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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 2021

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 2021. This results announcement, containing the full text of the 2021 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 financial statements for the six months ended 30 June 2021 prepared by the Group have been reviewed by BDO Limited 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 2021 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 and Insurance Regulatory Commission and has obtained the Business License (Unified Social Credit Code: 912301001275921118) approved by the Market Supervision and Administration Bureau of Harbin. The Company is not an authorised institution within the meaning of the Hong Kong Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking/deposit-taking business in Hong Kong.

Definitions

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

“Articles of Association”	the Articles of Association of Harbin Bank Co., Ltd.
“Board” or “Board of Directors”	the board of directors of the Company
“Board of Supervisors”	the board of supervisors of the Company
“CBIRC”/“CBRC”	the China Banking and Insurance Regulatory Commission/China Banking Regulatory Commission (before 17 March 2018)
“China” or “PRC”	the People’s Republic of China
“Company”	Harbin Bank Co., Ltd. (哈爾濱銀行股份有限公司), a joint stock company incorporated in the PRC on 25 July 1997 with limited liability in accordance with PRC laws
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Domestic Shares”	ordinary shares of a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for or credited as paid in RMB
“Group” or “Bank”	the Company and all of its subsidiaries and branches
“H Share(s)”	overseas-listed foreign invested ordinary shares of a nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Hong Kong Stock Exchange and subscribed and traded in Hong Kong dollars
“Harbin Economic Development”	Harbin Economic Development and Investment Company
“HBCF”	Harbin Bank Consumer Finance Co., Ltd.
“HB Leasing”	Harbin Bank Financial Leasing Co., Ltd.
“Heilongjiang Financial Holdings”	Heilongjiang Financial Holdings Group Co., Ltd.
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“PBOC” or “Central Bank”	the People’s Bank of China
“Reporting Period”	the six months ended 30 June 2021
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Supervisor(s)”	the supervisor(s) of the Company

Company Profile

Basic Information

Legal Chinese Name:

哈爾濱銀行股份有限公司(Abbreviation: 哈爾濱銀行)

English Name:

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

Legal Representative:

Deng Xinquan

Authorised Representatives for the Hong Kong Stock Exchange:

LYU Tianjun and SUN Feixia

Board Secretary:

SUN Feixia

Company Secretary:

SUN Feixia

Registered Address:

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

Place of Listing, Stock Name and Stock Code:

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

Corporate Unified Social Credit Code:

912301001275921118

Finance Permit Institution Number:

B0306H223010001

Date of Initial Registration:

25 July 1997

Initial Registration Authority:

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

Legal Adviser as to Laws of China:

Beijing Jun He Law Offices

Legal Adviser as to Laws of Hong Kong, China:

Clifford Chance LLP

Auditors:

Overseas auditor: BDO Limited

Domestic auditor: BDO China SHU LUN PAN Certified Public Accountants LLP

Hong Kong H Share Registrar and Transfer Office:

Computershare Hong Kong Investor Services Limited

Company Profile

Company Profile

The Company, headquartered in Harbin, was granted its finance permit to carry on financial business by the PBOC in February 1997, and obtained its corporate business license on 25 July 1997. At present, the Company has established 17 branches in Tianjin, Chongqing, Dalian, Shenyang, Chengdu, Harbin, Daqing, etc. and 32 village and township banks in 14 provinces and municipalities, including Beijing, Guangdong, Jiangsu, Jilin and Heilongjiang. The Company, as a controlling shareholder, has promoted the establishment of HB Leasing, the first financial leasing company in Northeastern China, and HBCF, the first consumer finance company in Heilongjiang Province, respectively. As at 30 June 2021, the Group had 390 business outlets with branches and sub-branches across seven administrative regions in China.

As at 30 June 2021, the Bank had total assets of RMB632.3138 billion, total loans and advances to customers of RMB294.3987 billion and total customers deposits of RMB489.4106 billion.

In the first half of 2021, the Bank was ranked 261st in “2021 Brand Finance Global 500” published by Brand Finance (a famous UK-based branded business valuation consulting firm), 204th in “Top 1000 World Banks 2021” according to The Banker of United Kingdom, and 32nd in the “2020 China Banking Top 100 List (2020年中國銀行業100強榜單)” published by China Banking Association. The Bank was awarded the 2020 Responsible Brand Award (2020年度責任品牌獎) in the “10th China Charity Festival (第十屆中國公益節)”, 2020 Charity Promotion Award (2020年度公益推動力大獎), 2020 Charitable Character Award (2020年度公益人物獎), the “2020 Good News in China Banking Industry” (2020年中國銀行業示範好新聞) awarded by the China Banking Association. The “Unified Intelligent Risk Control Platform” (統一智能風控平台) of the Bank won the 2021 China Outstanding Financial Digital Innovation Cases (中國優秀金融數字化創新案例) and other awards.

Major Subsidiaries

The details of major subsidiaries of the Company as at 30 June 2021 are as follows:

Company Name	Place of incorporation/ registration and operations Place in the PRC	Nominal value of issued share/paid-up capital RMB million	Ownership/ voting rights directly owned by the Company %	Amount invested by the Company RMB million
Bayan Rongxing Village and Township Bank Co., Ltd.	Bayan, Heilongjiang	50	100.00	53.4
Huining Huishi Village and Township Bank Co., Ltd.	Huining, Gansu	30	100.00	30
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	Huairou, Beijing	200	85.00	207.6
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30	100.00	30
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	220	70.00	140
Yanshou Rongxing Village and Township Bank Co., Ltd.	Yanshou, Heilongjiang	30	100.00	30
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	150	80.00	144.4
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80	75.00	60
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	270	99.63	269
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	253	100.00	253
Yanshi Rongxing Village and Township Bank Co., Ltd.	Yanshi, Henan	50	100.00	50
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	160	100.00	160
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	106	80.00	80
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30	100.00	30
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	55	80.00	40
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50	70.00	35

Company Profile

Company Name	Place of incorporation/ registration and operations Place in the PRC	Nominal value of issued share/paid-up capital RMB million	Ownership/ voting rights directly owned by the Company %	Amount invested by the Company RMB million
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	33.3	90.09	30
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	60	100.00	30
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	40	100.00	30
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50	100.00	50
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30	96.67	29
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100	80.00	80
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	50	100.00	50
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	Youyang, Chongqing	60	100.00	60
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000	80.00	1,600
Harbin Bank Consumer Finance Co., Ltd.	Harbin, Heilongjiang	1,500	53.00	795
Ning'an Rongxing Village and Township Bank Co., Ltd.	Ning'an, Heilongjiang	30	100.00	30
Huanan Rongxing Village and Township Bank Co., Ltd.	Huanan, Heilongjiang	30	100.00	30
Nehe Rongxing Village and Township Bank Co., Ltd.	Nehe, Heilongjiang	50	80.00	40
Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd.	Pingliang, Gansu	50	90.00	45
Tianshui Maiji Rongxing Village and Township Bank Co., Ltd.	Tianshui, Gansu	50	98.00	49
Zhongjiang Rongxing Village and Township Bank Co., Ltd.	Zhongjiang, Sichuan	50	70.00	35
Langzhong Rongxing Village and Township Bank Co., Ltd.	Langzhong, Sichuan	50	90.00	45
Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd.	Chengdu, Sichuan	100	70.00	70

Summary of Accounting Data and Financial Indicators

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

	For the six months ended 30 June		For the year ended 31 December	
	2021	2020	2021 vs. 2020	2020
	(In RMB million, except percentages)			
Results of operations			Rate of change	
Net interest income	5,055.8	6,317.8	-19.98%	12,309.2
Net fee and commission income	300.3	572.8	-47.57%	880.0
Operating income	6,134.5	7,840.9	-21.76%	14,606.3
Operating expenses	(1,971.7)	(1,834.0)	7.51%	(4,896.0)
Credit impairment losses	(2,907.8)	(3,586.8)	-18.93%	(8,301.4)
Profit before tax	1,255.0	2,420.1	-48.14%	1,408.9
Net profit	940.3	1,853.3	-49.26%	795.8
Net profit attributable to shareholders of the Company	851.2	1,857.8	-54.18%	745.7
For each share (RMB)			Rate of change	
Net assets per share attributable to shareholders of the Company ⁽¹⁾	4.55	4.59	-0.87%	4.48
Earnings per share	0.08	0.17	-52.94%	0.07
Profitability indicators			Change	
Return on average total assets ⁽²⁾	0.31%	0.61%	decreased by 0.30 percentage point	0.13%
Return on average equity ⁽³⁾	3.43%	7.41%	decreased by 3.98 percentage points	1.51%
Net interest spread ⁽⁴⁾	1.81%	2.31%	decreased by 0.50 percentage point	2.18%
Net interest margin ⁽⁵⁾	1.83%	2.33%	decreased by 0.50 percentage point	2.20%
Net fee and commission income to operating income ratio	4.90%	7.31%	decreased by 2.41 percentage points	6.02%
Cost-to-income ratio ⁽⁶⁾	30.14%	22.03%	increased by 8.11 percentage points	32.06%

Summary of Accounting Data and Financial Indicators

	As of 30 June	As of 31 December	30 June 2021 vs. 31 December 2020
	2021	2020	
	(In RMB million, except percentages)		
Capital adequacy indicators⁽⁷⁾			Change
Core tier 1 capital adequacy ratio	9.90%	10.18%	decreased by 0.28 percentage point
Tier 1 capital adequacy ratio	11.50%	10.20%	increased by 1.30 percentage points
Capital adequacy ratio	12.36%	12.59%	decreased by 0.23 percentage point
Total equity to total assets	9.49%	8.54%	increased by 0.95 percentage point
Assets quality indicators			Change
NPL ratio ⁽⁸⁾	2.85%	2.97%	decreased by 0.12 percentage point
Impairment coverage ratio ⁽⁹⁾	152.43%	133.26%	increased by 19.17 percentage points
Impairment losses on loans ⁽¹⁰⁾	4.35%	3.96%	increased by 0.39 percentage point
Other indicators			Change
Loan-deposit ratio	60.15%	59.79%	increased by 0.36 percentage point
Scale indicators			Rate of change
Total assets	632,313.8	598,603.6	5.63%
Of which: total loans and advances to customers	294,398.7	280,567.2	4.93%
Total liabilities	572,306.4	547,494.5	4.53%
Of which: due to customers	489,410.6	469,280.0	4.29%
Share capital	10,995.6	10,995.6	–
Equity attributable to shareholders of the Company	58,056.2	49,247.1	17.89%
Non-controlling interests	1,951.1	1,862.0	4.79%
Total equity	60,007.3	51,109.1	17.41%

Summary of Accounting Data and Financial Indicators

Notes:

- (1) The equity attributable to shareholders of the Company divided by the share capital at the end of the period, after deducting other equity instruments at the end of the Reporting Period.
- (2) 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.
- (3) The percentage of net profit attributable to shareholders of the Company during the Reporting Period to the average balance of total equity attributable to shareholders of the Company at the beginning and the end of the Reporting Period after deducting other equity instruments.
- (4) 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.
- (5) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated with the operating cost after deducting tax and surcharges and divided by the operating income.
- (7) Calculated in accordance with the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation).
- (8) Calculated with the total NPLs divided by the total loans to customers.
- (9) Calculated with the allowance for impairment loss on loans divided by the total NPLs. In 2020, according to the Notice of the CBIRC on Phased Adjustment of the Requirements for the Loan Loss Allowance for Small and Medium Commercial Banks (Yin Bao Jian Fa [2020] No. 16), the impairment coverage ratio standard was lowered to 130%.
- (10) Calculated with the allowance for impairment loss on loans divided by the total loans to customers. In 2020, according to the Notice of the CBIRC on Phased Adjustment of the Requirements for the Loan Loss Allowance for Small and Medium Commercial Banks (Yin Bao Jian Fa [2020] No. 16), the impairment losses on loans ratio standard was lowered to 2%.

