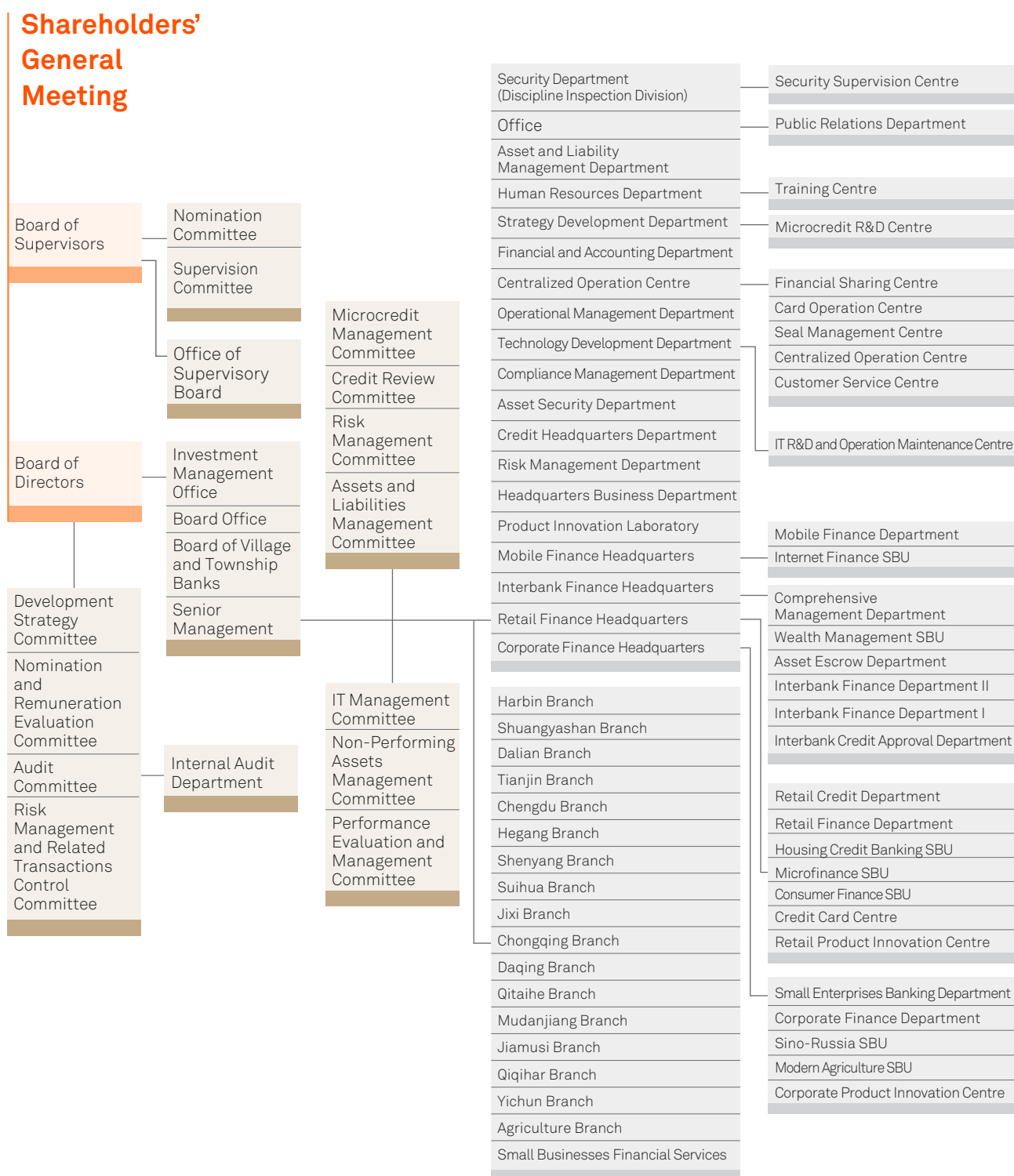
XIII. Profit Distribution during the Reporting Period

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

XIV. Subsequent Material Events

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

Organization Chart



Financial Report

- I. Report on Review of Interim Financial Information
- II. Unaudited Condensed Consolidated Interim Financial Statements (Condensed Consolidated Statement of Income, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows)
- III. Notes to Condensed Consolidated Interim Financial Information
- IV. Unaudited Supplementary Financial Information

Report on Review of Interim Financial Information



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)

Introduction

We have reviewed the accompanying interim financial information set out on pages 92 to 172, which comprises the condensed consolidated statement of financial position of Harbin Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst&Young

Certified Public Accountants

Hong Kong

27 August 2017

Condensed Consolidated Statement of Income

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

		For the six month period ended 30 June	
	Note	2017	2016
		Unaudited	Unaudited
Interest income	4	13,618,201	10,478,611
Interest expense	4	(7,294,027)	(5,065,354)
NET INTEREST INCOME	4	6,324,174	5,413,257
Fee and commission income	5	1,269,623	1,342,353
Fee and commission expense	5	(56,631)	(79,548)
NET FEE AND COMMISSION INCOME	5	1,212,992	1,262,805
Net trading income/(loss)	6	(8,684)	24,234
Net gain/(loss) on financial investments	7	(41,480)	4,324
Other operating income/(loss), net	8	(14,917)	154,910
OPERATING INCOME		7,472,085	6,859,530
Operating expenses	9	(1,858,589)	(2,064,788)
Impairment losses on:			
Loans and advances to customers	17	(1,439,841)	(1,147,433)
Other		(532,323)	(543,821)
OPERATING PROFIT		3,641,332	3,103,488
Share of profits of an associate		–	59,575
PROFIT BEFORE TAX		3,641,332	3,163,063
Income tax expense	10	(952,096)	(703,783)
PROFIT FOR THE PERIOD		2,689,236	2,459,280
Attributable to:			
Owners of the parent		2,659,693	2,417,738
Non-controlling interests		29,543	41,542
		2,689,236	2,459,280
EARNINGS PER SHARE (RMB yuan)			
Basic and diluted	12	0.24	0.22

Details of the dividends declared and paid or proposed are disclosed in note 11 to these financial statements.

The accompanying notes form an integral part of these financial statements.

Condensed Consolidated Statement of Comprehensive Income

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

		For the six month period ended 30 June	
	Note	2017	2016
		Unaudited	Unaudited
Profit for the period		2,689,236	2,459,280
Other comprehensive income (after tax, net):			
Other comprehensive income attributable to owners of the parent	36	(196,809)	(90,089)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>			
Net loss on available-for-sale financial assets	36	(196,809)	(60,597)
Share of other comprehensive income of an associate	36	–	(29,492)
Other comprehensive income attributable to non-controlling interests		–	(119)
Subtotal of other comprehensive income for the period		(196,809)	(90,208)
Total comprehensive income for the period		2,492,427	2,369,072
Total comprehensive income attributable to:			
Owners of the parent		2,462,884	2,327,649
Non-controlling interests		29,543	41,423
Total		2,492,427	2,369,072

The accompanying notes form an integral part of these financial statements.

Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

	Note	As at 30 June 2017	As at 31 December 2016
		Unaudited	Audited
ASSETS			
Cash and balances with the central bank	13	55,131,784	67,010,336
Due from banks and other financial institutions	14	16,138,458	34,000,064
Financial assets held for trading	15	1,315,900	1,704,229
Reverse repurchase agreements	16	14,518,900	14,538,618
Loans and advances to customers	17	219,637,557	196,488,246
Derivative financial assets	18	209	70,775
Financial investments	19	205,164,628	190,453,189
Finance lease receivables	20	15,548,429	15,096,318
Property and equipment	21	8,640,589	8,717,934
Deferred income tax assets	22	1,806,206	1,414,660
Asset held for sale	23	1,234,169	1,234,169
Other assets	24	7,790,257	8,287,683
TOTAL ASSETS		546,927,086	539,016,221
LIABILITIES			
Due to the central bank		510,689	506,960
Borrowings from banks and other financial institutions	25	12,489,108	12,382,462
Due to banks	26	60,865,682	80,513,305
Derivative financial liabilities	18	10,484	90,392
Repurchase agreements	27	–	13,694,050
Due to customers	28	344,901,228	343,151,034
Income tax payable		683,963	825,756
Debt securities issued	29	78,372,254	41,883,393
Other liabilities	30	9,038,617	8,633,835
TOTAL LIABILITIES		506,872,025	501,681,187
EQUITY			
Equity attributable to owners of the parent			
Issued share capital	31	10,995,600	10,995,600
Capital reserve	32	7,636,867	7,635,709
Other comprehensive income	36	(225,226)	(28,417)
Surplus reserves	33	2,409,731	2,409,731
General and regulatory reserves	34	6,750,315	5,481,049
Undistributed profits	35	11,404,563	10,014,136
		38,971,850	36,507,808
Non-controlling interests		1,083,211	827,226
TOTAL EQUITY		40,055,061	37,335,034
TOTAL EQUITY AND LIABILITIES		546,927,086	539,016,221

The financial statements were approved and authorised for issue by the Board of Directors on 27 August 2017.

The accompanying notes form an integral part of these financial statements.

Guo Zhiwen

Chairman

Zhang Qiguang

President

Yang Dazhi

General Manager of Finance
and Accounting Department

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

	Unaudited							
	Equity attributable to owners of the parent							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Non-controlling interests	Total
Balance as at 1 January 2017	10,995,600	7,635,709	(28,417)	2,409,731	5,481,049	10,014,136	827,226	37,335,034
Movements in this period	–	1,158	(196,809)	–	1,269,266	1,390,427	255,985	2,720,027
Total comprehensive income	–	–	(196,809)	–	–	2,659,693	29,543	2,492,427
Capital contributed by owners	–	–	–	–	–	–	227,600	227,600
Profit distribution	–	–	–	–	1,269,266	(1,269,266)	–	–
1. Appropriation to general and regulatory reserves (i)	–	–	–	–	1,269,266	(1,269,266)	–	–
Others	–	1,158	–	–	–	–	(1,158)	–
Balance as at 30 June 2017	10,995,600	7,636,867	(225,226)	2,409,731	6,750,315	11,404,563	1,083,211	40,055,061

(i) Includes the appropriation made by subsidiaries in the amount of RMB141,850 thousand.

	Unaudited							
	Equity attributable to owners of the parent							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Non-controlling interests	Total
Balance as at 1 January 2016	10,995,600	7,635,709	263,449	1,957,736	4,064,056	8,183,051	748,358	33,847,959
Movements in this period	–	–	(90,089)	–	1,389,632	(148,423)	34,773	1,185,893
Total comprehensive income	–	–	(90,089)	–	–	2,417,738	41,423	2,369,072
Profit distribution	–	–	–	–	1,389,632	(2,566,161)	(6,650)	(1,183,179)
1. Appropriation to general and regulatory reserves (i)	–	–	–	–	1,389,632	(1,389,632)	–	–
2. Dividends–2015 final (Note 11)	–	–	–	–	–	(1,176,529)	(6,650)	(1,183,179)
Balance as at 30 June 2016	10,995,600	7,635,709	173,360	1,957,736	5,453,688	8,034,628	783,131	35,033,852

(i) Includes the appropriation made by subsidiaries in the amount of RMB76,922 thousand.

The accompanying notes form an integral part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

	Audited							
	Equity attributable to owners of the parent							Total
	Share capital	Capital reserve	Other comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Non-controlling interests	
Balance as at 1 January 2016	10,995,600	7,635,709	263,449	1,957,736	4,064,056	8,183,051	748,358	33,847,959
Movements in this year	–	–	(291,866)	451,995	1,416,993	1,831,085	78,868	3,487,075
Total comprehensive income	–	–	(291,866)	–	–	4,876,602	85,518	4,670,254
Profit distribution	–	–	–	451,995	1,416,993	(3,045,517)	(6,650)	(1,183,179)
1. Appropriation to surplus reserves	–	–	–	451,995	–	(451,995)	–	–
2. Appropriation to general and regulatory reserves (i)	–	–	–	–	1,416,993	(1,416,993)	–	–
3. Dividends–2015 final (Note 11)	–	–	–	–	–	(1,176,529)	(6,650)	(1,183,179)
Balance as at 31 December 2016	10,995,600	7,635,709	(28,417)	2,409,731	5,481,049	10,014,136	827,226	37,335,034

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

The accompanying notes form an integral part of these financial statements.