Management Discussion and Analysis

I. Past Economy and Environment and Operation Overview

(I) Past Economy and Environment

In the first half of 2021, under the firm leadership of the Party Central Committee headed by Chairman Xi Jinping, all regions and departments conscientiously implemented the decisions and deployments of the Party Central Committee and the State Council, adhered to the general keynote of seeking progress while maintaining stability, and coordinated the advancement of pandemic prevention and control as well as economic and social development, thus China's economy continued to recover steadily, with the quality of operation further improved. In the first half of 2021, the gross domestic product (GDP) amounted to RMB53,216.7 billion, representing a year-on-year increase of 12.7% and an average growth of 5.3% over two years. The balance of M2 amounted to RMB231.78 trillion, representing a year-on-year increase of 8.6%; the balance of M1 amounted to RMB63.75 trillion, representing a year-on-year increase of 5.5%, and the balance of M0 amounted to RMB8.43 trillion, representing a year-on-year increase of 6.2%. The balance of RMB loans amounted to RMB185.5 trillion, and the balance of RMB deposits amounted to RMB226.62 trillion. New RMB loans made in the first half of the year amounted to RMB12.76 trillion, representing a year-on-year increase of RMB667.7 billion; and new RMB deposits amounted to RMB14.05 trillion, representing a year-on-year decrease of RMB506.4 billion. The outstanding social financing as at the end of June was RMB301.56 trillion, representing a year-on-year increase of 11%.

In the first half of 2021, locking on the target with concerted efforts to catch up at full throttle, Heilongjiang Province fully implemented the various decisions and deployments of the Party Central Committee and the State Council, and insisted on coordinating pandemic prevention and control as well as economic and social development. In the first half of the year, the economic fundamentals of the province were well-oriented with steady growth in production and supply, further rebound in market demand and improvement in major economic indicators at faster pace, showing a better-than-expected operation trend with steady progress and stable improvement. In the first half of the year, the regional gross domestic product (GDP) of Heilongjiang Province reached RMB599.05 billion, representing a year-on-year increase of 10.3%. During the year, the fixed asset investment made within Heilongjiang increased by 15.2% year-on-year. Total retail sales of consumer goods made within Heilongjiang increased by 24.8% year-on-year, and disposable income per capita of urban and rural residents made within Heilongjiang increased by 10.1% and 4.9%, respectively.

(II) Operation Overview

In the first half of 2021, under the strong leadership of the new Harbin Bank Party Committee and the Board of Directors, as well as the supervision and support of the Board of Supervisors, the Bank conscientiously implemented the national economic and financial policies, adhered to the theme of promoting “high-quality development”, and closely followed the tasks of “stability on six fronts and advancements in the six areas”. Seizing the “two main lines” of asset quality and economic benefits, and coordinating pandemic prevention and control as well as business development, the Bank made every effort to achieve breakthroughs in business indicators, consolidated the foundation for high-quality development, and delivered stable and positive operating results.

Steady business scale development

As at 30 June 2021, the Group had total assets of RMB632,313.8 million, representing an increase of RMB33,710.2 million or 5.6% as compared to the end of last year; total loans and advances to customers of the Group amounted to RMB294,398.7 million, representing an increase of RMB13,831.5 million or 4.9% as compared to the end of last year; and due to customers of the Group amounted to RMB489,410.6 million, representing an increase of RMB20,130.6 million or 4.3% as compared to the end of last year.

Steady profitability as compared to last year

The Group recorded a net profit of RMB940.3 million for the first half of 2021, representing a year-on-year decrease of RMB913.0 million or 49.3%, and an increase of RMB144.5 million as compared to last year, and a net profit attributable to shareholders of the Company of RMB851.2 million, representing a year-on-year decrease of RMB1,006.6 million or 54.2%, and an increase of RMB105.5 million as compared to last year. As at 30 June 2021, the return on average total assets of the Group was 0.31%, representing a decrease as compared with 0.61% in the same period of last year, and an increase as compared with 0.13% of last year; and the return on average equity of the Group was 3.43%, representing a decrease as compared with 7.41% in the same period of last year, and an increase as compared with 1.51% of last year.

Enhanced asset quality

As at 30 June 2021, the balance of the Group’s NPLs was RMB8.3984 billion, and the NPL ratio was 2.85%, a decrease of 0.12 percentage point as compared to the end of last year, and asset quality has improved. Impairment coverage ratio was 152.43%, an increase of 19.17 percentage points as compared to the end of last year; and impairment losses on loans was 4.35%, representing an increase of 0.39 percentage point as compared to the end of last year, showing increased risk resilience.

Compliance with Applicable Laws and Regulations

The Company has been, throughout its operation, in compliance with applicable laws and regulations, including the Commercial Bank Law of the People’s Republic of China, the Company Law of the People’s Republic of China, the Hong Kong Listing Rules and other laws and regulations. During the Reporting Period, there was no material violation of the laws and regulations by the Company.

Management Discussion and Analysis

(III) Analysis of Key Issues

1. *Net interest margin*

In the first half of 2021, the net interest spread of the Bank was 1.81%, representing a year-on-year decrease of 0.50 percentage point, and the net interest margin was 1.83%, representing a year-on-year decrease of 0.50 percentage point, mainly attributable to, firstly, as affected by numerous factors such as actively reducing the financing costs of borrowers, economic growth slowdown and declining asset quality during the previous period, the loan and investments in debt securities yield decreased, which caused a decrease in the overall return on assets. Secondly, although the Bank took the initiative to optimise the deposit structure and reduce the scale of high-cost liabilities, due to the intensified market competition, there was limited scope for decreasing customers' cost ratios of deposits, which caused a decrease in the net interest margin of the Bank to a certain extent. Looking forward to the second half of 2021, it is expected that the downward pressure faced by the Chinese economy will continue, the market competition will be intensified under the gradual progress of interest rate liberalisation, the cost control of debt will be more difficult, and the net interest spread and net interest margin will be subject to relatively great downward pressure. To this end, the Bank will further strengthen its active management of assets and liabilities, proactively adjust its credit structure, adjust its investment portfolio in due course, strengthen its risk control, optimise pricing mechanisms and perform customer-oriented differentiated pricing in order to maintain a relatively steady return on assets. In addition, the Bank will be active in coping with challenges posed by such interest rate liberalisation by strengthening its liquidity management, consolidating its customer base, optimising its debt structure and endeavouring to maintain its cost of debt to ensure a generally stable net interest spread and net interest margin.

2. *Quality of key assets*

As at 30 June 2021, the balance of the Group's NPLs was RMB8.3984 billion and the NPL ratio was 2.85%, a decrease of 0.12 percentage point as compared to the end of last year, and asset quality had improved. Impairment coverage ratio was 152.43%, an increase of 19.17 percentage points as compared to the end of last year. Impairment losses on loans was 4.35%, an increase of 0.39 percentage point as compared to the end of last year, showing increased risk resilience.

During the Reporting Period, the Bank made dynamic responses to the dual effects of economic growth slowdown and the COVID-19 pandemic on asset quality, examined potential risks of existing customers in advance, proactively took steps to prevent and control the risks, increased efforts in judicial collection and continued to match write-off resources to accelerate the clearing of existing business risks. For new loans, the Bank set differentiated customer access standards, risk limits and risk pricing standards based on asset quality of the industry and connected asset quality with investment, to improve the quality of new loan assets.

In terms of the prevention and control of regional risk, the Bank continued to optimise the loan resources allocation in different regions, strengthened centralised management of approval, improved approval independence and enhanced asset quality control capacity. The Bank strengthened its management of industry quota, products quota, credit facilities to related party clients, distant loans, collateral loans to third parties and loans overdue. The Bank also set differentiated access standards and dynamically adjusted credit business approval authorisation so as to prevent the occurrence of regional systematic risks.

3. *Capital management*

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

As at 30 June 2021, the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio of the Bank were 9.90%, 11.50% and 12.36%, respectively, representing a decrease of 0.28 percentage point, an increase of 1.30 percentage points and a decrease of 0.23 percentage point, respectively, as compared to the end of last year. The decrease in the core tier-1 capital adequacy ratio and capital adequacy ratio was mainly due to the increase in risk-weighted assets. The increase in the tier 1 capital adequacy ratio was mainly due to the issuance of the Bank's RMB8 billion capital bonds without a fixed term. As at the end of the Reporting Period, risk-weighted assets of the Bank amounted to RMB508,979.9 million, representing an increase of RMB20,787.2 million, or 4.26% as compared to the end of last year. Looking forward to the second half of 2021, the Bank will continue to strengthen its capital management by: (1) continuing its differentiated competition strategy with characteristic development path to further enhance internal capital generation capability; (2) actively responding to changes in current situations and strengthening its active management of capital, continuously optimising its business structure and raising awareness of intensive capital use; and (3) establishing multi-layer and multi-channel mechanisms for capital replenishment to ensure that the capital adequacy level satisfies the regulatory requirements on an ongoing basis.

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

As at 30 June 2021, total investment by the Bank in debt financial instruments issued by financial institutions amounted to RMB139,519.9 million, representing an increase of 1.5% as compared to the end of last year. Pursuant to the requirements of the Notice on Regulating the Interbank Business of Financial Institutions (Yin Fa [2014] No. 127), the Bank consistently performed rigid review on risk and compliance with respect to use of capital. The Bank accurately measured risks, and set aside capital and made provisions accordingly based on the principle of "substance over formality" and the nature of the underlying assets. Following loan provision requirements, the Bank progressively raised the coverage ratio for investment in debt instruments issued by financial institutions to a relatively higher level in a steady, prudent and dynamic manner based on the expected credit loss model measurement. As at 30 June 2021, the balance of provision of the Bank's investment in debt instruments issued by financial institutions amounted to RMB4,424.8 million, representing an increase of RMB31.8 million as compared to the end of last year, and the coverage ratio was 3.17%, representing a decrease of 0.03 percentage point as compared to the end of last year.

Management Discussion and Analysis

5. Net Stable Funding Ratio

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

As at 31 March 2021, the net stable funding ratio of the Bank was 116.66%, which was in compliance with the regulatory standards. The available stable funding (upon translation) was RMB424.096 billion, and the required stable funding (upon translation) was RMB363.520 billion.

As at 30 June 2021, the net stable funding ratio of the Bank was 115.56%, which was in compliance with the regulatory standards. The available stable funding (upon translation) was RMB438.896 billion and the required stable funding (upon translation) was RMB379.814 billion.