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2017	2016
		Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,641,332	3,163,063
Adjustments for:			
Share of profits of an associate		–	(59,575)
Depreciation and amortisation	9	269,255	255,536
Net trading (gain)/loss	6	8,684	(24,234)
Interest income on financial investments		(5,549,438)	(3,648,480)
Impairment loss on loans and advances to customers		1,439,841	1,147,433
Impairment losses on other assets		532,323	543,821
Unrealised foreign exchange (gain)/loss		44,491	(70,270)
Interest expense on issuance of bonds	4	1,426,461	452,741
Accreted interest on impaired loans	17	(46,930)	(44,924)
Net (gain)/loss on disposal of financial investments	7	41,480	(4,324)
Net gain on disposal of property and equipment		(48)	(77)
		1,807,451	1,710,710
Net decrease/(increase) in operating assets:			
Due from the central bank		(2,664,678)	2,248,905
Due from banks and other financial institutions		10,006,567	452,710
Reverse repurchase agreements		–	11,649,802
Loans and advances to customers		(23,868,651)	(44,026,772)
Finance lease receivables		(523,434)	(6,232,927)
Other assets		(313,630)	(657,517)
		(17,363,826)	(36,565,799)
Net increase/(decrease) in operating liabilities:			
Due to the central bank		3,729	(27,394)
Borrowings from banks and other financial institutions		106,646	1,076,062
Due to banks		(19,647,623)	(3,509,419)
Repurchase agreements		(13,694,050)	3,132,500
Due to customers		1,750,194	23,855,630
Other liabilities		621,279	2,010,044
		(30,859,825)	26,537,423
Net cash flows used in operating activities before tax		(46,416,200)	(8,317,666)
Income tax paid		(1,419,831)	(978,163)
Net cash flows used in operating activities		(47,836,031)	(9,295,829)

Condensed Consolidated Statement of Cash Flows

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2017	2016
		Unaudited	Unaudited
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment, intangible assets and other long term assets		(187,528)	(193,091)
Proceeds from disposal of property and equipment		563	193
Cash paid for investments		(108,222,575)	(351,272,560)
Proceeds from sale and redemption of investments		93,476,930	337,446,417
Return on investments		5,329,468	3,548,525
Net cash flows used in investing activities		(9,603,142)	(10,470,516)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		227,600	–
Proceeds from issue of other debt securities		54,206,125	13,901,792
Redemption of debt securities		(18,368,816)	(9,771,785)
Interest and issue expenses paid on debt securities		(988,011)	(448,467)
Dividends paid on ordinary shares		(3,395)	(27,153)
Net cash flows from financing activities		35,073,503	3,654,387
NET DECREASE IN CASH AND CASH EQUIVALENTS		(22,365,670)	(16,111,958)
Cash and cash equivalents at the beginning of the period		59,678,068	63,675,778
Effect of exchange rate changes on cash and cash equivalents		(22,317)	25,993
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	37	37,290,081	47,589,813
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		8,189,324	6,891,117
Interest paid		(5,141,997)	(4,867,597)

The accompanying notes form an integral part of these financial statements.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

1. Corporate information and group structure

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

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

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

The subsidiaries of the Bank as at 30 June 2017 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of interest owned by the Bank/ voting rights	Amount invested by the Bank	Principal activities
			%		
Bayan Rongxing Village and Township Bank Co., Ltd.	Bayan, Heilongjiang	50,000	100.00	53,400	Village and township bank
Huining Huishi Village and Township Bank Co., Ltd.	Huining, Gansu	30,000	100.00	30,000	Village and township bank
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	Huairou, Beijing	200,000	85.00	207,600	Village and township bank
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30,000	100.00	30,000	Village and township bank
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	220,000	70.00	140,000	Village and township bank
Yanshou Rongxing Village and Township Bank Co., Ltd.	Yanshou, Heilongjiang	30,000	100.00	30,000	Village and township bank
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	150,000	80.00	144,420	Village and township bank
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80,000	75.00	60,000	Village and township bank
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	50,000	98.00	49,000	Village and township bank

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

1. Corporate information and group structure (Continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of interest owned by the Bank/ voting rights	Amount invested by the Bank	Principal activities
			%		
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	30,000	100.00	30,000	Village and township bank
Yanshi Rongxing Village and Township Bank Co., Ltd.	Yanshi, Henan	30,000	100.00	30,000	Village and township bank
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	30,000	100.00	30,000	Village and township bank
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	100,000	80.00	80,000	Village and township bank
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30,000	100.00	30,000	Village and township bank
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	55,000	80.00	40,000	Village and township bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50,000	70.00	35,000	Village and township bank
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	30,000	100.00	30,000	Village and township bank
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30,000	100.00	30,000	Village and township bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	30,000	100.00	30,000	Village and township bank
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50,000	100.00	50,000	Village and township bank
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30,000	96.67	29,000	Village and township bank
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100,000	80.00	80,000	Village and township bank
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	50,000	100.00	50,000	Village and township bank

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

1. Corporate information and group structure (Continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of interest owned by the Bank/ voting rights	Amount invested by the Bank	Principal activities
			%		
Chongqing Youyang Village and Township Bank Co., Ltd.	Youyang, Chongqing	60,000	100.00	60,000	Village and township bank
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000,000	80.00	1,600,000	Leasing company
Harbin Bank Consumer Finance Co., Ltd.	Harbin, Heilongjiang	500,000	59.00	295,000	Consumer finance company
Ning'an Rongxing Village and Township Bank Co., Ltd.	Ning'an, Heilongjiang	30,000	100.00	30,000	Village and township bank
Huanan Rongxing Village and Township Bank Co., Ltd.	Huanan, Heilongjiang	30,000	100.00	30,000	Village and township bank
Nehe Rongxing Village and Township Bank Co., Ltd.	Nehe, Heilongjiang	50,000	80.00	40,000	Village and township bank
Pingliang Rongxing Village and Township Bank Co., Ltd.	Pingliang, Gansu	50,000	90.00	45,000	Village and township bank
Tianshui Maji Rongxing Village and Township Bank Co., Ltd.	Tianshui, Gansu	50,000	98.00	49,000	Village and township bank
Zhongjiang Rongxing Village and Township Bank Co., Ltd.	Zhongjiang, Sichuan	50,000	70.00	35,000	Village and township bank

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

1. Corporate information and group structure *(Continued)*

During the six month period ended 30 June 2017, the main changes to the Group's structure are as follows:

- (i) On 7 April 2016, the Bank entered into an equity transfer agreement with International Finance Corporation ("IFC") with respect to the purchase of IFC's 10% equity interests in Bayan Rongxing Village and Township Bank Co., Ltd ("Bayan Rongxing"). On 25 October 2016, the Bank got the approval from CBRC Heilongjiang province office designated as Hei Yin Jian Fu [2016] No.199 "Approval of agreeing Harbin Bank to acquire IFC's equity interests in Bayan Rongxing". On 20 April 2017, the Bank remitted a transfer price of RMB8,400 thousand to IFC. After the payment, the Bank's equity interest in Bayan Rongxing has increased from 90% to 100%.
- (ii) During the six month period ended 30 June 2017, the Bank has newly set up seven subsidiaries, including Harbin Bank Consumer Finance Co., Ltd, Ning'an Rongxing Village and Township Bank Co., Ltd, Huanan Rongxing Village and Township Bank Co., Ltd, Nehe Rongxing Village and Township Bank Co., Ltd, Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd, Tianshui Maiji Rongxing Village and Township Bank Co., Ltd and Zhongjiang Rongxing Village and Township Bank Co., Ltd. The Bank's equity interests in the above subsidiaries are 59%, 100%, 100%, 80%, 90%, 98% and 70% respectively, and is the controlling shareholders of the above subsidiaries.

2. Basis of presentation and principal accounting policies

The unaudited condensed consolidated interim financial information for the six month period ended 30 June 2017 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") and should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group's annual financial statements for the year ended 31 December 2016.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

2. Basis of presentation and principal accounting policies *(Continued)*

Standards, amendments and interpretations effective in 2017

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

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

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

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

Annual Improvements to IFRSs 2014–2016 Cycle:

IFRS 12 Disclosure of Interests in Other Entities

The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

2. Basis of presentation and principal accounting policies (Continued)

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017

		Effective for annual periods beginning on or after
IAS 40 Amendments	<i>Transfers of Investment Property</i>	1 January 2018
IFRS 2 Amendments	<i>Share-based Payment</i>	1 January 2018
IFRS 4 Amendments	<i>Insurance Contracts</i>	1 January 2018
IFRS 9	<i>Financial Instruments</i>	1 January 2018
IFRS 15 and Amendments	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
IFRS 16	<i>Leases</i>	1 January 2019
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019
IFRS 17	<i>Insurance Contracts</i>	1 January 2021
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 2014–2016 Cycle (issued in December 2016):		
IAS 28	<i>Investments in Associates and Joint Ventures</i>	1 January 2018
IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i>	1 January 2018

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

2. Basis of presentation and principal accounting policies *(Continued)*

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2017 *(Continued)*

The Group is considering the impact of these standards, amendments and interpretations on the consolidated financial statements. Particularly, in IFRS 9: (1) Investments in debt instruments are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to the profit or loss in the future. (2) The impairment requirements are based on an expected credit loss model instead of incurred loss model. On initial recognition of these financial assets, the entity should recognise a loss allowance based on 12-month expected credit losses. If the financial instruments for which credit risk has increased significantly since initial recognition, then the entity should recognise a loss allowance based on lifetime expected credit losses. The expected credit loss model is more forward-looking than the incurred loss model. (3) The new hedge accounting model aims to provide a better link between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group has set up a project team to carry out preparatory work of IFRS 9, including revising the Group accounting policies, establishing impairment measurement methods and upgrading the process and relevant IT system etc. in order to obtain in-depth analysis of the impact by applying the new standard.

3. Significant accounting judgements and estimates

The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2016.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

4. Net interest income

	For the six month period ended 30 June	
	2017	2016
Interest income on:		
Loans and advances to customers	6,602,988	5,432,361
– Corporate loans and advances	2,835,252	2,903,151
– Personal loans	3,747,379	2,411,823
– Discounted bills	20,357	117,387
Reverse repurchase agreements	303,620	325,938
Available-for-sale financial assets	428,903	525,733
Held-to-maturity financial investments	604,382	531,750
Debt instruments classified as receivables	4,516,153	2,551,097
Due from the central bank	361,883	292,449
Deposits with banks and other financial institutions	406,540	461,296
Finance lease receivables	393,732	357,987
Subtotal	13,618,201	10,478,611
Interest expense on:		
Due to customers	(3,952,828)	(3,382,610)
Repurchase agreements	(144,397)	(154,190)
Due to banks	(1,494,185)	(925,085)
Debt securities issued	(1,426,461)	(452,741)
Due to the central bank	(10,844)	(8,419)
Borrowings from banks and other financial institutions	(265,312)	(142,309)
Subtotal	(7,294,027)	(5,065,354)
Net interest income	6,324,174	5,413,257
Including: interest income on impaired loans	46,930	44,924

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

5. Net fee and commission income

	For the six month period ended 30 June	
	2017	2016
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	513,156	474,917
Settlement and clearing fees	35,377	67,721
Agency and custodian fees	560,416	655,676
Including: non-guaranteed wealth management product	271,153	196,012
Bank card fees	125,465	102,716
Others	35,209	41,323
Subtotal	1,269,623	1,342,353
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	(6,568)	(5,999)
Agency fees	(4,619)	(7,539)
Bank card fees	(22,884)	(56,322)
Others	(22,560)	(9,688)
Subtotal	(56,631)	(79,548)
NET FEE AND COMMISSION INCOME	1,212,992	1,262,805

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

6. Net trading income/(loss)

	For the six month period ended 30 June	
	2017	2016
Debt securities	(18,018)	52,182
Derivative financial instruments	9,334	(27,948)
Total	(8,684)	24,234

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

7. Net gain/(loss) on financial investments

	For the six month period ended 30 June	
	2017	2016
Gain/(loss) on disposal of available-for-sale financial assets, net	(41,480)	4,324
Total	(41,480)	4,324

8. Other operating income/(loss), net

	For the six month period ended 30 June	
	2017	2016
Net gain on sale of property and equipment	88	107
Gain/(loss) from foreign exchange, net	(66,808)	96,263
Leasing income	18,261	13,553
Government grants and subsidies	29,656	41,378
Penalties and compensation	11	12
Others	3,875	3,597
Total	(14,917)	154,910

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

9. Operating Expenses

	For the six month period ended 30 June	
	2017	2016
Staff costs:		
Salaries, bonuses and allowances	680,742	639,039
Social insurance	107,973	94,272
Housing fund	47,563	36,705
Staff benefits	45,635	39,235
Labour union expenditure and education costs	8,049	6,937
Early retirement benefits	138	87
Subtotal	890,100	816,275
General and administrative expenses	277,831	263,516
Tax and surcharges	63,563	360,232
Depreciation and amortisation	269,255	255,536
Leasing expense	159,912	137,652
Auditors' remuneration	2,100	1,900
Others	195,828	229,677
Total	1,858,589	2,064,788

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

10. Income tax expense

(a) Income tax

	For the six month period ended 30 June	
	2017	2016
Current income tax	1,278,038	1,039,823
Deferred income tax	(325,942)	(336,040)
	952,096	703,783

(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:

	For the six month period ended 30 June	
	2017	2016
Profit before tax	3,641,332	3,163,063
Tax at the PRC statutory income tax rate	910,333	790,766
Items not deductible for tax purposes (i)	19,888	8,195
Non-taxable income (ii)	(37,564)	(36,959)
Adjustment for income tax from prior years	67,928	(6,627)
Profits attributable to an associate	–	(14,894)
Effect of different tax rates for certain subsidiaries	(3,108)	(7,997)
Others	(5,381)	(28,701)
Tax expense at the Group's effective income tax rate	952,096	703,783

Notes:

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

11. Dividends

	For the six month period ended 30 June	
	2017	2016
Dividends on ordinary shares declared and paid or proposed:		
Final dividend for 2016: did not declare any dividend** (2015: RMB0.107 per share*)	–	1,176,529

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

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

12. Earnings per share

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

	For the six month period ended 30 June	
	2017	2016
Earnings:		
Profit attributable to owners of the parent	2,659,693	2,417,738
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)	0.24	0.22

The basic earnings per share amount was 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 period.

The Group had no potentially dilutive ordinary shares for the six month period ended 30 June 2017 (For the six month period ended 30 June 2016: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

13. Cash and balances with the central bank

	Group	
	30 June 2017	31 December 2016
Cash and unrestricted balances with the central bank:		
Cash on hand	692,844	845,338
Mandatory reserves with the central bank (i)	41,384,932	38,761,014
Surplus reserves with the central bank (ii)	12,978,567	27,369,303
Fiscal deposits with the central bank	75,441	34,681
Total	55,131,784	67,010,336

(i) The Group is required to place mandatory reserve deposits with the PBOC. Mandatory reserve deposits with the central bank are not available for use in the Group's daily operations. As at 30 June 2017 and 31 December 2016, the mandatory deposit reserve ratios of the branches and subsidiaries of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC.

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

14. Due from banks and other financial institutions

	Group	
	30 June 2017	31 December 2016
Nostro accounts:		
Banks operating in Mainland China	13,718,557	31,599,932
Banks operating outside Mainland China	1,368,895	1,396,020
	15,087,452	32,995,952
Less: Allowance for impairment losses	—	—
	15,087,452	32,995,952
Placements with banks and other financial institutions:		
Banks operating in Mainland China	860,146	400,057
Banks operating outside Mainland China	190,860	604,055
	1,051,006	1,004,112
Less: Allowance for impairment losses	—	—
	1,051,006	1,004,112
	16,138,458	34,000,064

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

15. Financial assets held for trading

	Group	
	30 June 2017	31 December 2016
Debt securities	1,315,900	1,704,229
Debt securities analysed into:		
Listed in Mainland China	1,315,900	1,704,229

16. Reverse repurchase agreements

	Group	
	30 June 2017	31 December 2016
Reverse repurchase agreements analysed by counterparty:		
Banks	14,518,900	13,402,778
Other financial institutions	–	1,135,840
	14,518,900	14,538,618
Reverse repurchase agreements analysed by collateral:		
Securities	14,518,900	13,739,270
Bills	–	799,348
	14,518,900	14,538,618

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. As at 30 June 2017, the Group had no such securities and bills (31 December 2016: Nil). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

17. Loans and advances to customers

	Group	
	30 June 2017	31 December 2016
Corporate loans and advances	104,442,875	95,024,689
Personal loans	120,801,847	105,793,366
Discounted bills	660,973	809,878
	225,905,695	201,627,933
Less: Allowance for impairment losses	(6,268,138)	(5,139,687)
	219,637,557	196,488,246

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

Group

	Individually assessed	Collectively assessed	Total
As at 1 January 2016	328,112	3,285,190	3,613,302
Exchange difference	3,421	1,626	5,047
Impairment loss:	475,207	1,381,993	1,857,200
Impairment allowances charged	530,296	1,381,993	1,912,289
Reversal of impairment allowances	(55,089)	–	(55,089)
Accreted interest on impaired loans	(31,892)	(65,921)	(97,813)
Write-offs	(1,628)	(339,800)	(341,428)
Recoveries of loans and advances previously written off	–	103,379	103,379
At 31 December 2016 and 1 January 2017	773,220	4,366,467	5,139,687
Exchange difference	(737)	(785)	(1,522)
Impairment loss:	287,439	1,152,402	1,439,841
Impairment allowances charged	412,215	1,152,402	1,564,617
Reversal of impairment allowances	(124,776)	–	(124,776)
Accreted interest on impaired loans	(19,492)	(27,438)	(46,930)
Write-offs	–	(289,268)	(289,268)
Recoveries of loans and advances previously written off	–	26,330	26,330
As at 30 June 2017	1,040,430	5,227,708	6,268,138

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

17. Loans and advances to customers (Continued)

	Group	
	30 June 2017	31 December 2016
Loans and advances to customers:		
Unimpaired loans and advances to customers (i)	222,185,486	198,545,954
Impaired loans and advances to customers (ii)		
Individually assessed	1,734,540	1,515,517
Collectively assessed	1,985,669	1,566,462
	225,905,695	201,627,933
Less: Allowance for impairment losses		
Unimpaired loans and advances to customers (i)	(4,185,537)	(3,545,763)
Impaired loans and advances to customers (ii)		
Individually assessed	(1,040,431)	(773,220)
Collectively assessed	(1,042,170)	(820,704)
	(6,268,138)	(5,139,687)
Net loans and advances to customers:		
Unimpaired loans and advances to customers (i)	217,999,949	195,000,191
Impaired loans and advances to customers (ii)		
Individually assessed	694,109	742,297
Collectively assessed	943,499	745,758
	219,637,557	196,488,246
Percentage of impaired loans and advances to customers	1.65%	1.53%

(i) Unimpaired loans and advances to customers should be collectively assessed for impairment.

(ii) Impaired loans and advances to customers include those with objective evidence of impairment.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

18. Derivative financial instruments

The Group enters into currency rate related derivative financial instruments for trading and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	Group					
	30 June 2017			31 December 2016		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange forwards	999,648	209	10,484	3,124,852	70,775	90,392
	999,648	209	10,484	3,124,852	70,775	90,392

19. Financial investments

	Group	
	30 June 2017	31 December 2016
Debt instruments classified as receivables (a)	152,176,066	144,192,982
Held-to-maturity investments (b)	29,681,858	30,500,981
Available-for-sale financial assets (c)	25,605,826	17,597,348
Subtotal	207,463,750	192,291,311
Less: Allowance for impairment losses	(2,299,122)	(1,838,122)
Net balance	205,164,628	190,453,189

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

19. Financial investments (Continued)

(a) Debt instruments classified as receivables

The debt instruments classified as receivables are unlisted and stated at amortised cost and comprise the following:

	Group	
	30 June 2017	31 December 2016
Certificate treasury bonds	82,885	75,628
Asset management plans (i)	98,442,434	83,680,576
Trust fund plans (ii)	53,650,747	60,436,778
Subtotal	152,176,066	144,192,982
Less: Allowance for impairment losses	(2,299,122)	(1,838,122)
Net balance	149,876,944	142,354,860

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

(b) Held-to-maturity investments

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

	Group	
	30 June 2017	31 December 2016
Debt securities analysed into:		
Listed in Mainland China	29,681,858	30,500,981

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

19. Financial investments (Continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	Group	
	30 June 2017	31 December 2016
Debt securities analysed into:		
Listed in Mainland China	23,954,510	17,193,762
Unlisted:		
Equity investments at cost (i)	24,620	24,620
Wealth management products	600,000	352,270
Funds	1,026,696	26,696
	25,605,826	17,597,348
Market value of listed debt securities	23,954,510	17,193,762

- (i) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

20. Finance lease receivables

	Group	
	30 June 2017	31 December 2016
Finance lease receivables	17,327,859	16,898,232
Less: unearned finance lease income	(1,521,728)	(1,615,535)
Present value of minimum finance lease receivables	15,806,131	15,282,697
Less: allowance for impairment losses	(257,702)	(186,379)
Including: individually assessed	(69,477)	–
collectively assessed	(188,225)	(186,379)
Net balance	15,548,429	15,096,318

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(Amount in thousands of RMB, unless otherwise stated)

20. Finance lease receivables (Continued)

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

	Group					
	30 June 2017			31 December 2016		
	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables
Less than 1 year	6,112,191	(718,600)	5,393,591	5,213,674	(693,713)	4,519,961
1 year to 2 years	4,621,847	(431,608)	4,190,239	4,567,402	(460,375)	4,107,027
2 years to 3 years	3,788,471	(235,347)	3,553,124	3,596,618	(275,249)	3,321,369
3 years to 5 years	2,619,217	(120,040)	2,499,177	3,312,247	(167,408)	3,144,839
More than 5 years	186,133	(16,133)	170,000	208,291	(18,790)	189,501
	17,327,859	(1,521,728)	15,806,131	16,898,232	(1,615,535)	15,282,697

21. Property and equipment

Group

	Properties and buildings	Construction in progress	Leasehold improve- ments	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Cost:							
At 1 January 2016	5,472,447	2,493,305	442,563	1,473,969	76,950	294,317	10,253,551
Additions	57,317	213,226	27,688	125,148	1,773	20,081	445,233
CIP transfers	163,532	(163,532)	–	–	–	–	–
Disposals	–	(2,942)	–	(690)	(2,149)	–	(5,781)
At 31 December 2016 and 1 January 2017	5,693,296	2,540,057	470,251	1,598,427	76,574	314,398	10,693,003
Additions	7,483	91,734	2,568	46,121	4,258	–	152,164
CIP transfers	152,560	(209,499)	–	56,939	–	–	–
Disposals	(1,707)	–	–	(1,108)	(1,683)	–	(4,498)
At 30 June 2017	5,851,632	2,422,292	472,819	1,700,379	79,149	314,398	10,840,669