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

Item	As at 30 June 2021	As at 31 March 2021	As at 31 December 2020
	(In RMB100 million, except percentages)		
Net stable funding ratio	115.56%	116.66%	116.25%
Available stable funding	4,388.96	4,240.96	4,185.93
Required stable funding	3,798.14	3,635.20	3,600.79

6. Wealth Management Business

At the end of the Reporting Period, as the issue of supplementary regulatory documents including the Notice on Regulating the Investment Operations of Monetary Market Products 《關於規範現金管理類理財產品管理有關事項的通知》 and the Interim Measures for the Sales of Wealth Management Products of Wealth Management Companies 《理財公司理財產品銷售管理暫行辦法》, regulatory authorities have further standardized the business operations of monetary market products, prevented the disorderly growth and risk accumulation of unregulated products, and stabilised market expectations. They also further standardized the sales activities of wealth management products, protected the legitimate rights and interests of investors, strengthened supervision and management, and promoted the healthy development of wealth management businesses.

During the Reporting Period, the Bank comprehensively promoted the compliance management system transformation of the wealth management business, continuously optimized the wealth management products structure and asset allocation, enhanced the construction of various technological systems and marketing channel, strengthened its capabilities in active management and investment, and made improvements on the operating management and risk control systems. By means of centering on service experience, profit experience and transaction experience of customers, the Bank continued to explore and innovate in customer group structure, brand effect, marketing channel construction, product creation, profitability and other aspects, and gradually formed unique regional advantages in order to fully prepare for the license application of wealth management subsidiaries.

II. Analysis of Income Statement

	For the six months ended 30 June			
	2021	2020	Change in amount	Rate of change
	(In RMB million, except percentages)			
Interest income	13,051.3	14,443.6	(1,392.3)	-9.6%
Interest expense	(7,995.5)	(8,125.8)	130.3	-1.6%
Net interest income	5,055.8	6,317.8	(1,262.0)	-20.0%
Fee and commission income	368.9	682.5	(313.6)	-45.9%
Fee and commission expense	(68.6)	(109.7)	41.1	-37.5%
Net fee and commission income	300.3	572.8	(272.5)	-47.6%
Net trading income or loss	492.5	629.2	(136.7)	-21.7%
Net gain or loss on financial investments	127.0	253.6	(126.6)	-49.9%
Net other operating income or loss	158.9	67.5	91.4	135.4%
Operating income	6,134.5	7,840.9	(1,706.4)	-21.8%
Operating expenses	(1,971.7)	(1,834.0)	(137.7)	7.5%
Credit impairment losses	(2,907.8)	(3,586.8)	679.0	-18.9%
Operating profit	1,255.0	2,420.1	(1,165.1)	-48.1%
Profit before tax	1,255.0	2,420.1	(1,165.1)	-48.1%
Income tax expense	(314.7)	(566.8)	252.1	-44.5%
Net profit	940.3	1,853.3	(913.0)	-49.3%

In the first half of 2021, the Bank recorded profit before tax of RMB1,255.0 million and net profit of RMB940.3 million, representing a year-on-year decrease of 48.1% and 49.3%, respectively.

Management Discussion and Analysis

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

In the first half of 2021, the Bank recorded net interest income of RMB5,055.8 million, representing a decrease of RMB1,262.0 million or 20.0% year-on-year. The following tables set forth, for the periods indicated, the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, as well as the average yield ratio of interest-earning assets and the average cost ratio of interest-bearing liabilities.

	For the six months ended 30 June					
	2021			2020		
	Average balance ⁽⁶⁾	Interest income	Average yield ratio	Average balance ⁽⁶⁾	Interest income	Average yield ratio
	(In RMB million, except percentages)					
Interest-earning assets						
Loans and advances to customers	284,112.8	8,332.5	5.91%	273,644.0	8,864.8	6.51%
Investments in debt securities ⁽¹⁾	173,628.6	3,453.6	4.01%	181,545.4	4,278.7	4.74%
Cash and balances with the Central Bank	54,380.6	391.0	1.45%	49,305.5	362.3	1.48%
Due from banks and other financial institutions ⁽²⁾	20,741.6	176.5	1.72%	18,232.6	180.4	1.99%
Finance lease receivables	23,924.9	697.7	5.88%	23,133.3	757.4	6.58%
Total interest-earning assets	556,788.5	13,051.3	4.72%	545,860.8	14,443.6	5.32%

Management Discussion and Analysis

For the six months ended 30 June

	2021			2020		
	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	477,089.5	6,821.4	2.88%	452,375.5	6,513.7	2.90%
Due to banks ⁽³⁾	41,402.5	590.2	2.87%	34,677.8	679.0	3.94%
Debt securities issued and others	31,332.0	542.8	3.49%	51,135.3	873.6	3.44%
Due to Central Bank	3,430.1	41.1	2.41%	3,953.6	59.5	3.03%
Total interest-bearing liabilities	553,254.1	7,995.5	2.91%	542,142.2	8,125.8	3.01%
Net interest income		5,055.8			6,317.8	
Net interest spread⁽⁴⁾			1.81%			2.31%
Net interest margin⁽⁵⁾			1.83%			2.33%

Notes:

- (1) Include financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost.
- (2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.
- (3) Include due to banks, financial assets sold under repurchase agreements and borrowing from banks and other financial institutions.
- (4) Calculated as the difference between the average yield ratio of total interest-earning assets and the average cost ratio of total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the balance of interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of the Bank's daily balances.

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

Management Discussion and Analysis

	For the six months ended 30 June		
	2021 vs. 2020		
	Increase/(decrease)		Net increase/
	Volume ⁽¹⁾	Interest rate ⁽²⁾	(decrease) ⁽³⁾
(In RMB million)			
Interest-earning assets			
Loans and advances to customers	921.0	(1,453.3)	(532.3)
Investments in debt securities	32.6	(857.7)	(825.1)
Cash and balances with the Central Bank	60.1	(31.4)	28.7
Due from banks and other financial institutions	51.4	(55.3)	(3.9)
Finance lease receivables	79.9	(139.6)	(59.7)
Change in interest income	1,145.0	(2,537.3)	(1,392.3)
Interest-bearing liabilities			
Due to customers	559.9	(252.2)	307.7
Due to banks	309.5	(398.3)	(88.8)
Debt securities issued and others	(513.8)	183.0	(330.8)
Due to the Central Bank	(6.5)	(11.9)	(18.4)
Change in interest expense	349.1	(479.4)	(130.3)

Notes:

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

(II) Interest Income

For the first half of 2021, the Bank's interest income decreased by RMB1,392.3 million or 9.6% year-on-year to RMB13,051.3 million. The decrease in the Bank's interest income was primarily due to the decrease of the average yield ratio of interest-earning assets from 5.32% of the same period of last year to 4.72% in the first half of 2021, which were partially offset by the increase of average balance from RMB545.8608 billion for the same period of last year to RMB556.7885 billion for the first half of 2021. The decrease in average yield ratio of interest-earning assets was mainly attributable to the decrease in the yield ratio of loans and advances to customers, investments in debt securities, due from banks and other financial institutions and finance lease receivables in the first half of 2021.

1. Interest income from loans and advances to customers

For the first half of 2021, the Bank's interest income from loans and advances to customers decreased by RMB532.3 million or 6.0% to RMB8,332.5 million year-on-year, primarily due to a 0.60 percentage point decrease in the average yield ratio, which was partially offset by a RMB10.4688 billion increase in the average balance of loans and advances to customers. The decrease in the average yield ratio of loans and advances to customers was attributable to a number of factors such as the Bank's continuously and proactively lowering of the financing costs of the borrowers in support of resumption of work and production, and the increase of credit risk and decrease of repayment capacity of certain industries and customers due to the pandemic and market environment. The increase in the average balance was mainly attributable to the increase in credit supply by the Bank actively performing its role in supporting and serving real economy when facing the pandemic this year, resulting in an increase in the size of loans as compared to the same period of last year.

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

	For the six months ended 30 June					
	2021			2020		
	Average balance	Interest income	Average yield ratio	Average balance	Interest income	Average yield ratio
	(In RMB million, except percentages)					
Corporate loans	162,616.8	4,307.1	5.34%	154,769.6	4,584.8	5.96%
Personal loans	119,687.6	3,998.5	6.74%	115,114.8	4,175.4	7.29%
Discounted bills	1,808.4	26.9	3.00%	3,759.6	104.6	5.59%
Total loans and advances to customers	284,112.8	8,332.5	5.91%	273,644.0	8,864.8	6.51%

2. Interest income from investments in debt securities

For the first half of 2021, the Bank's interest income from investments in debt securities decreased by RMB825.1 million or 19.3% to RMB3,453.6 million year-on-year, mainly attributable to a decrease in the average balance of such business by RMB7,916.8 million and a decrease in the average yield ratio of 0.73 percentage point. The decrease in the average balance of investments in debt securities was mainly attributable to the Bank adjusting its investment structure, increased effort in standardising asset allocation and reducing the investment scale of debt financial instruments. The decrease in the average yield ratio was mainly attributable to the expiration of existing high-return businesses and the decline in the quality of certain assets due to the pandemic and the slowdown in economic growth.

Management Discussion and Analysis

3. Interest income from cash and balances with Central Bank

For the first half of 2021, the Bank's interest income from cash and balances with Central Bank increased by RMB28.7 million or 7.9% to RMB391.0 million year-on-year.

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

For the first half of 2021, the Bank's interest income from amounts due from banks and other financial institutions decreased by RMB3.9 million or 2.2% to RMB176.5 million year-on-year, primarily attributable to a 0.27 percentage point decrease of average yield ratio of such assets, which was partially offset by the 13.8% increase of average balance. The decrease in the average yield ratio of such assets was mainly due to the increase of the proportion of short-term assets, and the increase in the average balance was mainly due to the year-on-year increase of interbank asset scale by the Bank enhancing the use of capital in the first half of the year.

5. Interest income from finance lease receivables

For the first half of 2021, the Bank's interest income from finance lease receivables was RMB697.7 million, representing a decrease of RMB59.7 million year-on-year, primarily attributable to a 0.70 percentage point decrease in the average yield ratio of finance lease receivables, which was partially offset by the 3.4% increase in the average balance. The decrease in the average yield ratio of the such assets was mainly attributable to the increase of finance lease asset scale due to the market environment.

(III) Interest Expense

For the first half of 2021, the Bank's interest expense decreased by RMB130.3 million or 1.6% to RMB7,995.5 million as compared to the same period of last year, primarily attributable to a decrease in the average cost ratio of interest-bearing liabilities from 3.01% for the same period of last year to 2.91% for the first half of 2021, which was partially offset by the increase of the average balance from RMB542,142.2 million for the same period of last year to RMB553,254.1 million for the first half of 2021. The decrease in the average cost ratio of the interest-bearing liabilities was mainly due to the decreases in the average cost ratio of due to banks and due to Central Bank for the first half of 2021.

1. Interest expense on due to customers

For the first half of 2021, the Bank's interest expense on due to customers increased by RMB307.7 million or 4.7% to RMB6,821.4 million year-on-year, primarily attributable to the increase of 5.5% in the average balance from RMB452,375.5 million for the same period of last year to RMB477,089.5 million for the first half of 2021 as a result of the growth of customers deposit, which was partially offset by the 0.02 percentage point decrease in the average cost ratio. The decrease in the average cost ratio of due to customers was mainly due to the Bank's initiative to optimise the deposit structure and reduce the scale of high-cost liabilities.