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

21. Property and equipment (Continued)

Group

	Properties and buildings	Construction in progress	Leasehold improve- ments	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Accumulated depreciation:							
At 1 January 2016	471,319	–	236,486	744,082	52,209	13,996	1,518,092
Depreciation charge for the year	161,637	–	67,295	205,946	8,856	15,920	459,654
Disposals	–	–	–	(638)	(2,039)	–	(2,677)
At 31 December 2016 and 1 January 2017	632,956	–	303,781	949,390	59,026	29,916	1,975,069
Depreciation charge for the period	85,388	–	29,217	103,785	3,137	7,467	228,994
Disposals	(1,694)	–	–	(739)	(1,550)	–	(3,983)
At 30 June 2017	716,650	–	332,998	1,052,436	60,613	37,383	2,200,080
Net carrying amount:							
At 31 December 2016	5,060,340	2,540,057	166,470	649,037	17,548	284,482	8,717,934
At 30 June 2017	5,134,982	2,422,292	139,821	647,943	18,536	277,015	8,640,589

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

	Group	
	30 June 2017	31 December 2016
Held in China:		
Over 50 years	1,798,505	1,829,358
10 to 50 years	3,300,195	3,194,081
Less than 10 years	36,282	36,901
	5,134,982	5,060,340

As at 30 June 2017, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,397 million (31 December 2016: RMB2,592 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

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(Amount in thousands of RMB, unless otherwise stated)

22. Deferred income tax assets and liabilities

(a) Analysed by nature

Group

	30 June 2017		31 December 2016	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	6,357,022	1,579,085	4,955,659	1,229,556
Change in fair value of available-for-sale financial assets	386,783	96,696	124,371	31,092
Change in fair value of financial assets held for trading	78,521	19,630	45,399	11,350
Change in fair value of derivatives	10,275	2,569	19,618	4,905
Salaries, bonuses, allowances and subsidies payable	38,648	9,295	42,932	10,366
Early retirement benefits	16,111	4,028	18,556	4,639
Deferred revenue	379,612	94,903	491,008	122,752
Subtotal	7,266,972	1,806,206	5,697,543	1,414,660
Net deferred income tax	7,266,972	1,806,206	5,697,543	1,414,660

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

22. Deferred income tax assets and liabilities (Continued)

(b) Movements in deferred income tax

Group

	At 1 January 2017	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	At 30 June 2017
Deferred income tax assets:				
Allowance for impairment losses	1,229,556	349,529	–	1,579,085
Change in fair value of available-for-sale financial assets	31,092	–	65,604	96,696
Change in fair value of financial assets held for trading	11,350	8,280	–	19,630
Changes in fair value of derivatives	4,905	(2,336)	–	2,569
Salaries, bonuses, allowances and subsidies payable	10,366	(1,071)	–	9,295
Early retirement benefits	4,639	(611)	–	4,028
Deferred revenue	122,752	(27,849)	–	94,903
Subtotal	1,414,660	325,942	65,604	1,806,206
Net deferred income tax	1,414,660	325,942	65,604	1,806,206

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

22. Deferred income tax assets and liabilities (Continued)

(b) Movements in deferred income tax (Continued)

Group (Continued)

	At 1 January 2016	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	At 31 December 2016
Deferred income tax assets:				
Allowance for impairment losses	630,601	598,955	–	1,229,556
Change in fair value of available-for-sale financial assets	–	–	31,092	31,092
Change in fair value of financial assets held for trading	–	11,350	–	11,350
Changes in fair value of derivatives	1,157	3,748	–	4,905
Salaries, bonuses, allowances and subsidies payables	6,234	4,132	–	10,366
Early retirement benefits	4,409	230	–	4,639
Deferred revenue	77,370	45,382	–	122,752
Subtotal	719,771	663,797	31,092	1,414,660
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(62,018)	–	62,018	–
Change in fair value of held-for-trading financial assets	(8,310)	8,310	–	–
Subtotal	(70,328)	8,310	62,018	–
Net deferred income tax	649,443	672,107	93,110	1,414,660

As at 30 June 2017, the Group did not have significant unrecognised deferred income tax assets and liabilities (31 December 2016: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

23. Asset held for sale

	Group	
	30 June 2017	31 December 2016
Asset held for sale	1,234,169	1,234,169

As approved at the 29th meeting of the fifth Board, the Group decided to dispose of its total interest in Guangdong Huaxing Bank Company Limited ("Huaxing Bank"). On 21 October 2016, the Group entered into a sale and purchase agreement with Keenstar Holding Co., Ltd ("Keenstar ", as buyer), in relation to the proposed sale and purchase of the Group's investment in Huaxing Bank, with a transfer price of RMB1.52 billion. As at 30 June 2017 and 31 December 2016, the Group has classified its investment in Huaxing Bank as an asset held for sale with a carrying amount of RMB1,234,169 thousand.

24. Other assets

	Group	
	30 June 2017	31 December 2016
Interest receivable (a)	3,666,064	3,593,039
Land use rights (b)	4,716	4,802
Advance payments	332,564	237,939
Settlement and clearing accounts	3,316,778	3,714,041
Mortgaged assets	14,631	–
Intangible assets (c)	155,741	158,830
Prepaid investment funds	115,000	419,000
Other receivables	177,325	153,306
Others	7,438	6,726
	7,790,257	8,287,683

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

24. Other assets (Continued)

(a) Interest receivable

	Group	
	30 June 2017	31 December 2016
Banks and other financial institutions	108,184	206,129
Reverse repurchase agreements	1,270	7,587
Loans and advances to customers	1,691,527	1,723,609
Bonds and other investments	1,744,625	1,551,039
Finance lease receivables	120,458	104,675
	3,666,064	3,593,039

(b) Land use rights

	Group	
	30 June 2017	31 December 2016
Located in Mainland China		
10-50 years	4,716	4,802

(c) Intangible assets

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

25. Borrowings from banks and other financial institutions

	Group	
	30 June 2017	31 December 2016
Unsecured borrowings	11,565,800	11,150,000
Pledged borrowings	923,308	1,232,462
	12,489,108	12,382,462

As at 30 June 2017 and 31 December 2016, the pledged borrowings of RMB923 million and RMB1,232 million were secured by the finance lease receivables of RMB1,342 million and RMB1,462 million respectively. There was no remaining credit limit under these pledged borrowings.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

26. Due to banks

	Group	
	30 June 2017	31 December 2016
Deposits:		
Banks operating in Mainland China	59,980,107	79,613,055
Banks operating outside Mainland China	20,466	20,880
	60,000,573	79,633,935
Placements:		
Banks operating in Mainland China	865,109	879,370
	60,865,682	80,513,305

Interest due to banks and other financial institutions is calculated based on contractual interest rates.

27. Repurchase agreements

Repurchase agreements comprise the repurchase of bonds and bills.

	Group	
	30 June 2017	31 December 2016
Repurchase agreements analysed by counterparty:		
Banks	–	10,399,800
Other financial Institutions within Mainland China	–	3,294,250
	–	13,694,050
Repurchase agreements analysed by collateral:		
Bonds	–	13,694,050

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

28. Due to customers

	Group	
	30 June 2017	31 December 2016
Demand deposits:		
Corporate customers	97,171,511	105,653,901
Personal customers	39,219,137	40,145,433
	136,390,648	145,799,334
Time deposits:		
Corporate customers	129,067,678	130,044,237
Personal customers	79,442,902	67,307,463
	208,510,580	197,351,700
	344,901,228	343,151,034

29. Debt securities issued

	Group	
	30 June 2017	31 December 2016
Financial bonds issued	11,996,054	9,495,318
Tier 2 capital bonds issued	7,998,268	7,997,793
Negotiable certificates of deposit issued	58,377,932	24,390,282
	78,372,254	41,883,393

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

29. Debt securities issued (Continued)

As approved by the PBOC and the CBRC, the Group issued financial bonds through the open market in 2014, 2015, 2016 and the six month period ended 30 June 2017, 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 six month period ended 30 June 2017 (2016: Nil). The relevant information on these financial bonds is set out below:

Name	Issue date	Issue price (RMB)	Coupon rate	Value date	Maturity date	Issue amount (RMB)
14 Harbin Bank 01	15 December 2014	100	4.60%	17 December 2014	17 December 2017	2,000 million
15 Harbin Bank 01	26 May 2015	100	4.20%	28 May 2015	28 May 2018	4,000 million
16 Harbin Bank tier 2 capital bonds	14 June 2016	100	4.00%	16 June 2016	16 June 2026	8,000 million
16 Harbin Bank leasing financial bonds	27 July 2016	100	3.50%	29 July 2016	29 July 2019	1,000 million
17 Harbin Bank Green Financial Bonds 01	6 April 2017	100	4.79%	11 April 2017	11 April 2020	2,000 million
17 Harbin Bank Green Financial Bonds 02	5 May 2017	100	4.68%	10 May 2017	10 May 2020	2,000 million
17 Harbin Bank Green Financial Bonds 03	5 May 2017	100	4.75%	10 May 2017	10 May 2022	1,000 million

For the six month period ended 30 June 2017 and the year ended 31 December 2016, the Bank issued 113 tranches and 57 tranches interbank negotiable certificates of deposit through domestic interbank bond market respectively, at a face value of RMB100 and sold at discount. As at 30 June 2017 and 31 December 2016, 115 tranches and 32 tranches of negotiable certificates of deposit issued by the Bank have not yet expired, the balances of which were RMB58.38 billion and RMB24.39 billion respectively, with a time limit of 1 month to 1 year.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

30. Other liabilities

	Group	
	30 June 2017	31 December 2016
Interest payable (a)	5,037,253	4,524,786
Wealth management products payable	14,492	8,084
Settlement and clearing accounts	1,095,764	564,660
Account payable from agency services	142,326	121,532
Salaries, bonuses, allowances and subsidies payable (b)	311,872	584,079
Sundry tax payables	221,844	239,838
Deferred revenue (c)	501,653	646,987
Dividends payable	33,126	36,521
Accrued expenses	38,412	41,554
Lease guarantee fee	918,973	916,860
Other payables	722,902	948,934
	9,038,617	8,633,835

(a) Interest payable

	Group	
	30 June 2017	31 December 2016
Due to banks	1,536,327	911,709
Due to customers	3,348,695	3,244,652
Repurchase agreements	–	3,092
Bonds payable	152,231	365,333
	5,037,253	4,524,786

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

30. Other liabilities (Continued)

(b) Salaries, bonuses, allowances and subsidies payable

	Group	
	30 June 2017	31 December 2016
Salaries, bonuses and allowances	265,732	546,054
Social insurance	13,497	6,075
Housing fund	5,380	3,555
Labour union expenditure and education costs	11,152	9,839
Early retirement benefits	16,111	18,556
	311,872	584,079

(c) Deferred revenue

Deferred revenue consists mainly of deferred revenue from the provision of intermediary services. Deferred revenue will be recognised in the next few years in accordance with the corresponding amortisation expense that is charged to statement of income.

	Group	
	30 June 2017	31 December 2016
Intermediary services	501,653	646,985
Others	–	2
	501,653	646,987

31. Share capital

	Bank			
	2017		2016	
	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
Changes in current period/year	–	–	–	–
As at 30 June 2017/31 December 2016	10,995,600	10,995,600	10,995,600	10,995,600

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

32. Capital reserve

	Share premium	Other capital reserve	Total
At 1 January 2016	7,624,993	10,716	7,635,709
Increase during the year	–	–	–
Decrease during the year	–	–	–
At 31 December 2016	7,624,993	10,716	7,635,709
Increase during the period	–	1,158	1,158
Decrease during the period	–	–	–
At 30 June 2017	7,624,993	11,874	7,636,867

33. Surplus reserves

	Statutory surplus reserve	Discretionary surplus reserve	Total
At 1 January 2016	1,931,550	26,186	1,957,736
Appropriation during the year	451,995	–	451,995
At 31 December 2016	2,383,545	26,186	2,409,731
Appropriation during the period	–	–	–
At 30 June 2017	2,383,545	26,186	2,409,731

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after this capitalisation is not less than 25% of the registered capital immediately before capitalisation.

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year determined under PRC GAAP to the discretionary surplus reserve upon approval by the shareholders in general meetings. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

34. General and regulatory reserves

	30 June 2017	31 December 2016
Balance as at the beginning of the period/year	5,481,049	4,064,056
Increase during the period/year	1,269,266	1,416,993
Balance as at the end of the period/year	6,750,315	5,481,049

From 1 July 2012, according to the requirements of the Ministry of Finance ("MOF"), the Group is required to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year ending balance of its risk assets.

35. Undistributed profits

	30 June 2017	31 December 2016
Balance as at the beginning of the period/year	10,014,136	8,183,051
Profit for the period/year attributable to owners of the parent	2,659,693	4,876,602
Net of :		
Appropriation to surplus reserves	–	451,995
Appropriation to general and regulatory reserves	1,269,266	1,416,993
Dividends	–	1,176,529
Balance as at the end of the period/year	11,404,563	10,014,136

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

An ordinary share dividend of RMB0.107 per share in respect of the profit for the year ended 31 December 2015 was approved by the equity holders of the Group at the Annual General Meeting held in May 2016 and was distributed during the year.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

36. Components of other comprehensive income

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

	Group	
	For the six month period ended 30 June	
	2017	2016
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income	(267,501)	(85,791)
Transfer to statement of income arising from disposal	5,088	4,994
Income tax effect	65,604	20,200
	(196,809)	(60,597)
Share of other comprehensive income of an associate	–	(29,492)
	(196,809)	(90,089)

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

	2017	Changes	2017
	1 January	during the period	30 June
Share of other comprehensive income of an associate to be reclassified to profit or loss subsequently under the equity method	64,860	–	64,860
Changes in fair value of available-for-sale financial assets	(93,277)	(196,809)	(290,086)
	(28,417)	(196,809)	(225,226)

	2016	Changes	2016
	1 January	during the year	31 December
Share of other comprehensive income of an associate to be reclassified to profit or loss subsequently under the equity method	77,516	(12,656)	64,860
Changes in fair value of available-for-sale financial assets	185,933	(279,210)	(93,277)
	263,449	(291,866)	(28,417)

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

37. Cash and cash equivalents

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

	Group	
	30 June 2017	30 June 2016
Cash on hand (note 13)	692,844	659,948
Balances with the central bank (note 13)	12,978,567	31,744,470
Due from banks and other financial institutions	9,099,770	11,933,699
Reverse repurchase agreements	14,518,900	3,251,696
	37,290,081	47,589,813

38. Commitments and contingent liabilities

(a) Capital commitments

The Group had capital commitments as follows:

	Group	
	30 June 2017	31 December 2016
Contracted, but not provided	817,386	894,189
	817,386	894,189

(b) Operating lease commitments

Operating lease commitments – Lessee

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

	Group	
	30 June 2017	31 December 2016
Within one year	249,775	240,585
After one year but not more than five years	665,426	667,559
After five years	133,678	145,150
	1,048,879	1,053,294

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

38. Commitments and contingent liabilities (Continued)

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of undrawn credit card limit are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and 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.

	Group	
	30 June 2017	31 December 2016
Bank bill acceptance	41,296,894	54,882,985
Letters of guarantee issued	9,247,286	8,504,659
Letters of credit	5,675,245	5,460,144
Undrawn credit card limits	7,071,759	4,152,494
	63,291,184	73,000,282

(d) Legal proceedings

As at 30 June 2017 and 31 December 2016, significant legal proceedings exceed RMB10,000 thousand outstanding against the Group amounted to RMB60,000 thousand and RMB50,000 thousand respectively. Management expects that there will be no loss caused by these litigations and no provisions need to be made.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

38. Commitments and contingent liabilities *(Continued)*

(e) Redemption commitments of government bonds

As an underwriting agent of the government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank 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 30 June 2017, the Bank had underwritten and sold bonds with an accumulated amount of RMB2,875 million (31 December 2016: RMB2,986 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

(f) Risk fund rescue obligation

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

(g) Assets pledged as security

Financial assets of the Group including debt securities and bills have been pledged as security for liabilities or contingent liabilities which mainly arise from repurchase agreements and negotiated deposits. As at 30 June 2017, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB4,947 million (31 December 2016: approximately RMB17,663 million).

39. Fiduciary activities

	Group	
	30 June 2017	31 December 2016
Designated funds	6,700,370	7,044,027
Designated loans	6,700,370	7,044,027

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

40. Transfers of financial assets

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

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase. The counterparties are allowed to sell or repledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognised a financial liability for cash received as collateral.

As at 30 June 2017 and 31 December 2016, none of the above-mentioned financial assets was transferred to third parties while that did not qualify for derecognition.

Securitisation transactions

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. The Group may acquire some subordinated tranches of securities and accordingly may retain part of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

As at 30 June 2017, the Group derecognised the transferred credit assets in their entirety in the securitisation transactions. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB73,548 thousand as at 30 June 2017 (31 December 2016: RMB33,473 thousand), which also approximates to the Group's maximum exposure to loss.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

41. Interests in unconsolidated structured entities

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

41.1 Unconsolidated structured entities managed by the Group

(1) *Wealth management products*

When conducting wealth management businesses, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 30 June 2017, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB62,658 million (31 December 2016: RMB59,539 million). For the six month period ended 30 June 2017, fee and commission income included commission and custodian fee and management fee income from wealth management business that amounted to RMB271,152 thousand (for the six month period ended 30 June 2016: RMB196,012 thousand).

During the six month period ended 30 June 2017, the Group did not provide any financing to the unconsolidated wealth management products (for the six month period ended 30 June 2016: Nil).

(2) *Asset securitisation business*

Another type of structured entity managed by the Group but not yet consolidated is the special purpose trust set up by the third trust company due to the Group's asset securitisation transactions. The Group acts as the loan service agency of the special purpose trust and charges the corresponding fees and commissions. The Group believes that its variable returns on this structured entity are not significant.

The total carrying amount as at the transfer date of credit assets transferred by the Group into the special purpose trust was RMB5,621,844 thousand for the period ended 30 June 2017 (2016: RMB2,257,307 thousand).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

41. Interests in unconsolidated structured entities (Continued)

41.2 Structured entities sponsored by other financial institutions

The Group invested some structured entities which are out of consolidation scope, issued and managed by other institutions, and recognised its investment income. These structured entities mainly include the financial product, specific asset management plan, investment trust plan, etc. These structured entities' nature and purpose are earning management fee by managing the investors' assets, and the way of financing is to issue investment products to investors. For the six months ended 30 June 2017 and the year ended 31 December 2016, the Group has not provided liquidity support for those kinds of structured entities.

As at 30 June 2017, the interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out below:

	As at 30 June 2017			
	Available-for-sale financial assets	Debt instruments classified as receivables	Total	Maximum exposure to loss
Wealth management products	600,000	–	600,000	600,000
Investment trusts and asset management plans	–	152,093,181	152,093,181	149,794,059
Funds	1,026,696	–	1,026,696	1,026,696

	As at 31 December 2016			
	Available-for-sale financial assets	Debt instruments classified as receivables	Total	Maximum exposure to loss
Wealth management products	352,270	–	352,270	352,270
Investment trusts and asset management plans	–	144,117,354	144,117,354	142,279,232
Funds	26,696	–	26,696	26,696

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

42. 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	
	30 June 2017	31 December 2016
	%	%
Harbin Economic Development and Investment Company	19.65	19.65
Fubon Life Insurance Company Limited	7.03	7.03
Harbin Kechuang Xingye Investment Company Limited	6.55	6.55
Heilongjiang Keruan Software Technology Company Limited	6.55	6.55
Heilongjiang Xin Yongsheng Trading Company Limited	5.82	5.82
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	5.20	5.20

(ii) Subsidiaries of the Bank

Details of the subsidiaries of the Bank are set out in note 1 Corporate Information and Group Structure.

(iii) Associate

As at 30 June 2017 and 31 December 2016, the Group has classified its investment in Huaxing Bank as an asset held for sale disclosed in note 23 to the consolidated financial statements.

(iv) Key management personnel of the Group and their close family members.

(v) Entities controlled or jointly controlled or significantly influenced by the key management personnel of the Group and their close family members.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

42. Related party disclosures (Continued)

(b) Related party transactions

1. Transactions between the Group and related parties

- (i) Transactions between the Group and shareholders of the Group with ownership of 5% or above

Deposit interest expense

Name	For the six month period ended 30 June	
	2017	2016
Harbin Economic Development and Investment Company	8,004.61	0.02
Heilongjiang Xin Yongsheng Trading Company Limited	7.54	3.24
Heilongjiang Tiandi Yuan Network Technology Company Limited	31.88	8.53

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

Name	For the six month period ended 30 June	
	2017	2016
Loan interest income	545	331
Deposit interest expense	34	11

- (iii) Transactions between the Bank and its subsidiaries

Name	For the six month period ended 30 June	
	2017	2016
Interest income	19,219	64,707
Interest expense	24,002	688

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

42. Related party disclosures (Continued)

(b) Related party transactions (Continued)

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

(iv) Transactions between the Group and its associates

Name	For the six month period ended 30 June	
	2017	2016
Interest income on reverse repurchase agreements	8	–

(v) Transactions between the Group and entities that are controlled or jointly controlled or significantly influenced by the key management personnel of the Group or their close family members.

Deposit interest expense

Name	For the six month period ended 30 June	
	2017	2016
Dalian Port Company Limited	1,561	–
Huaxia Life Insurance Company Limited (i)	44,758	–

- (i) On 13 October 2016, Peng Xiaodong was elected as a non-executive Director of the Bank, who is also served as the Board Secretary of Huaxia Life Insurance Company Limited.

Commission income

Name	For the six month period ended 30 June	
	2017	2016
Da Cheng Fund Management Company Limited (ii)	767	30

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

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

42. Related party disclosures (Continued)

(b) Related party transactions (Continued)

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

(vi) Transactions with other related parties

Name	For the six month period ended 30 June	
	2017	2016
Emoluments of key management personnel and their close family members	12,228	15,860

In view of the management of the Group, the transactions with the above related parties were conducted based on general business terms and conditions, general market prices for the pricing and according to the normal business procedures.

2. Balances with related parties

(i) Balances between the Group and shareholders of the Group with ownership of 5% or above

Deposits

Name	30 June 2017	31 December 2016
Harbin Economic Development and Investment Company	2,008,732	1,000,728
Heilongjiang Xin Yongsheng Trading Company Limited	424	232
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	234	504

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

Name	30 June 2017	31 December 2016
Loans	27,108	31,660
Deposits	12,578	10,585

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

42. Related party disclosures (Continued)

(b) Related party transactions (Continued)

2. Balances with related parties (Continued)

(iii) Balances between the Group and its subsidiaries

	30 June	31 December
Name	2017	2016
Due from banks	630,000	480,000
Due to banks	3,362,773	3,330,893
Interest receivable	1,198	615
Interest payable	10,297	6,048
Placements with banks	30,000	–
Other assets	9,019	–
Deposits	362,568	20,587

(iv) Balances between the Group and entities that are controlled or jointly controlled or significantly influenced by the key management personnel of the Group or their close family members.