Management Discussion and Analysis

For the six months ended 30 June

	2021			2020		
	Average Balance	Interest expense	Average cost ratio	Average Balance	Interest expense	Average cost ratio
(In RMB million, except percentages)						
Corporate deposits						
Demand	98,611.0	529.8	1.08%	105,009.1	562.0	1.08%
Time	88,731.9	1,498.9	3.41%	100,447.9	1,837.4	3.68%
Subtotal	187,342.9	2,028.7	2.18%	205,457.0	2,399.4	2.35%
Personal deposits						
Demand	47,551.7	136.3	0.58%	42,190.3	75.4	0.36%
Time	242,194.9	4,656.4	3.88%	204,728.2	4,038.9	3.97%
Subtotal	289,746.6	4,792.7	3.34%	246,918.5	4,114.3	3.35%
Total deposits from customers	477,089.5	6,821.4	2.88%	452,375.5	6,513.7	2.90%

2. Interest expense on due to banks

For the first half of 2021, the Bank's interest expense on due to banks decreased by RMB88.8 million or 13.1% to RMB590.2 million year-on-year, primarily attributable to the decrease in the average cost ratio of the underlying liabilities from 3.94% for the same period of last year to 2.87% for the first half of 2021 and a 19.4% increase in the average balance of the underlying liabilities from RMB34,677.8 million for the same period of last year to RMB41,402.5 million for the first half of 2021. The decrease in the average cost ratio of the underlying liabilities was mainly due to the focus on optimising debt structure and reasonable management and control of cost of funds, and the increase in the average balance of the underlying liabilities was mainly due to the Bank's proactively expanding interbank financing channels to diversify source of liabilities and the increase of scale of debt financing from other banks.

3. Interest expense on debt securities issued and others

For the first half of 2021, the Bank's interest expense on debt securities issued and others amounted to RMB542.8 million, representing a decrease of RMB330.8 million or 37.9% year-on-year, mainly attributable to a 38.7% decrease in the average balance of the underlying liabilities from RMB51,135.3 million for the same period of last year to RMB31,332.0 million for the first half of 2021 and an increase in the average cost ratio of the underlying liabilities from 3.44% for the same period of last year to 3.49% for the first half of 2021. The increase in the average cost ratio of the underlying liabilities was mainly due to the rise of market capital prices, while the decrease in the average balance of the underlying liabilities was mainly due to the expiration of certain debt securities of the Bank.

Management Discussion and Analysis

(IV) Net Interest Spread and Net Interest Margin

For the first half of 2021, the Bank's net interest spread decreased from 2.31% for the same period of last year to 1.81% for the first half of 2021, and the net interest margin decreased from 2.33% for the same period of last year to 1.83% for the first half of 2021, mainly attributable to the year-on-year decrease of interest rate spreads comprehensively affected by factors such as the decline of certain industries and customer asset quality, as well as the continuous implementation of various profit distribution support measures despite the Bank's adoption of a series of measures such as optimising the liability structure to reduce the impact of the external environment on the Bank's net interest spread and net interest margin in the first half of the year.

(V) Non-interest Income

1. Net fee and commission income

For the first half of 2021, the Bank's net fee and commission income decreased by RMB272.5 million or 47.6% year-on-year to RMB300.3 million, primarily attributable to the decrease in the Bank's advisory and consultancy fee income, agency and custodian fee income and bank card fee income.

	For the six months ended 30 June			
	2021	2020	Change in amount	Rate of change
	(In RMB million, except percentages)			
Fee and commission income	368.9	682.5	(313.6)	-45.9%
Advisory and consultancy fee	95.6	121.5	(25.9)	-21.3%
Settlement fee	23.8	8.7	15.1	173.6%
Agency and custodian fee	122.0	316.3	(194.3)	-61.4%
Of which: non-principal				
protected wealth management				
agency fee	43.4	166.2	(122.8)	-73.9%
Bank card fee	125.6	232.5	(106.9)	-46.0%
Others	1.9	3.5	(1.6)	-45.7%
Fee and commission expense	(68.6)	(109.7)	41.1	-37.5%
Net fee and commission income	300.3	572.8	(272.5)	-47.6%

For the first half of 2021, the Bank's advisory and consultancy fee income decreased by RMB25.9 million or 21.3% year-on-year to RMB95.6 million, mainly attributable to the changes in volume of advisory and consultancy business.

For the first half of 2021, the Bank's settlement fee income increased by RMB15.1 million or 173.6% year-on-year to RMB23.8 million, mainly attributable to the volume change of the settlement business and the adjustment in relevant pricing policy.

For the first half of 2021, the Bank's agency and custodian fee income decreased by RMB194.3 million or 61.4% year-on-year to RMB122.0 million, mainly attributable to the decrease in scale of the agency and custodian business.

For the first half of 2021, the Bank's bank card fee income decreased by RMB106.9 million or 46.0% year-on-year to RMB125.6 million, mainly attributable to the decrease in number of customers and business volume of the Bank's bank card related intermediary business.

For the first half of 2021, the Bank realised other fee and commission income of RMB1.9 million, representing a decrease of RMB1.6 million or 45.7% year-on-year.

2. Net trading income or loss

For the first half of 2021, the Bank's net trading income decreased by RMB136.7 million or 21.7% year-on-year to RMB492.5 million, mainly attributable to the decrease in interest income of the financial assets measured at fair value through profit or loss.

3. Net gain or loss on financial investments

For the first half of 2021, the Bank's net gains on financial investments decreased by RMB126.6 million or 49.9% year-on-year to RMB127.0 million, mainly attributable to the decrease in gains on disposal of financial assets measured at fair value through other comprehensive income.

4. Net other operating income or loss

For the first half of 2021, the Bank's net other operating income increased by RMB91.4 million or 135.4% year-on-year to RMB158.9 million, mainly due to the increase in income from disposal of real estate.

Management Discussion and Analysis

(VI) Operating Expenses

For the first half of 2021, the Bank's operating expenses increased by RMB137.7 million or 7.5% year-on-year to RMB1,971.7 million.

	For the six months ended 30 June			
	2021	2020	Change in amount	Rate of change
(In RMB million, except percentages)				
Staff costs	904.9	894.1	10.8	1.2%
Tax and surcharges	122.8	106.3	16.5	15.5%
Depreciation and amortisation	374.4	390.7	(16.3)	-4.2%
Others	569.6	442.9	126.7	28.6%
Total operating expenses	1,971.7	1,834.0	137.7	7.5%

Staff costs are the largest component of the Bank's operating expenses, representing 45.9% and 48.8% of the Bank's total operating expenses for the first half of 2021 and 2020, respectively.

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

	For the six months ended 30 June			
	2021	2020	Change in amount	Rate of change
(In RMB million, except percentages)				
Staff costs				
Salaries, bonuses and allowances	602.0	658.2	(56.2)	-8.5%
Social insurance	169.4	116.5	52.9	45.4%
Housing fund	82.9	76.7	6.2	8.1%
Staff benefits	36.6	34.4	2.2	6.4%
Labour union expenditure and education costs	8.5	8.2	0.3	3.7%
Early retirement benefits	5.5	0.1	5.4	5400.0%
Total	904.9	894.1	10.8	1.2%

For the first half of 2021, the staff costs of the Bank were RMB904.9 million, representing an increase of RMB10.8 million or 1.2% year-on-year, primarily attributable to the social insurance national relief enjoyed by the Bank due to the pandemic of 2020. However, no relief policy was available for 2021.

Management Discussion and Analysis

For the first half of 2021, the Bank had to pay tax and surcharges of RMB122.8 million, representing an increase of RMB16.5 million or 15.5% year-on-year, primarily attributable to the increase in relevant taxes as a result of the development of the Bank's business.

For the first half of 2021, depreciation and amortisation of the Bank were RMB374.4 million, representing a decrease of RMB16.3 million or 4.2% year-on-year, primarily attributable to the expiration of depreciation and amortisation for certain assets of the Bank.

For the first half of 2021, the Bank's other operating expenses increased by RMB126.7 million or 28.6% year-on-year to RMB569.6 million, primarily attributable to the stated amount of certain expenses in a level below normal for the same period of last year due to the pandemic.

(VII) Credit Impairment Losses

For the first half of 2021, the Bank's impairment losses decreased by RMB679.0 million or 18.9% year-on-year to RMB2,907.8 million, primarily attributable to the continuing impairment provision for assets on a dynamic basis after taking into comprehensive consideration of the effects of the pandemic and the uncertainties in economic environment, and in accordance with the relevant requirements of the regulatory authorities.

	For the six months ended 30 June			
	2021	2020	Change in amount	Rate of change
	(In RMB million, except percentages)			
Impairment losses on loans and advances to customers at amortised cost	2,846.1	2,902.0	(55.9)	-1.9%
Impairment losses on financial assets at amortised cost	145.4	583.4	(438.0)	-75.1%
Impairment losses on financial lease receivables	(26.0)	45.8	(71.8)	-156.8%
Impairment losses on other assets	(57.7)	55.6	(113.3)	-203.8%
Total	2,907.8	3,586.8	(679.0)	-18.9%

Management Discussion and Analysis

(VIII) Income Tax Expenses

For the first half of 2021, the Bank's income tax expenses decreased by RMB252.1 million or 44.5% year-on-year to RMB314.7 million.

	For the six months ended 30 June			
	2021	2020	Change in amount	Rate of change
	(In RMB million, except percentages)			
Current income tax expenses	671.1	899.4	(228.3)	-25.4%
Deferred income tax expenses	(356.4)	(332.6)	(23.8)	7.2%
Effective income tax expenses	314.7	566.8	(252.1)	-44.5%

III. Analysis of Key Items of Financial Position

(I) Assets

As at 30 June 2021, the Bank's total assets increased by RMB33,710.2 million or 5.6% to RMB632,313.8 million as compared to the end of last year, mainly attributable to the increase in the Bank's loans and advances to customers, cash and balances with the Central Bank, and investment in securities and other financial assets.

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Loans and advances to customers, net	284,757.0	45.0%	272,350.6	45.5%
Net investment in securities and other financial assets	224,477.6	35.5%	216,849.3	36.2%
Cash and balances with the Central Bank	72,268.0	11.4%	62,771.1	10.5%
Due from banks and other financial institutions	6,914.1	1.1%	6,206.1	1.0%
Reverse repurchase	2,200.1	0.4%	–	–
Other assets	41,697.0	6.6%	40,426.5	6.8%
Total assets⁽¹⁾	632,313.8	100.0%	598,603.6	100.0%

Note:

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

1. Loans and advances to customers

As at 30 June 2021, the Bank's total loans and advances to customers increased by RMB13,831.5 million to RMB294,398.7 million, representing an increase of 4.9% as compared to the end of last year.