Deposits

	30 June	31 December
Name	2017	2016
Dalian Port Company Limited	200,016	240,000
Huaxia Life Insurance Company Limited (i)	5,000,000	5,000,000

- (i) On 13 October 2016, Peng Xiaodong was elected as a non-executive Director of the Bank, who is also served as the Board Secretary of Huaxia Life Insurance Company Limited.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

43. Segment information

(a) Operating segments

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

Corporate financial business

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

Retail financial business

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

Interbank financial business

Interbank financial business covers 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 lending and deposit rates and interbank market rates announced by the People's Bank of China. Expenses are distributed among different segments according to their benefits.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

43. Segment information (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
<u>Six months ended 30 June 2017</u>					
External net interest income	644,058	2,488,543	3,191,573	–	6,324,174
Internal net interest income/(expense)	1,445,397	(336,202)	(1,109,195)	–	–
Net fee and commission income	233,806	131,946	847,240	–	1,212,992
Other income/(loss), net (i)	(66,808)	–	(50,164)	51,891	(65,081)
Operating income	2,256,453	2,284,287	2,879,454	51,891	7,472,085
Operating expenses	(609,056)	(438,945)	(781,934)	(28,654)	(1,858,589)
Impairment losses on:					
Loans and advances to customers	(669,894)	(769,947)	–	–	(1,439,841)
Other	(71,323)	–	(461,000)	–	(532,323)
Operating profit	906,180	1,075,395	1,636,520	23,237	3,641,332
Profit before tax	906,180	1,075,395	1,636,520	23,237	3,641,332
Income tax expense					(952,096)
Profit for the period					2,689,236
Other segment information:					
Depreciation and amortisation	88,811	64,005	115,504	935	269,255
Capital expenditure	61,853	44,577	80,445	653	187,528
<u>As at 30 June 2017</u>					
Segment assets	160,378,987	139,065,982	245,758,644	1,723,473	546,927,086
Segment liabilities	230,916,014	120,081,887	154,812,128	1,061,996	506,872,025
Other segment information:					
Credit commitments	56,219,425	7,071,759	180,000	–	63,471,184

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

43. Segment information (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
<u>Six months ended 30 June 2016</u>					
External net interest income	864,060	1,401,370	3,147,827	–	5,413,257
Internal net interest income/(expense)	1,520,730	281,958	(1,802,688)	–	–
Net fee and commission income	172,554	77,202	1,013,049	–	1,262,805
Other income, net (i)	96,263	–	28,558	58,647	183,468
Operating income	2,653,607	1,760,530	2,386,746	58,647	6,859,530
Operating expenses	(893,630)	(506,087)	(629,132)	(35,939)	(2,064,788)
Impairment losses on:					
Loans and advances to customers	(450,335)	(697,098)	–	–	(1,147,433)
Other	(62,329)	–	(481,492)	–	(543,821)
Operating profit	1,247,313	557,345	1,276,122	22,708	3,103,488
Share of profits of an associate	–	–	–	59,575	59,575
Profit before tax	1,247,313	557,345	1,276,122	82,283	3,163,063
Income tax expense					(703,783)
Profit for the period					2,459,280
Other segment information:					
Depreciation and amortisation	108,080	60,288	84,647	2,521	255,536
Capital expenditure	81,668	45,556	63,962	1,905	193,091
<u>As at 30 June 2016</u>					
Segment assets	166,438,960	106,600,578	203,032,202	1,893,544	477,965,284
Segment liabilities	231,127,691	106,700,200	102,504,258	2,599,283	442,931,432
Other segment information:					
Credit commitments	64,991,576	2,024,128	180,000	–	67,195,704

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

43. 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 as well as village and township banks, Harbin Bank Financial Leasing Co., Ltd. and Harbin Bank Consumer Finance Co., Ltd. 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 and mainly located in Beijing and Tianjin.
Other regions:	Including village and township banks operating in regions other than those listed above.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

43 Segment information (Continued)

(b) Geographical information (Continued)

	Mainland China					
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	Total
<u>Six months ended 30 June 2017</u>						
External net interest income	5,247,885	133,659	480,438	280,547	181,645	6,324,174
Internal net interest income/(expense)	(1,008,580)	400,977	532,136	75,349	118	–
Net fee and commission income	900,106	101,262	75,448	123,765	12,411	1,212,992
Other income, net (i)	(95,063)	91	27,079	1,708	1,104	(65,081)
Operating income	5,044,348	635,989	1,115,101	481,369	195,278	7,472,085
Operating expenses	(1,257,551)	(165,299)	(237,518)	(111,196)	(87,025)	(1,858,589)
Impairment losses on:						
Loans and advances to customers	(928,728)	(159,717)	(240,460)	(71,559)	(39,377)	(1,439,841)
Other	(532,323)	–	–	–	–	(532,323)
Operating profit	2,325,746	310,973	637,123	298,614	68,876	3,641,332
Profit before tax	2,325,746	310,973	637,123	298,614	68,876	3,641,332
Income tax expense						(952,096)
Profit for the period						2,689,236
Other segment information:						
Depreciation and amortisation	201,563	15,360	43,716	4,664	3,952	269,255
Capital expenditure	126,532	14,261	27,306	14,555	4,874	187,528
<u>As at 30 June 2017</u>						
Segment assets	407,290,062	49,481,856	52,271,817	27,052,157	10,831,194	546,927,086
Segment liabilities	308,987,217	67,489,149	70,825,080	49,954,128	9,616,451	506,872,025
Other segment information:						
Credit commitments	19,634,656	12,427,182	12,452,097	11,761,335	7,195,914	63,471,184

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

43. Segment information (Continued)

(b) Geographical information (Continued)

	Mainland China					
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	Total
<u>Six months ended 30 June 2016</u>						
External net interest income	4,093,629	104,089	822,831	224,202	168,506	5,413,257
Internal net interest income/(expense)	(233,921)	303,774	(136,425)	65,037	1,535	–
Net fee and commission income	880,433	59,237	236,324	73,671	13,140	1,262,805
Other income, net (i)	147,391	223	20,322	5,259	10,273	183,468
Operating income	4,887,532	467,323	943,052	368,169	193,454	6,859,530
Operating expenses	(1,396,385)	(184,485)	(294,079)	(125,085)	(64,754)	(2,064,788)
Impairment losses on:						
Loans and advances to customers	(779,818)	(101,747)	(131,797)	(96,987)	(37,084)	(1,147,433)
Other	(543,821)	–	–	–	–	(543,821)
Operating profit	2,167,508	181,091	517,176	146,097	91,616	3,103,488
Share of profits of an associate	59,575	–	–	–	–	59,575
Profit before tax	2,227,083	181,091	517,176	146,097	91,616	3,163,063
Income tax expense						(703,783)
Profit for the period						2,459,280
Other segment information:						
Depreciation and amortisation	192,646	15,323	37,407	5,104	5,056	255,536
Capital expenditure	138,588	13,149	25,983	10,216	5,155	193,091
<u>As at 30 June 2016</u>						
Segment assets	344,970,787	34,491,319	67,819,746	21,231,250	9,452,182	477,965,284
Segment liabilities	265,933,187	55,853,526	82,557,455	30,111,078	8,476,186	442,931,432
Other segment information:						
Credit commitments	7,452,460	23,223,501	19,221,680	10,312,360	6,985,703	67,195,704

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management

(a) Credit risk

(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:

	Group	
	30 June 2017	31 December 2016
Balances with the central bank	54,438,940	66,164,998
Due from banks and other financial institutions	16,138,458	34,000,064
Financial assets held for trading	1,315,900	1,704,229
Reverse repurchase agreements	14,518,900	14,538,618
Loans and advances to customers	219,637,557	196,488,246
Derivative financial assets	209	70,775
Financial investments		
– Debt instruments classified as receivables	149,876,944	142,354,860
– Held-to-maturity investments	29,681,858	30,500,981
– Available-for-sale financial assets	25,581,206	17,572,728
Finance lease receivables	15,548,429	15,096,318
Others	7,160,167	7,460,386
	533,898,568	525,952,203
Credit commitments	63,471,184	73,180,282
Total maximum credit risk exposure	597,369,752	599,132,485

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(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(ii) Risk concentrations

By industry distribution

The credit risk exposures of the Group mainly comprise loans and advances to customers, finance lease receivables and investments in debt securities. Details of the composition of the Group's investments in debt securities are set out in note 44(a)(v) to the interim financial information. The composition of the Group's gross loans and advances to customers by industry is analysed as follows:

	Group	
	30 June 2017	31 December 2016
Agriculture, forestry, animal husbandry and fishing	2,949,310	2,847,544
Mining	343,809	305,600
Manufacturing	12,422,547	11,604,372
Production and supply of electricity, gas and water	3,882,019	3,892,347
Construction	5,997,391	4,228,498
Transportation, storage and postal services	3,369,526	1,840,510
Information transmission, computer services and software	920,285	1,101,464
Commercial trade	27,930,914	30,356,637
Lodging and catering	3,159,060	2,511,497
Finance	15,380	51,320
Real estate	13,938,386	14,062,830
Leasing and commercial services	17,685,984	15,659,477
Scientific research, technological services and geological prospecting	392,210	425,050
Water, environment and public utility management and investment industry	8,573,331	3,044,832
Resident services and other services	396,317	508,467
Education	448,531	384,940
Health, social security and social welfare	1,109,375	1,382,254
Culture, sports and entertainment	483,500	392,050
Public administration and social organisations	425,000	425,000
Subtotal for corporate loans and advances	104,442,875	95,024,689
Personal loans:		
Personal business	27,971,819	26,768,088
Personal consumption	79,605,114	69,405,062
Loans to farmers	13,224,914	9,620,216
Subtotal for personal loans	120,801,847	105,793,366
Discounted bills	660,973	809,878
Total for loans and advances to customers	225,905,695	201,627,933

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

	Group	
	30 June 2017	31 December 2016
Neither past due nor impaired	214,357,816	194,313,194
Past due but not impaired	7,827,670	4,232,760
Impaired	3,720,209	3,081,979
	225,905,695	201,627,933
Less: Allowance for impairment losses		
Collectively assessed	(5,227,707)	(4,366,467)
Individually assessed	(1,040,431)	(773,220)
	(6,268,138)	(5,139,687)
	219,637,557	196,488,246

Neither past due nor impaired

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.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the reporting period:

Group

	30 June 2017		
	Pass	Special mention	Total
Unsecured loans	41,475,646	11,853	41,487,499
Guaranteed loans	51,586,622	343,598	51,930,220
Loans secured by mortgages	95,719,331	1,002,242	96,721,573
Pledged loans	24,173,739	44,785	24,218,524
	212,955,338	1,402,478	214,357,816

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers

Neither past due nor impaired (Continued)

Group (Continued)

	31 December 2016		
	Pass	Special mention	Total
Unsecured loans	37,411,541	1,291,121	38,702,662
Guaranteed loans	46,508,737	1,060,380	47,569,117
Loans secured by mortgages	90,923,620	991,202	91,914,822
Pledged loans	16,126,593	–	16,126,593
	190,970,491	3,342,703	194,313,194

Past due but not impaired

The following tables present the ageing analysis of each type of loans and advances to customers of the Group that are subject to credit risk which are past due but not impaired as at the end of the reporting period:

Group

	30 June 2017		
	Corporate loans and advances	Personal loans	Total
Past due for :			
Less than one month	2,842,404	979,534	3,821,938
One to two months	932,384	639,799	1,572,183
Two to three months	1,362,586	530,799	1,893,385
Over three months	289,820	250,344	540,164
	5,427,194	2,400,476	7,827,670
Fair value of collateral held	8,151,798	1,481,489	9,633,287

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(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers

Past due but not impaired (Continued)

Group (Continued)

	31 December 2016		
	Corporate loans and advances	Personal loans	Total
Past due for :			
Less than one month	1,800,403	388,794	2,189,197
One to two months	864,839	240,029	1,104,868
Two to three months	549,120	207,006	756,126
Over three months	75,735	106,834	182,569
	3,290,097	942,663	4,232,760
Fair value of collateral held	6,643,079	1,595,758	8,238,837

Impaired

Impaired loans and advances are defined as 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.

The fair values of collateral that the Group holds relating to loans individually determined to be impaired as at 30 June 2017 amounted to RMB2,191,977 thousand (31 December 2016: RMB1,794,395 thousand). The collateral mainly consists of land, buildings, equipment and others.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(iv) Financial lease receivables

	Group	
	30 June 2017	31 December 2016
The lease amount		
Neither past due nor impaired	15,420,150	14,896,716
Past due but not impaired	–	385,981
Impaired	385,981	–
Subtotal	15,806,131	15,282,697
Less: Allowance for impairment losses	(257,702)	(186,379)
Net amount	15,548,429	15,096,318

(v) Debt securities

The credit risk of debt securities mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities by types of issuers and investments:

Group

	30 June 2017				
	Debt instruments classified as receivables	Held-to- maturity investments	Available- for-sale financial assets	Financial assets held for trading	Total
Neither past due nor impaired					
Government and the central bank	82,885	5,919,772	5,716,964	836,586	12,556,207
Policy banks	–	14,589,120	15,606,478	378,980	30,574,578
Banks and other financial institutions	–	5,164,958	2,775,332	–	7,940,290
Corporate entities	149,587,806	4,008,008	1,482,432	80,334	155,158,580
Subtotal	149,670,691	29,681,858	25,581,206	1,295,900	206,229,655
Past due but not impaired					
Corporate entities	336,490	–	–	–	336,490
Subtotal	336,490	–	–	–	336,490
Impaired					
Corporate entities	2,168,885	–	–	20,000	2,188,885
Subtotal	2,168,885	–	–	20,000	2,188,885
Less: Allowance for impairment losses	(2,299,122)	–	–	–	(2,299,122)
Total	149,876,944	29,681,858	25,581,206	1,315,900	206,455,908

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Debt securities (Continued)

Group (Continued)

	31 December 2016				
	Debt instruments classified as receivables	Held-to- maturity investments	Available- for-sale financial assets	Financial assets held for trading	Total
Neither past due nor impaired					
Governments and the central bank	75,628	5,632,680	1,517,277	849,497	8,075,082
Policy banks	–	18,339,311	14,051,106	753,602	33,144,019
Banks and other financial institutions	–	3,555,900	1,480,667	–	5,036,567
Corporate entities	143,061,020	2,973,090	523,678	81,130	146,638,918
Subtotal	143,136,648	30,500,981	17,572,728	1,684,229	192,894,586
Past due but not impaired					
Corporate entities	209,392	–	–	–	209,392
Subtotal	209,392	–	–	–	209,392
Impaired					
Corporate entities	846,942	–	–	20,000	866,942
Subtotal	846,942	–	–	20,000	866,942
Less: Allowance for impairment losses	(1,838,122)	–	–	–	(1,838,122)
Total	142,354,860	30,500,981	17,572,728	1,704,229	192,132,798

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(b) Liquidity risk

(i) 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.

Group

30 June 2017

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows								
Financial assets:								
Cash and balances with the central bank	13,671,412	-	-	-	-	-	41,460,372	55,131,784
Due from banks and other financial institutions (*)	6,711,321	17,426,997	1,589,401	4,830,272	324,200	-	-	30,882,191
Financial assets held for trading	-	18,678	17,845	60,245	677,567	836,087	20,000	1,630,422
Loans and advances to customers	-	10,872,444	17,591,430	83,744,917	70,970,037	90,889,573	10,746,443	284,814,844
Financial investments	-	12,254,512	18,412,558	47,395,388	118,520,327	35,567,556	1,831,949	233,982,290
Finance lease receivables	-	417,220	787,245	4,546,963	10,818,131	184,093	316,505	17,070,157
Other financial assets	270,399	3,074,231	5,734	40,127	90,343	13,269	-	3,494,103
Total financial assets	20,653,132	44,064,082	38,404,213	140,617,912	201,400,605	127,490,578	54,375,269	627,005,791

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(b) Liquidity risk (Continued)

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

Group (Continued)

30 June 2017

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/Undated	Total
Financial liabilities:								
Due to the central bank	-	17,620	103,762	395,360	-	-	-	516,742
Borrowings from banks and other financial institutions	-	1,697,850	3,384,942	6,898,892	899,334	-	-	12,881,018
Due to banks (**)	26,058	2,089,626	20,489,924	38,769,261	1,618,933	-	-	62,993,802
Due to customers	142,089,889	12,451,387	43,508,912	106,968,420	50,006,114	1,990,313	-	357,015,035
Debt securities issued	-	6,775,000	20,220,000	38,810,000	7,280,000	9,280,000	-	82,365,000
Other financial liabilities	632,216	59,398	121,086	1,344,582	779,429	930	-	2,937,641
Total financial liabilities	142,748,163	23,090,881	87,828,626	193,186,515	60,583,810	11,271,243	-	518,709,238
Net position	(122,095,031)	20,973,201	(49,424,413)	(52,568,603)	140,816,795	116,219,335	54,375,269	108,296,553
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	-	-	-	989,164	-	-	-	989,164
Total outflow	-	-	-	(999,439)	-	-	-	(999,439)
Credit commitments	7,071,759	2,823,282	13,924,167	36,177,748	2,794,228	500,000	180,000	63,471,184

(*) Includes reverse repurchase agreements

(**) Includes repurchase agreements

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(b) Liquidity risk (Continued)

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

Group (Continued)

31 December 2016

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows								
Financial assets:								
Cash and balances with the Central Bank	28,214,641	-	-	-	-	-	38,795,695	67,010,336
Due from banks and other financial institutions (*)	2,472,818	18,235,274	12,957,555	14,515,838	936,064	-	-	49,117,549
Financial assets held for trading	-	16,639	106,510	383,815	597,341	913,338	20,000	2,037,643
Loans and advances to customers	-	9,432,344	16,181,120	71,631,678	72,680,361	77,628,918	6,145,597	253,700,018
Financial investments	-	10,756,088	14,730,711	65,735,214	95,238,294	26,233,567	700,149	213,394,023
Finance lease receivables	-	252,380	650,695	4,002,398	11,398,488	208,290	385,981	16,898,232
Other financial assets	116,371	3,616,813	16,286	90,172	14,674	13,031	-	3,867,347
Total financial assets	30,803,830	42,309,538	44,642,877	156,359,115	180,865,222	104,997,144	46,047,422	606,025,148

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(b) Liquidity risk (Continued)

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

Group (Continued)

31 December 2016

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Financial liabilities:								
Due to the central bank	-	1,031	31,879	482,103	-	-	-	515,013
Borrowings from banks and other financial institutions	-	40,978	2,272,311	9,183,426	1,209,338	-	-	12,706,053
Due to banks (**)	266,687	15,327,958	5,528,010	73,905,686	1,667,200	-	-	96,695,541
Due to customers	147,347,062	24,262,237	30,690,799	105,237,051	43,636,338	2,181,718	-	353,355,205
Debt securities issued	-	1,070,000	2,300,000	26,858,750	6,518,000	9,600,000	-	46,346,750
Other financial liabilities	520,893	18,081	63,250	829,272	1,165,537	8,756	-	2,605,789
Total financial liabilities	148,134,642	40,720,285	40,886,249	216,496,288	54,196,413	11,790,474	-	512,224,351
Net position	(117,330,812)	1,589,253	3,756,628	(60,137,173)	126,668,809	93,206,670	46,047,422	93,800,797
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	-	-	102,250	3,093,376	-	-	-	3,195,626
Total outflow	-	-	(102,092)	(3,113,152)	-	-	-	(3,215,244)
Credit commitments	4,152,494	5,466,434	7,859,952	53,360,065	2,158,050	3,287	180,000	73,180,282

(*) Includes reverse repurchase agreements

(**) Includes repurchase agreements

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. 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.

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

Group

Currency	Change in rate	Effect on profit before tax	
		30 June 2017	31 December 2016
USD	-1%	(21,734)	(20,733)
HKD	-1%	100	191
RUB	-1%	(696)	(678)

While the table above indicates the effect on profit before tax of 1% depreciation of USD, HKD and RUB, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

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

Group

30 June 2017

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	RUB (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Financial assets:						
Cash and balances with the central bank	54,640,170	481,369	1,182	6,421	2,642	55,131,784
Due from banks and other financial institutions	13,595,810	2,316,406	25,444	86,307	114,491	16,138,458
Financial assets held for trading	1,315,900	-	-	-	-	1,315,900
Derivative financial assets	209	-	-	-	-	209
Reverse repurchase agreements	14,518,900	-	-	-	-	14,518,900
Loans and advances to customers	218,670,434	815,124	-	-	151,999	219,637,557
Financial investments	205,140,008	-	-	-	-	205,140,008
Finance lease receivables	15,548,429	-	-	-	-	15,548,429
Other financial assets	7,121,503	38,661	-	-	3	7,160,167
Total financial assets	530,551,363	3,651,560	26,626	92,728	269,135	534,591,412
Financial liabilities:						
Due to the central bank	510,689	-	-	-	-	510,689
Borrowings from banks and other financial institutions	12,489,108	-	-	-	-	12,489,108
Due to banks	60,357,862	444,364	-	4,686	58,770	60,865,682
Derivative financial liabilities	-	10,484	-	-	-	10,484
Due to customers	343,770,490	1,015,025	1,217	18,433	96,063	344,901,228
Debt securities issued	78,372,254	-	-	-	-	78,372,254
Other financial liabilities	7,925,659	8,311	35,365	-	787	7,970,122
Total financial liabilities	503,426,062	1,478,184	36,582	23,119	155,620	505,119,567
Net position	27,125,301	2,173,376	(9,956)	69,609	113,515	29,471,845
Credit commitments	63,277,994	189,615	-	-	3,575	63,471,184

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. 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)

Group (Continued)

31 December 2016

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	RUB (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Financial assets:						
Cash and balances with						
the central bank	66,576,333	420,931	1,243	8,058	3,771	67,010,336
Due from banks and other financial						
institutions	31,955,867	1,858,016	17,403	74,680	94,098	34,000,064
Financial assets held for trading	1,704,229	–	–	–	–	1,704,229
Reverse repurchase agreements	14,538,618	–	–	–	–	14,538,618
Loans and advances to customers	194,343,854	2,118,137	–	–	26,255	196,488,246
Derivative financial assets	11	70,764	–	–	–	70,775
Financial investments	190,428,569	–	–	–	–	190,428,569
Finance lease receivables	15,096,318	–	–	–	–	15,096,318
Other financial assets	7,392,720	67,663	–	–	3	7,460,386
Total financial assets	522,036,519	4,535,511	18,646	82,738	124,127	526,797,541
Financial liabilities:						
Due to the central bank	506,960	–	–	–	–	506,960
Borrowings from banks and						
other institutions	12,382,462	–	–	–	–	12,382,462
Due to banks	78,239,586	2,233,171	–	4,440	36,108	80,513,305
Derivative financial liabilities	90,392	–	–	–	–	90,392
Repurchase agreements	13,694,050	–	–	–	–	13,694,050
Due to customers	342,830,678	217,151	1,257	10,510	91,438	343,151,034
Debt securities issued	41,883,393	–	–	–	–	41,883,393
Other financial liabilities	7,077,979	11,874	36,448	–	109	7,126,410
Total financial liabilities	496,705,500	2,462,196	37,705	14,950	127,655	499,348,006
Net position	25,331,019	2,073,315	(19,059)	67,788	(3,528)	27,449,535
Credit commitments	72,924,694	244,300	–	–	11,288	73,180,282