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

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate loans	164,829.4	56.0%	158,551.8	56.5%
Personal loans	127,989.0	43.5%	120,174.3	42.8%
Discounted bills	1,580.3	0.5%	1,841.1	0.7%
Total loans and advances to customers	294,398.7	100.0%	280,567.2	100.0%

(1) Corporate loans

As at 30 June 2021, the Bank's corporate loans increased by RMB6,277.6 million to RMB164,829.4 million, representing an increase of 4.0% as compared to the end of last year, mainly attributable to the increase in the Bank's loans to customers to continuously support the real economy development.

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

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans to small enterprises ⁽¹⁾	65,378.8	39.7%	58,946.3	37.2%
Other corporate loans excluding loans to small enterprises	99,450.6	60.3%	99,605.5	62.8%
Total corporate loans	164,829.4	100.0%	158,551.8	100.0%

Note:

- (1) Loans to small enterprises include corporate loans to small enterprises and micro enterprises as defined in the SME Classification Standards. According to the SME Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but less than 1,000 employees and generating more than RMB3 million in operating income in a year are classified as small enterprises, while enterprises having more than 5 but less than 200 employees and generating more than RMB10 million in operating income in a year in the wholesale industry are also classified as small enterprises. Industrial enterprises having less than 20 employees or generating less than RMB3 million in operating income in a year are classified as micro enterprises, while enterprises having less than 5 employees or generating less than RMB10 million in operating income in a year in the wholesale industry are also classified as micro enterprises.

Management Discussion and Analysis

As at 30 June 2021, the Bank's loans to small enterprises increased by RMB6,432.5 million to RMB65,378.8 million, representing an increase of 10.9% as compared to the end of last year. As at 30 June 2021 and 31 December 2020, the Bank's loans to small enterprises accounted for 39.7% and 37.2% of the Bank's total corporate loans, respectively.

(2) Personal loans

As at 30 June 2021, the Bank's personal loans increased by RMB7,814.7 million to RMB127,989.0 million, representing an increase of 6.5% as compared to the end of last year, mainly attributable to the increase in personal consumption loans by RMB8,990.6 million or 13.2% as compared to the end of last year.

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

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans to small enterprise owners	33,558.4	26.2%	36,890.1	30.7%
Personal consumption loans	77,136.9	60.3%	68,146.3	56.7%
Loans to farmers	17,293.7	13.5%	15,137.9	12.6%
Total personal loans	127,989.0	100.0%	120,174.3	100.0%

As at 30 June 2021, loans to small enterprise owners decreased by 9.0% as compared to the end of last year, personal consumption loans and loans to farmers increased by 13.2% and 14.2%, respectively as compared to the end of last year.

2. Investment in securities and other financial assets

As at 30 June 2021, the total amount of the Bank's investment in securities and other financial assets was RMB226,399.0 million, representing an increase of RMB7,635.6 million or 3.5% as compared to the end of last year, mainly attributable to the Bank's adjustment in its investment structure.

Management Discussion and Analysis

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

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Financial assets measured at fair value through profit or loss	59,156.0	26.1%	53,515.3	24.5%
Financial assets measured at amortised cost	143,680.9	63.5%	145,479.9	66.5%
Financial assets measured at fair value through other Comprehensive income	23,562.1	10.4%	19,768.2	9.0%
Total investment in securities and other financial assets	226,399.0	100.0%	218,763.4	100.0%

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

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Debt investments:				
Bond investments	86,250.9	38.1%	80,782.7	36.9%
Debt instruments issued by financial institutions ⁽¹⁾	139,519.9	61.6%	137,452.5	62.9%
Subtotal	225,770.8	99.7%	218,235.2	99.8%
Equity investment	628.2	0.3%	528.2	0.2%
Total investment in securities and other financial assets	226,399.0	100.0%	218,763.4	100.0%

Note:

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

As at 30 June 2021, the Bank's investment in debt instruments issued by financial institutions was RMB139,519.9 million, representing an increase of RMB2,067.4 million or 1.5% as compared to the end of last year. The investments of this class as a percentage of total investment in securities and other financial assets decreased from 62.9% as at 31 December 2020 to 61.6% as at 30 June 2021.

Management Discussion and Analysis

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Government bonds	38,317.8	44.4%	36,031.2	44.6%
Bonds issued by financial institutions	2,483.9	2.9%	1,642.9	2.0%
Corporate bonds	26,476.1	30.7%	22,833.1	28.3%
Bonds issued by policy banks	18,973.1	22.0%	20,275.5	25.1%
Total bond investments	86,250.9	100.0%	80,782.7	100.0%

3. Other components of the Bank's assets

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

As at 30 June 2021, the Bank's cash and balances with the Central Bank increased by RMB9,500.1 million to RMB72,246.9 million, representing an increase of 15.1% as compared to the end of last year.

As at 30 June 2021, the Bank's due from banks and other financial institutions increased by RMB719 million to RMB6,930.4 million, representing an increase of 11.6% as compared to the end of last year, mainly because the Bank adjusted the proportion of such assets based on its capital and changes in liquidity in the market.

As at 30 June 2021, the total amount of reverse repurchase increased by RMB2,199.9 million to RMB2,199.9 million as compared to the end of last year, mainly due to the Bank's comprehensive consideration of capital conditions and market liquidity, and the corresponding adjustment in the size of such assets.

(II) Liabilities

As at 30 June 2021, the Bank's total liabilities were RMB572,306.4 million, representing an increase of RMB24,811.9 million or 4.5% as compared to the end of last year.

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Due to customers	494,227.1	86.4%	476,333.1	87.0%
Due to banks ⁽¹⁾	34,400.2	6.0%	25,769.4	4.7%
Repurchase agreements	15,633.8	2.7%	1,499.4	0.3%
Debt securities issued	16,815.4	2.9%	33,575.1	6.1%
Due to Central Bank	2,927.1	0.5%	3,639.2	0.7%
Other liabilities ⁽²⁾	8,302.8	1.5%	6,678.3	1.2%
Total liabilities⁽³⁾	572,306.4	100.0%	547,494.5	100.0%

Notes:

- (1) Due to banks also includes borrowing from banks and other financial institutions.
- (2) Other liabilities primarily consist of derivative financial liabilities, income tax payable and other tax payable, items in the process of clearance and settlement as well as staff salary payable.
- (3) Of which, interest payable is accounted in each of the interest-bearing liabilities items but not in other discussions and analysis.

Management Discussion and Analysis

1. Due to customers

As at 30 June 2021, the Bank's total due to customers increased by RMB20,130.6 million to RMB489,410.6 million, representing an increase of 4.3% as compared to the end of last year. This increase was primarily attributable to the strengthening of pricing management, improvement of services and strengthening of marketing capabilities by the Bank.

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate deposits				
Demand deposits	101,092.5	20.7%	101,577.4	21.7%
Time deposits	90,027.7	18.4%	88,371.2	18.8%
Subtotal	191,120.2	39.1%	189,948.6	40.5%
Personal deposits				
Demand deposits	51,914.9	10.6%	57,215.4	12.2%
Time deposits	246,375.5	50.3%	222,116.0	47.3%
Subtotal	298,290.4	60.9%	279,331.4	59.5%
Total due to customers	489,410.6	100.0%	469,280.0	100.0%

2. Due to banks

As at 30 June 2021, the Bank's due to banks increased by RMB8,615.0 million to RMB34,096.8 million, representing an increase of 33.8% as compared to the end of last year, which reflected the Bank's adjustment of the portion of the amount due to banks in the liabilities based on market liquidity and the Bank's capital needs and in view of the need to match assets and liabilities.

3. Repurchase agreement

As at 30 June 2021, the Bank's repurchase agreement was RMB15,614.9 million, representing an increase of RMB14,144.7 million or 962.1% as compared to the end of last year. The changes in the Bank's repurchase agreement reflected the adjustments to the scale of liabilities by the Bank in accordance with market liquidity and the Bank's capital needs.

4. Debt securities issued

As at 30 June 2021, the Bank's debt securities issued were RMB16,808.7 million, representing a decrease of RMB16,521.2 million or 49.6% as compared to the end of last year, which was mainly due to the maturity of certain debt securities issued by the Bank.

(III) Shareholders' Equity

As at 30 June 2021, the Bank's total shareholders' equity increased by RMB8,898.2 million to RMB60,007.3 million, representing an increase of 17.4% as compared to the end of last year. As at 30 June 2021, total equity attributable to shareholders of the parent company increased by RMB8,809.1 million to RMB58,056.2 million, representing an increase of 17.9% as compared to the end of last year. The increase in shareholders' equity was mainly attributable to the issuance of capital bonds without a fixed term in the first half of 2021.

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Share capital	10,995.6	18.3%	10,995.6	21.5%
Other equity instruments	8,000.0	13.3%	–	–
Reserves	19,172.6	32.0%	19,195.3	37.6%
Undistributed profits	19,888.0	33.1%	19,056.2	37.3%
Equity attributable to shareholders of the parent company	58,056.2	96.7%	49,247.1	96.4%
Non-controlling interests	1,951.1	3.3%	1,862.0	3.6%
Total equity	60,007.3	100.0%	51,109.1	100.0%

Management Discussion and Analysis

IV. Off-balance Sheet Commitments

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

	As at 30 June 2021	As at 31 December 2020
		(In RMB million)
Credit commitments:		
Bank bills acceptance	7,130.0	15,514.0
Issued letters of guarantee	1,375.2	1,570.6
Issued letters of credit	1,370.1	929.6
Credit limit of credit card	24,957.1	21,837.3
Subtotal	34,832.4	39,851.5
Capital expenditure commitments	92.5	203.2
Treasury bond redemption commitments	2,310.3	2,517.0
Total	37,235.2	42,571.7

In addition, as at 30 June 2021, the amount involved in the significant outstanding legal proceedings against the Group (as defendant or third-party defendant) with a dispute amount of over RMB10 million was RMB75 million. There's little possibility of compensating the damages by the Group and hence no provision of impairment will be needed to be made. As at the date of this report, the Bank has no significant contingent liabilities. Details of off-balance sheet commitments contracts are disclosed in "Commitments and Contingent Liabilities" in the notes to financial statements of this report.

V. Analysis of Loan Quality

During the Reporting Period, the Bank adhered to the core philosophy of "create value through risk management", adhered to its customer-oriented concept, focused on meticulous risk management, continued to enhance the comprehensive risk management system, and practically strengthened the construction of intelligent risk control system throughout the whole process. The Bank continuously upgraded the assets portfolio, gradually adjusted the asset structure, strengthened its efforts in the recovery of NPLs, and accelerated the clearing of existing business risks. The Bank actively responded to the dual effects of the economic growth slowdown and the new norms of COVID-19 pandemic, and persistently reinforced the risk prevention and control. As at 30 June 2021, the NPL ratio was 2.85%, representing a decrease of 0.12 percentage point as compared to the end of the last year, and the asset quality improved. The impairment coverage ratio was 152.43%, representing an increase of 19.17 percentage points as compared to the end of the last year. The impairment losses on loans ratio was 4.35%, representing an increase of 0.39 percentage point as compared to the end of the last year. The ability of risk loss resilience was further enhanced.