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk

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

Group

30 June 2017

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Financial assets:						
Cash and balances with the central bank	54,438,940	–	–	–	692,844	55,131,784
Due from banks and other financial institutions	11,107,786	4,720,108	310,564	–	–	16,138,458
Financial assets held for trading	–	20,076	513,049	762,775	20,000	1,315,900
Derivative financial assets	–	–	–	–	209	209
Reverse repurchase agreements	14,518,900	–	–	–	–	14,518,900
Loans and advances to customers	34,423,746	142,182,280	29,143,137	4,850,755	9,037,639	219,637,557
Financial investments	41,737,830	37,931,808	95,637,386	27,982,324	1,850,660	205,140,008
Finance lease receivables	15,231,924	–	–	–	316,505	15,548,429
Other financial assets	–	–	–	–	7,160,167	7,160,167
Total financial assets	171,459,126	184,854,272	125,604,136	33,595,854	19,078,024	534,591,412
Financial liabilities:						
Due to the central bank	118,547	392,142	–	–	–	510,689
Borrowings from other financial institutions	4,965,800	6,685,453	837,855	–	–	12,489,108
Due to banks	21,526,939	37,738,743	1,600,000	–	–	60,865,682
Derivative financial liabilities	–	–	–	–	10,484	10,484
Due to customers	195,298,389	102,495,963	45,630,437	1,235,969	240,470	344,901,228
Debt securities issued	26,800,423	37,576,796	5,996,767	7,998,268	–	78,372,254
Other financial liabilities	–	–	–	–	7,970,122	7,970,122
Total financial liabilities	248,710,098	184,889,097	54,065,059	9,234,237	8,221,076	505,119,567
Total interest sensitivity gap	(77,250,972)	(34,825)	71,539,077	24,361,617	N/A	N/A

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. 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)

Group (Continued)

31 December 2016

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Financial assets:						
Cash and balances with the central bank	66,164,998	–	–	–	845,338	67,010,336
Due from banks and other financial institutions	18,862,552	14,225,717	911,795	–	–	34,000,064
Financial assets held for trading	90,036	322,046	433,602	838,545	20,000	1,704,229
Reverse repurchase agreements	14,538,618	–	–	–	–	14,538,618
Loans and advances to customers	67,023,829	86,461,661	33,722,088	3,807,963	5,472,705	196,488,246
Financial investments	–	–	–	–	70,775	70,775
Derivative financial assets	34,631,700	53,412,998	79,897,710	21,780,405	705,756	190,428,569
Finance lease receivables	15,096,318	–	–	–	–	15,096,318
Other financial assets	–	–	–	–	7,460,386	7,460,386
Total financial assets	216,408,051	154,422,422	114,965,195	26,426,913	14,574,960	526,797,541
Financial liabilities:						
Due to the central bank	30,000	476,960	–	–	–	506,960
Borrowings from other financial institutions	2,200,000	9,072,400	1,110,062	–	–	12,382,462
Due to banks	6,375,708	72,537,597	1,600,000	–	–	80,513,305
Derivative financial liabilities	–	–	–	–	90,392	90,392
Repurchase agreements	13,694,050	–	–	–	–	13,694,050
Due to customers	199,813,995	102,092,542	39,581,461	1,405,143	257,893	343,151,034
Debt securities issued	3,359,814	25,529,890	4,995,896	7,997,793	–	41,883,393
Other financial liabilities	–	–	–	–	7,126,410	7,126,410
Total financial liabilities	225,473,567	209,709,389	47,287,419	9,402,936	7,474,695	499,348,006
Total interest sensitivity gap	(9,065,516)	(55,286,967)	67,677,776	17,023,977	N/A	N/A

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

44. 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, long-term subordinated bonds, etc.

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

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

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management *(Continued)*

(d) Capital management *(Continued)*

	Group	
	30 June 2017	31 December 2016
Core capital		
Qualified part of share capital	10,995,600	10,995,600
Qualified part of capital reserve	7,411,641	7,607,292
Surplus reserve and general reserve	9,160,046	7,890,780
Retained profits	11,404,563	10,014,136
Qualified part of non-controlling interests	423,698	492,080
Core tier 1 capital deductible items:		
Fully deductible items	(155,741)	(158,830)
Net core tier 1 capital	39,239,807	36,841,058
Net other tier 1 capital	56,493	43,309
Net tier 1 capital	39,296,300	36,884,367
Net tier 2 capital	10,532,636	10,343,023
Net capital	49,828,936	47,227,390
Total risk-weighted assets	414,683,055	394,614,936
Core tier 1 capital adequacy ratio	9.46%	9.34%
Tier 1 capital adequacy ratio	9.48%	9.35%
Capital adequacy ratio	12.02%	11.97%

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

45. 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 values of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Group

30 June 2017

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Derivative financial assets	–	209	–	209
Financial assets held for trading				
Debt securities	–	1,315,900	–	1,315,900
Available-for-sale financial assets				
Debt securities	–	23,954,510	–	23,954,510
Wealth management products	–	600,000	–	600,000
Funds	–	1,026,696	–	1,026,696
	–	25,581,206	–	25,581,206
Total financial assets	–	26,897,315	–	26,897,315
<u>Financial liabilities measured at fair value</u>				
Derivative financial liabilities	–	10,484	–	10,484
<u>Financial assets disclosed at fair value</u>				
Debt instruments classified as receivables	–	149,871,829	–	149,871,829
Held-to-maturity investments	–	29,175,428	–	29,175,428
	–	179,047,257	–	179,047,257
<u>Financial liabilities disclosed at fair value</u>				
Financial bonds	–	12,064,186	–	12,064,186
Tier 2 capital bonds	–	7,264,864	–	7,264,864
Negotiable certificates of deposit	–	58,370,826	–	58,370,826
	–	77,699,876	–	77,699,876

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

45. 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)

Group (Continued)

31 December 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Derivative financial assets	–	70,775	–	70,775
<u>Financial assets held for trading</u>				
Debt securities	–	1,704,229	–	1,704,229
<u>Available-for-sale financial assets</u>				
Debt securities	–	17,193,762	–	17,193,762
Wealth management products	–	352,270	–	352,270
Funds	–	26,696	–	26,696
	–	17,572,728	–	17,572,728
	–	19,347,732	–	19,347,732
<u>Financial assets measured at fair value</u>				
Derivative financial liabilities	–	90,392	–	90,392
<u>Financial assets disclosed at fair value</u>				
Debt instruments classified as receivables	–	142,352,152	–	142,352,152
Held-to-maturity investments	–	30,554,355	–	30,554,355
	–	172,906,507	–	172,906,507
<u>Financial liabilities disclosed at fair value</u>				
Financial bonds	–	9,661,698	–	9,661,698
Tier two capital bonds	–	7,957,504	–	7,957,504
Negotiable certificates of deposit	–	24,323,793	–	24,323,793
	–	41,942,995	–	41,942,995

Financial assets held for trading, available-for-sale financial assets and derivative financial instruments are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available, fair values are estimated on the basis of discounted cash flows or pricing models. For debt securities, the fair values of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

45. Fair value of financial instruments *(Continued)*

Determination of fair value and fair value hierarchy *(Continued)*

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

- (i) The debt instruments classified as receivables are not quoted in an active market. In the absence of any other relevant observable market, the fair values of debt instruments classified as receivables are estimated on the basis of pricing models or discounted cash flows.
- (ii) The fair values of held-to-maturity investments, Tier 2 capital bonds, financial bonds and negotiable certificates of deposit are determined with reference to the available market values. If quoted market prices are not available, fair values are estimated on the basis of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other financial institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Amount in thousands of RMB, unless otherwise stated)

46. Subsequent event

On 17 July 2017, Huaxing Bank got the approval from CBRC Guangdong province office designated as Yue Yin Jian Fu [2017] No.192 "Approval of Keenstar (the buyer)'s shareholder qualification". The CBRC agreed Keenstar to acquire the Bank's equity interest in Huaxing bank. This shareholding transfer should be completed within six months of obtaining the approval from the CBRC. On 19 July 2017, the Bank has completed the equity transfer procedures with Keenstar and received all the transfer price on 25 July 2017.

Up to the date of this auditor's report, the Bank has newly set up a subsidiary named Langzhong Rongxing Village and Township Bank Co., Ltd. ("Langzhong Rongxing"). On 4 July 2017, Langzhong Rongxing obtained its business licence from the Market Supervision Administration of Langzhong city, Sichuan Province, with registered capital of RMB50 million. The Bank holds a 90% stake in the company.

47. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current period's presentation.

48. Approval of the condensed consolidated interim financial information

The financial statements were approved and authorised for issue by the Board of Directors on 27 August 2017.

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

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

(a) Liquidity ratio

	30 June 2017	31 December 2016
RMB current assets to RMB current liabilities	48.84%	44.66%
Foreign currency current assets to foreign currency current liabilities	139.31%	94.18%

These liquidity ratios are calculated based on the relevant regulations imposed by the CBRC and Chinese accounting standards ("CAS").

(b) Currency concentrations

	USD	HKD	RUB	Others	Total
30 June 2017					
Spot assets	3,651,560	26,626	92,728	269,135	4,040,049
Spot liabilities	(1,478,184)	(36,582)	(23,119)	(155,620)	(1,693,505)
Forward purchases	494,477	–	–	–	494,477
Forward sales	(494,477)	–	–	–	(494,477)
Net long/(short) position	2,173,376	(9,956)	69,609	113,515	2,346,544
31 December 2016					
Spot assets	4,535,511	18,646	82,738	124,127	4,761,022
Spot liabilities	(2,462,196)	(37,705)	(14,950)	(127,655)	(2,642,506)
Forward purchases	1,643,000	–	–	–	1,643,000
Forward sales	(1,642,998)	–	–	–	(1,642,998)
Net long/(short) position	2,073,317	(19,059)	67,788	(3,528)	2,118,518

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

(c) Cross-border claims

The Group is principally engaged in business operations within Mainland China, and considers all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include amounts due from banks and other financial institutions.

A country or geographical area is reported where claims from which constitute 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	30 June 2017	31 December 2016
Due from banks and other financial institutions		
Asia Pacific excluding Mainland China	82,885	60,738
– of which attributed to Hong Kong	29,852	21,137
Europe	771,703	1,028,863
North America	514,307	306,419
Total	1,368,895	1,396,020

(d) Loans and advances to customers

(i) Overdue loans and advances to customers

	30 June 2017	31 December 2016
Amounts for overdue loans and advances to customers:		
Between 3 and 6 months	1,004,592	446,584
Between 6 and 12 months	1,206,363	1,102,431
Over 12 months	2,035,208	1,663,342
As a percentage of the total gross loans and advances to customers:		
Between 3 and 6 months	0.44%	0.22%
Between 6 and 12 months	0.53%	0.55%
Over 12 months	0.90%	0.82%
	1.87%	1.59%

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

(d) Loans and advances to customers *(Continued)*

(ii) Overdue and impaired loans and advances to customers by geographical distribution

	30 June 2017	31 December 2016
Amounts for overdue loans and advances to customers		
Heilongjiang region	4,753,055	3,627,355
Northeastern China	1,538,491	947,436
Southwestern China	3,719,222	1,983,609
Northern China	935,011	426,169
Other regions	596,840	302,228
	11,542,619	7,286,797

(e) Overdue from banks and other financial institutions

As at 30 June 2017, there were no overdue accounts from banks and other financial institutions in respect of principal or interest (31 December 2016: Nil).

(f) Overdue placements with banks and other financial institutions

As at 30 June 2017, there were no overdue placements with banks and other financial institutions in respect of principal or interest (31 December 2016: Nil).

(g) Exposures to Mainland China non-bank entities

	30 June 2017	31 December 2016
On-balance sheet exposure	234,536,851	211,910,526
Off-balance sheet exposure	63,471,184	73,180,282
Individually assessed allowance for impairment losses	1,794,101	1,141,368

In addition to those disclosed above, exposures to other non-bank counterparties outside Mainland China to which credit is granted for use 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. Full Text of Interim 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.
Guo Zhiwen
Chairman

Harbin, the PRC, 27 August 2017

As at the date of this announcement, the Board of Directors of the Bank comprises Guo Zhiwen, Liu Zhuo and Zhang Qiguang, as executive directors; Zhang Taoxuan, Chen Danyang, Cui Luanyi, Ma Pao-Lin and Peng Xiaodong, as non-executive directors; Zhang Shengping, He Ping, Du Qingchun, Wan Kam To and Kong Siu Chee, 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.*