(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 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Pass	272,942.7	92.7%	259,989.5	92.7%
Special mention	13,057.6	4.4%	12,244.8	4.4%
Substandard	1,197.9	0.4%	3,648.6	1.3%
Doubtful	6,103.9	2.1%	4,076.9	1.4%
Loss	1,096.6	0.4%	607.4	0.2%
Total loans and advances to customers	294,398.7	100.0%	280,567.2	100.0%
NPLs amount and NPL ratio⁽¹⁾	8,398.4	2.85%	8,332.9	2.97%

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 Lines

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

	As at 30 June 2021			As at 31 December 2020		
	Loan amount	NPLs amount	NPL ratio	Loan amount	NPLs amount	NPL ratio
(In RMB million, except percentages)						
Corporate loans						
Loans to small enterprises	65,378.8	2,377.6	3.64%	58,946.3	2,364.1	4.01%
Other corporate loans excluding loans to small enterprises	99,450.6	2,388.3	2.40%	99,605.5	2,636.6	2.65%
Subtotal	164,829.4	4,765.9	2.89%	158,551.8	5,000.7	3.15%
Personal loans						
Loans to small enterprise owners	33,558.4	1,481.0	4.41%	36,890.1	1,246.9	3.38%
Personal consumption loans	77,136.9	1,241.6	1.61%	68,146.3	985.3	1.45%
Loans to farmers	17,293.7	909.9	5.26%	15,137.9	1,100.0	7.27%
Subtotal	127,989.0	3,632.5	2.84%	120,174.3	3,332.2	2.77%
Discounted bills	1,580.3	–	–	1,841.1	–	–
Total	294,398.7	8,398.4	2.85%	280,567.2	8,332.9	2.97%

In the first half of 2021, the Bank continued to actively adjust the credit structure, focused on exploring the potential of existing customers and risk mitigation with regard to corporate customers, and implemented prudent access for new customers. For retail customers, the Bank actively withdrew the problematic customers through a differentiated risk pricing mechanism. At the same time, the Bank continued to carry out the disposal of non-performing assets and write-offs, the special collection centres of the branches continued to perform the function of non-performing asset collection. In the first half of 2021, the NPL ratio of the Bank's corporate loans decreased by 0.26 percentage point to 2.89% as compared to the end of last year, and the asset quality improved.

Due to the dual effects of the economic growth slowdown and the new norms of COVID-19 pandemic, the NPL ratio of Bank's personal loans increased, primarily attributable to the Bank's adherence to the microfinance management strategy, with intensification of personal loan issuance and a bigger size of personal loans. However, affected by uncertainties such as the repeated COVID-19 pandemic and slowing economic recovery, asset quality declined slightly as the capital chain was strained and the repayment ability of individuals has weakened.

Management Discussion and Analysis

In order to effectively control asset quality, the Bank strictly controlled the credit risk of new businesses, optimised the industry, region, and customer structure, and maintained strict access. The Bank strictly implemented the “three examination” system for loans and strictly observed the first line of defence. It implemented in-depth customer optimisation strategies to strengthen risk mitigation for non-quality customers. Management of rating, quota, portfolio, concentration and credit policy was strengthened. The Bank also strengthened the comprehensive application of artificial intelligence big data in the field of risk management, enhanced fraud risk management, and continued to improve the construction of the anti-fraud engine system and customer profile system. It strengthened the centralised management and independence of examination and approval, and improved the ability to control asset quality. On the other hand, the Bank also focused on the collection of major projects, paid close attention to source prevention and control and full-process management, advanced the total score together, and strengthened the management accountability for problematic loans and NPLs.

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

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

	As at 30 June 2021				As at 31 December 2020			
	Loan amount	% of total	NPLs amount	NPL ratio	Loan amount	% of total	NPLs amount	NPL ratio
	(In RMB million, except percentages)							
Agriculture, forestry, husbandry and fishery	1,672.3	0.6%	183.8	10.99%	1,624.3	0.6%	199.7	12.29%
Mining	129.8	0.0%	–	–	124.2	0.0%	2.0	1.61%
Manufacturing	6,513.7	2.2%	881.1	13.53%	6,277.8	2.2%	950.0	15.13%
Production and supply of electricity, heating, gas and water	5,405.2	1.8%	63.8	1.18%	4,920.1	1.8%	63.0	1.28%
Construction	10,474.7	3.6%	729.0	6.96%	10,919.8	3.9%	775.0	7.10%
Transportation, storage and postal services	3,341.7	1.1%	50.6	1.51%	3,389.7	1.2%	99.9	2.95%
Information transmission, software and information technology services	340.1	0.1%	19.6	5.76%	406.8	0.1%	24.7	6.07%
Wholesale and retail	29,579.2	10.1%	1,401.5	4.74%	30,656.7	10.9%	2,009.2	6.55%
Accommodations and catering	3,566.5	1.2%	164.9	4.62%	3,639.7	1.3%	58.1	1.60%
Finance	–	–	–	–	60.0	0.0%	–	–
Real estate	32,507.6	11.0%	168.9	0.52%	35,201.6	12.6%	168.8	0.48%

Management Discussion and Analysis

	As at 30 June 2021				As at 31 December 2020			
	Loan amount	% of total	NPLs amount	NPL ratio	Loan amount	% of total	NPLs amount	NPL ratio
(In RMB million, except percentages)								
Leasing and commercial services	60,106.4	20.4%	944.0	1.57%	49,221.8	17.6%	500.3	1.02%
Scientific research and technological services	583.7	0.2%	2.8	0.48%	327.1	0.1%	2.8	0.86%
Water conservation, environment and public utility management	9,565.7	3.3%	138.5	1.45%	10,454.3	3.7%	119.5	1.14%
Residential, repair and other services	151.9	0.1%	2.1	1.38%	172.1	0.1%	11.0	6.39%
Education	163.3	0.1%	2.7	1.65%	195.4	0.1%	7.4	3.79%
Health and social work	433.2	0.1%	7.6	1.75%	637.0	0.2%	3.5	0.55%
Culture, sports and entertainment	294.4	0.1%	5.0	1.70%	323.4	0.1%	5.8	1.79%
Total corporate loans	164,829.4	56.0%	4,765.9	2.89%	158,551.8	56.5%	5,000.7	3.15%
Total personal loans	127,989.0	43.5%	3,632.5	2.84%	120,174.3	42.8%	3,332.2	2.77%
Discounted bills	1,580.3	0.5%	–	–	1,841.1	0.7%	–	–
Total	294,398.7	100.0%	8,398.4	2.85%	280,567.2	100.0%	8,332.9	2.97%

As at 30 June 2021, the NPLs of corporate loans of the Bank concentrated in wholesale and retail and leasing commercial services, with NPLs of RMB1,401.5 million and RMB944.0 million, respectively. The high NPL ratio was mainly because most of the customers in the wholesale and retail industries are small enterprise customers as the Bank adhered to a microcredit strategy. Affected by the dual effects of the economic growth slowdown and the new norms of the COVID-19 pandemic, enterprises experienced shortage of cash flow, resulting in increases in NPLs. The Bank actively adjusted its industry and regional structure of loans, stepped up efforts to exploit the potential of the existing customers, investigated the potential risks of existing customers ahead of schedule, proactively took risk prevention measures, focused on the collection of major projects, continuously stepped up effort to judicially dispose of NPLs, strengthened the mitigation measures on state-owned enterprise and government platforms, strictly controlled new customers, actively disposed existing NPLs and improved asset quality.

(IV) The Distribution of Loans and NPLs by Geographical Region

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

	As at 30 June 2021				As at 31 December 2020			
	Loan amount	% of total	NPLs amount	NPL ratio	Loan amount	% of total	NPLs amount	NPL ratio
	(In RMB million, except percentages)							
Heilongjiang region	145,532.2	49.4%	3,031.0	2.08%	124,181.5	44.3%	3,060.2	2.46%
Other regions in								
Northeastern China	40,075.2	13.6%	1,891.3	4.72%	38,928.0	13.9%	1,003.8	2.58%
Southwestern China	65,283.0	22.2%	1,039.6	1.59%	57,043.3	20.3%	1,154.9	2.02%
Other regions	43,508.3	14.8%	2,436.5	5.60%	60,414.4	21.5%	3,114.0	5.15%
Total	294,398.7	100.0%	8,398.4	2.85%	280,567.2	100.0%	8,332.9	2.97%

The Bank continued to increase the collection of NPLs, strengthened efforts in judicial collection, and continued to match write-off resources. As of the end of the first half of 2021, the NPL ratios in Heilongjiang declined. The Bank continued to optimise the loan resources allocation in different regions, strengthened centralised management of approval and improved approval independence and enhanced asset quality control capacity. The Bank also strengthened its management of industry quota, products quota, credit facilities to related clients, distant loans, collateral loans to third-parties and loan overdue, differentiated access standards and dynamically adjusted credit authorisation so as to prevent the occurrence of regional systemic risks.

Management Discussion and Analysis

(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 2021				As at 31 December 2020			
	Loan amount	% of total	NPLs amount	NPL ratio	Loan amount	% of total	NPLs amount	NPL ratio
	(In RMB million, except percentages)							
Unsecured loans	68,773.8	23.4%	1,399.4	2.03%	52,491.1	18.7%	1,262.5	2.41%
Guaranteed loans	83,363.9	28.3%	2,765.8	3.32%	78,765.2	28.0%	3,403.3	4.32%
Collateralised loans	125,761.0	42.7%	4,174.8	3.32%	131,004.9	46.8%	3,571.4	2.73%
Pledged loans	16,500.0	5.6%	58.4	0.35%	18,306.0	6.5%	95.7	0.52%
Total	294,398.7	100.0%	8,398.4	2.85%	280,567.2	100.0%	8,332.9	2.97%

During the Reporting Period, the Bank made dynamic responses to the dual effects of the economic growth slowdown and the new norms of the COVID-19 pandemic. On the one hand, the Bank, in proactive response to regulatory policies, put greater investments in inclusive loans to small and micro enterprises, and supported the real economy. Hence, there was an increase in unsecured loans and guaranteed loans. On the other hand, to prevent risk exposures effectively, the Bank admitted good quality collaterals and increased the clients' default costs through the collateral risk evaluation system and precise collateral classification management. Although the NPL ratio of collateralised loans increased, the collateral value could basically cover the debt and the ultimate risk was under control. The Bank stepped up its efforts in judicial collection, matched write-off resources, and accelerated the liquidation of existing business risks. In the first half of 2021, the non-performing rate of credit insurance loans decreased. At the same time, the Bank set up a differentiated risk pricing system based on clients' value contribution to ensure high risk and high return, and customers with high risk could be eliminated through the risk pricing mechanism. Hence, the gain was able to offset the risk.

(VI) Concentration of Borrowers

As of 30 June 2021, 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 2021, 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 2021		
Industry		Loan balance	% of total loans	% of net capital
(In RMB million, except percentages)				
Borrower A	L – Leasing and commercial services	5,100.0	1.74%	8.10%
Borrower B	L – Leasing and commercial services	3,331.1	1.13%	5.29%
Borrower C	K – Real estate	2,990.0	1.02%	4.75%
Borrower D	L – Leasing and commercial services	2,650.0	0.90%	4.21%
Borrower E	K – Real estate	2,467.0	0.84%	3.92%
Borrower F	N – Water conservation, environment and public utility management	2,250.9	0.76%	3.58%
Borrower G	F – Wholesale and retail	2,071.0	0.70%	3.29%
Borrower H	K – Real estate	1,987.0	0.67%	3.16%
Borrower I	L – Leasing and commercial services	1,905.0	0.65%	3.03%
Borrower J	L – Leasing and commercial services	1,625.0	0.55%	2.58%
Total		26,377.0	8.96%	41.91%

Management Discussion and Analysis

(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 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Current loans and advances	265,824.3	90.3%	255,038.9	90.9%
Loans and advances past due: ⁽¹⁾				
For 1 to 90 days	11,539.0	3.9%	12,285.9	4.4%
For 91 days to 1 year	9,991.0	3.4%	8,801.1	3.1%
For 1 year and above	7,044.4	2.4%	4,441.3	1.6%
Subtotal	28,574.4	9.7%	25,528.3	9.1%
Total loans and advances to customers	294,398.7	100.0%	280,567.2	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 2021, the overdue loans accounted for 9.7% of the total loans. In the first half of 2021, affected by the dual effects of the economic growth slowdown and the new norms of the COVID-19 pandemic, enterprises needed to take a period of time to resume production and operation. On the one hand, the Bank proactively responded to regulatory policies and offered special credit policies for enterprises affected by the pandemic. On the other hand, the Bank put greater efforts in management of renewal of existing loans and settlement of transferred loans. For the customers with potential risks, quota reduction, enhanced mitigation and other comprehensive credit package were enhanced to prevent the asset quality decline of the loan extension business in the future.

(VIII) Movements of Allowance for Impairment Losses on Loans

Pursuant to the requirements of IFRS 9, the Bank made use of “expected credit loss model” for the measurement of impairment of underlying financial assets. The Bank adhered to the prudence principle and made provision for impairment losses on loans in the full amount. As at 30 June 2021, impairment losses on loans amounted to RMB12,802.0 million, which increased by RMB1,697.3 million as compared to the end of last year. The impairment losses on loans ratio was 4.35%, which increased by 0.39 percentage point as compared to the end of last year, showing increased risk resilience.

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

Items	As at 30 June 2021	As at 31 December 2020
		(In RMB million)
Balance at the beginning of the period	11,104.7	8,008.4
Exchange difference	(1.2)	(0.2)
Charged during the period	2,846.1	7,275.8
Accreted interest on impaired loans	(173.5)	(351.5)
Write-offs and transferred	(1,010.3)	(3,976.4)
Recoveries of loans and advances previously written off	36.2	148.6
Balance at the end of the period	12,802.0	11,104.7

Management Discussion and Analysis

VI. Segment Report

(I) Geographical Segment Report

The description of the geographical areas of the Bank is as follows:

Heilongjiang region: Head Office, branches in Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqihar, Yichun and Nongken, as well as HB Leasing, HBCF and village and township banks operating within Heilongjiang;

Other regions in Northeastern China: Branches in Dalian and Shenyang, as well as village and township banks operating in Northeastern China excluding the ones in Heilongjiang;

Southwestern China: Branches in Chengdu and Chongqing, as well as village and township banks operating mainly in Sichuan and Chongqing and located in Southwest region;

Other regions: Branches in Tianjin and village and township banks operating in regions other than those listed above. Considering the business volume, the Group reorganised its internal reporting structure and restated Northern China regions as other regions.

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

	Mainland China				Total
	Heilongjiang region	Other regions in Northeastern China	Southwestern China	Other regions	
	(In RMB million)				
For the six months ended 30 June 2021					
Operating income	4,073.9	704.0	1,339.2	17.4	6,134.5
Operating expenses	(1,411.0)	(152.4)	(221.1)	(187.2)	(1,971.7)
Credit impairment losses	(2,344.0)	(358.2)	(111.1)	(94.5)	(2,907.8)
Operating profit/(loss)	318.9	193.4	1,007.0	(264.3)	1,255.0
As at 30 June 2021					
Segment assets	481,001.4	41,183.3	61,562.6	48,566.5	632,313.8
Segment liabilities	449,767.6	26,906.7	52,284.8	43,347.3	572,306.4

Management Discussion and Analysis

	Mainland China				Total
	Heilongjiang region	Other regions in Northeastern China	Southwestern China	Other regions	
(In RMB million)					
For the six months ended 30 June 2020					
Operating income	4,605.6	956.6	1,349.3	929.4	7,840.9
Operating expenses	(1,328.0)	(135.3)	(212.6)	(158.1)	(1,834.0)
Credit impairment losses	(2,250.8)	(317.5)	(177.5)	(841.0)	(3,586.8)
Operating profit/(loss)	1,026.8	503.8	959.2	(69.7)	2,420.1
As at 30 June 2020					
Segment assets	476,688.9	45,502.9	59,273.9	56,880.8	638,346.5
Segment liabilities	437,787.3	35,256.3	55,934.1	57,071.1	586,048.8

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 2021			
	2021		2020	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Heilongjiang region	4,073.9	66.4%	4,605.6	58.7%
Other regions in Northeastern China	704.0	11.5%	956.6	12.2%
Southwestern China	1,339.2	21.8%	1,349.3	17.2%
Other regions	17.4	0.3%	929.4	11.9%
Total operating income	6,134.5	100.0%	7,840.9	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 indicated.

	For the six months ended 30 June			
	2021		2020	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Corporate finance business	2,565.6	41.8%	3,456.2	44.1%
Retail finance business	1,658.8	27.0%	2,100.4	26.8%
Financial institutions business	1,753.0	28.6%	2,251.5	28.7%
Other businesses	157.1	2.6%	32.8	0.4%
Total operating income	6,134.5	100.0%	7,840.9	100.0%

VII. Analysis of Capital Adequacy Ratio

The Group continued to optimise its business structure and strengthen capital management, and as at 30 June 2021, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 9.90%, 11.50% and 12.36%, respectively, which were in line with the regulatory requirements provided in the Measures for the Administration of Capital of Commercial Banks (for Trial Implementation) issued by the CBIRC, which decreased by 0.28 percentage point, increased by 1.30 percentage points and decreased by 0.23 percentage point, respectively, as compared to the end of last year. Of which, the decrease in core tier 1 capital adequacy ratio and capital adequacy ratio was mainly due to the increase in risk-weighted assets; the tier 1 capital adequacy ratio increased mainly due to the issuance of capital bonds without a fixed term in an amount of RMB8 billion by the Company.

Management Discussion and Analysis

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

	As at 30 June 2021	As at 31 December 2020
	(In RMB million, except percentages)	
Core capital	50,947.6	50,073.4
Core Tier 1 Capital deductible items:		
Full deductible items	(536.9)	(397.9)
Net core tier 1 capital	50,410.7	49,675.5
Net other tier 1 capital	8,118.8	110.2
Net tier 1 capital	58,529.5	49,785.7
Net tier 2 capital	4,403.6	11,676.1
Net capital	62,933.1	61,461.8
Credit risk-weighted assets	477,053.4	456,293.3
Market risk-weighted assets	4,424.7	4,397.6
Operational risk-weighted assets	27,501.8	27,501.8
Total risk-weighted assets	508,979.9	488,192.7
Core tier 1 capital adequacy ratio	9.90%	10.18%
Tier 1 capital adequacy ratio	11.50%	10.20%
Capital adequacy ratio	12.36%	12.59%

Management Discussion and Analysis

VIII. Business Operation

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

(I) Retail Finance Business

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

In the first half of 2021, the retail finance business of the Bank continued to improve its pricing mechanism and system construction in order to build a comprehensive service system that centres on customer, expand business channels, improve customer's comprehensive contribution, and promote the overall and steady development of retail finance business. During the Reporting Period, the retail finance business of the Bank recorded an operating income of RMB1,658.8 million, accounting for 27.0% of the operating income of the Bank.

Retail customers

Facing new trends in the economy, the Bank pays attention to the improvement of customer service and the enrichment of the service channels, captures customers' diversified financial demand and establishes a new customer value-added service system in order to comprehensively optimise retail customers' experience. The Bank innovated its service model by serving the communities around its outlets and providing financial and non-financial services with "warmth" to the residents in the communities. The "happy community" and "happy kitchen" series charity activities were organised mainly for the elderly customers to comprehensively satisfy their various needs such as entertainment, healthcare and wealth accumulation, thus forming a complete elderly care financial comprehensive service system. The Bank also continuously explored digitalisation transformation and set up a scientific, intelligent and comprehensive customer service model. As at 30 June 2021, the Company had 13.8326 million retail deposit customers, representing an increase of 180.9 thousand as compared to the end of last year. The number of customers with personal financial assets (in RMB and other currencies) over RMB300,000 amounted to 321,700, representing an increase of 16.6 thousand or 5.43% as compared to the end of last year.

Retail deposits

The Company provides demand and time deposits service to retail customers based on statutory interest rate and the floating interest rate range, which are mostly denominated in RMB with only a small portion being denominated in foreign currencies.

As at 30 June 2021, the total retail deposits of the Bank (in RMB and other currencies) amounted to RMB298,290.4 million, representing an increase of RMB18,959.0 million or 6.8% as compared to the end of last year. The average balance of retail deposits (in RMB and other currencies) amounted to RMB289,746.6 million, representing a year-on-year increase of RMB42,828.1 million or 17.3%. Demand deposits accounted for 17.4% of retail customer deposits balance. According to the statistics provided by the Harbin branch of the PBOC, the balance of retail deposits of the Harbin branch of the Company ranked in the first place in the regional market (excluding village and township banks) with a market share of 18.3% as at the end of the Reporting Period. It also ranked first in the regional market in terms of the increase in retail deposits.

Retail loans

During the Reporting Period, upholding its featured development strategy of microcredit and the “customer-oriented” approach, the Bank leveraged its advantages in the comprehensive value of retail loans to contribute for the Bank’s brand and value, depending on scenario-based model for comprehensive retail business, primarily residence scenario and supplemented with health, education, culture and entertainment, consumption, transportation and finance scenarios. The Bank constantly applied the concept of big data and mobile internet and focused on groups of customers who had house(s), scenario-based customer groups and quality existing customer groups. The Bank optimised and upgraded the operation model of “touch net” based on the “full life cycle” demand of customers, and continuously improved customer service experience. The Bank constantly created a standardised, digital, and professional product service model for retail loans, realised a full-product online operating system, and promoted the new experience of “Internet +” through the improvement in marketing accuracy and effectiveness in securing a huge number of customers by means of exploring the existing customers and third-party platforms docking. The Bank also deepened the application of retail internal assessment results in the whole business process, continuously improved the “model + rules” smart decision-making mechanism, and promoted the intelligent transformation of retail business approval, which in turn further enhanced the efficiency of decision making and credit risk control capabilities of the retail business of the Bank.

In active response to the national call, the Bank fully supported rural revitalisation, enriched the inclusive customer groups of “agriculture, rural areas and farmers”, and focused on supporting new agricultural operation entities, with professional large households, family farms, and characteristic planting and raising customers as the core. Through penetrating into agricultural production and operation scenarios, with the assistance of “big data + whitelist”, the Bank achieved precision marketing, actively cultivated new momentum for technology-driven agriculture-benefiting services, improved the omni-channel service model for farmers, and constantly upgraded “mobile banking + WeChat bank” agriculture-benefiting smart services.

As at 30 June 2021, the balance of the Bank’s personal loans reached RMB127,989.0 million, representing an increase of 6.5% as compared to the end of last year, and accounted for 43.5% of the Bank’s total loans to customers. Of which, the balance of loans to small and medium enterprise owners, personal consumption loans and loans to farmers amounted to RMB33,558.4 million, RMB77,136.9 million and RMB17,293.7 million, respectively, and accounted for 26.2%, 60.3% and 13.5%, respectively, of the Bank’s total personal loans.

Management Discussion and Analysis

Bank cards

During the Reporting Period, the bank card business of the Bank maintained steady growth. As at 30 June 2021, the total number of credit cards issued by the Company reached 1,448.1 thousand, representing an increase of 13.3% as compared to the end of last year, of which 170.5 thousand were newly issued during the Reporting Period, representing an increase of 132.4% as compared to the number of new cards issued in the same period of last year. The credit card asset balance amounted to RMB15.38 billion, representing an increase of 10.6% as compared to the same period of last year.

As at 30 June 2021, the number of debit cards issued by the Company recorded a steady increase. The total number of issued debit cards reached 17.3939 million, of which 200.0 thousand were newly issued during the Reporting Period.

Wealth management business

The wealth management business of the Company revolves around the appreciation of the value of customers' family wealth management. The Bank continues to diversify its product offerings, widens its online sales channels, with a focus on the financial scenarios such as healthcare for the elderly, children and education. It provides integrated services deeply within the community, and dedicates itself to providing professional, convenient and high-quality wealth management service to customers' families. As at 30 June 2021, the Company realised total sales of personal wealth management products of RMB40.351 billion.

(II) Corporate Finance Business

In the first half of 2021, the Company's corporate finance business closely focused on the theme of "comprehensive improvements" with "returning to the basics, focusing on key areas, optimising the structure, reshaping the foundation" as its main goal. The Company actively implemented the service philosophy of "being customer-oriented and focusing on team management", supported the development of the local real economy, and created a customer comprehensive financial service system with full life cycle, forming an integrated and comprehensive financial service pattern with "quick response to customer needs, service plans with collaborated design, and coordinated advancement of financial services".

During the Reporting Period, the corporate finance business of the Bank recorded a profit before tax of RMB429.4 million, accounting for 34.2% of the profit before tax of the Bank; the Bank actively implemented expense reduction policies and recorded an operating income of RMB2,565.6 million, representing a decrease of 25.8% as compared to the same period of last year and accounting for 41.8% of the operating income of the Bank.

Corporate customers

By leveraging the Bank's strengths in cross-regional operation layout and outlet resources, and closely following the direction of the national strategy, the Bank adhered to customer-orientation and practicably satisfied the financing demand of customers, continuously improved product innovation and comprehensive service capabilities, and actively strengthened the cross-selling service model of the Company + investment bank and the Company + micro and small enterprises + retail, realising precise marketing to core customers and comprehensive financial service management. In particular, the Bank conducted marketing activities for projects including Heilongjiang Province's "Top Hundred Projects (百大項目)", "Featured Industry Projects (特色產業項目)", and "Free Trade Zone Key Projects (自貿區重點項目)", and realised active and precision marketing through further optimising customer stratification mechanism, business management structure and marketing service process. The Bank also established an exclusive direct service team for the province to provide customers with professional, characteristic and efficient financial services. As at 30 June 2021, the Company had 87.5 thousand corporate deposit customers.

Corporate deposits

During the Reporting Period, the Bank proactively carried out green deposit marketing, and continued to optimise its debt structure. The Bank deepened its institutional business layout, strengthened cooperation with governments at various levels, enhanced the coverage of institutional business qualifications, actively participated in government deposit bidding, and took multiple measures simultaneously to increase the scale of institutional deposits. The Bank also put greater efforts to grow its customer base, and organised activities to attract large groups of customers. By strengthening the application and promotion of key products through flexible promotions and combined application of products, the Bank consolidated the settlement customer base. The Bank also carried out scenario-based marketing to achieve precise customer acquisition from targeted groups. As at 30 June 2021, the balance of corporate deposits of the Bank amounted to RMB191,120.2 million, representing an increase of RMB1,171.6 million or 0.6% as compared to the end of last year. As at 30 June 2021, the average daily balance of corporate deposits of the Bank amounted to RMB187,342.9 million, of which time deposits and demand deposits accounted for 47.4% and 52.6% respectively. In particular, the average daily balance of demand deposits with proportion to total corporate deposits increased by 1.5 percentage points year-on-year.

According to the statistics provided by the Harbin branch of the PBOC, as at the end of the Reporting Period, the balance of corporate deposits of the Harbin branch of the Company accounted for 13.7% of corporate deposits in the local market, ranking first in this region.

Management Discussion and Analysis

Corporate loans

During the Reporting Period, the Bank adhered to the business philosophy of “Inclusive Finance, Harmonious Co-enrichment (普惠金融·和諧共富)”, focused on supporting urban infrastructure, transformation of resource-based cities, water and heating supply and other livelihood construction, and cooperated with local governments to scale up support for infrastructure construction projects. The Bank also actively promoted the implementation of a series of policy measures such as the “top hundred projects”, key projects in Heilongjiang Province, and the list of key industrial projects in Harbin, so as to increase credit supply to various industries and enterprises, and increase its financial support for the private sector and micro and small enterprises. Meanwhile, the Bank concentrated on increasing support in the field of technology and finance, promoted work in multiple dimensions such as product innovation, system innovation and system construction, and actively performed its corporate social responsibilities. As at 30 June 2021, the total corporate loans of the Bank amounted to RMB164,829.4 million, representing an increase of RMB6,277.6 million as compared to the beginning of the year and accounting for 56.0% of total loans.

Intermediary services

During the Reporting Period, the Bank continued to strengthen its management of intermediary business by combining market environment with policy guidance, focusing on the diverse financial service needs of customers, actively promoting the construction of corporate payment and settlement product systems and platforms, and constantly improving treasury management platforms and bill pool product function in financial scenarios, such as finance, housing construction, bidding, trade and financing, and capital supervision. The Bank strived to build a comprehensive financial service system integrating payment, settlement, corporate property management and value-added service, strengthened technology empowerment, and continuously improved its customer service capabilities.

During the Reporting Period, the corporate finance business of the Bank recorded a non-interest income of RMB115.2 million, representing a decrease of 34.9% as compared to the same period of last year.

(III) Financial Market Business

For financial market business qualification, the Company is a Class A settlement member of the national interbank bond market in China, a member of the underwriting syndicate of financial bonds of China Development Bank and Agricultural Development Bank of China, a member of the underwriting syndicates of local government bonds of Heilongjiang Province, Sichuan Province, Liaoning Province, Tianjin municipality, Dalian municipality and Chongqing municipality, a quoting bank of China Bond Valuation, a member of the SHIBOR quoting syndicate of National Interbank Funding Center, a member of the council for the National Debt Association of China and a member of the underwriting syndicate of debt financing instruments of non-financial enterprises. The Bank has multiple business qualifications including standing facilities, medium-term lending facilities, derivative transactions and as a Rouble market maker.

For product innovation, during the Reporting Period, the Company engaged in, among other things, bond lending and mutual fund investment, to replenish its product line in the financial market and set up a more diverse and operable product system for the financial market.

During the Reporting Period, financial institutions businesses of the Bank recorded an operating income of RMB1,753.0 million with a year-on-year decrease of 22.1%, accounting for 28.6% of the operating income of the Bank.

Bond Investments and Transactions

During the Reporting Period, as affected by multiple factors including the outbreak of the pandemic domestically and internationally, the intensive introduction of global fiscal and monetary policies, and the uncertainty of economic fundamental recovery, the interbank yield fluctuated widely, bringing harsh challenges to investors in the market. The Bank maintained strategic determination, paid close attention to economic environment and market changes, strengthened judgment of market interest rate trends, and dynamically adjusted bond investment structure. By accurately grasping the rhythm of transactions, decisively implementing trading strategies and obtaining disposal returns, the Bank effectively increased the comprehensive yield level of bond investments. Moreover, the Bank actively participated in the underwriting of policy financial bonds and local government bonds, and supported the development of the real economy through bond investment.

As at 30 June 2021, the total investments in bonds of the Bank amounted to RMB86,250.9 million, representing an increase of RMB5,468.2 million or 6.8% as compared to the end of last year.

Investment banking business

During the Reporting Period, the Bank closely monitored the changes in domestic and international economic environment and market, closely followed the national policies and regulatory guidelines, and fully supported the resumption of work and production after the pandemic. In terms of investment strategy, the Bank continuously increased the investment in and proportion of standardised products and rationally deployed asset allocation, so as to further optimise the asset structure. As at 30 June 2021, total investment in debt instruments issued by financial institutions amounted to RMB139,519.9 million, thus effectively supporting the real economy in overcoming difficulties during the pandemic.

Wealth management business

During the Reporting Period, the Company issued 35 wealth management products, raising funds amounting to RMB40,561 million in total. As at 30 June 2021, the balance of non-principal protected wealth management products amounted to RMB52,960 million, among which the balance of existing net-value wealth management products amounted to RMB31,280 million. The Company recorded stable growth in the number of wealth management customers, which reached 1,140 thousand as at the end of the Reporting Period, representing an increase of 20.53% as compared to the end of last year. The balance of wealth management products held by retail customers reached 99.07% of the total.

Management Discussion and Analysis

The Company strictly complied with the requirements of the latest asset management regulations, wealth management regulations and other regulatory systems, and continued to promote the transformation of its wealth management business. In respect of product transformation, the balance of net-value products represented 59.06% of the total balance of all wealth management products, representing an increase of 16.9 percentage points as compared to the end of last year. Among which, the balance of wealth management products adopting the “fixed income +” investment strategy was RMB15,708 million, accounting for 50.22% of the total balance of all net-value wealth management products. In respect of product innovation and establishment, the net-value wealth management product system has become more and more mature. On the basis of deep cultivation of fixed income products, the Company actively expanded the types of fixed income enhancement, hybrid and equity products to meet the diversified investment needs of segmented customer groups and help customers actively participate in the capital market. In respect of sales transformation, the Company continued to enhance investor education, promote the acceptance level of customers on net-value wealth management products as well as medium and high risk products, and educated investors about the concept of long-term rational investment. The balance of net-value wealth management products that had a term of more than 1 year accounted for 44.42% of the total. In respect of compliance and rectification, the Company completed the compliance reform of the wealth management platform and channels, which enabled the Company’s electronic channels to realise the compliance display of net-value wealth management products and process for customers to purchase wealth management products.

During the Reporting Period, the Company was awarded the “2020 Excellent Bank Award for Banking Wealth Management Registration (2020年度銀行業理財登記優秀銀行獎)” issued by the National Banking Wealth Management Registration & Depository Center (全國銀行業理財登記託管中心). The Company has been awarded by the National Banking Wealth Management Registration & Depository Center for five consecutive years.

(IV) Key Featured Businesses

1. *Microcredit business*

During the Reporting Period, the Bank, adhering to the business philosophy of “Inclusive Finance, Harmonious Co-enrichment”, with a focus on customer-orientation and the guiding philosophy of microcredit strategy, accelerated the financial technology application and digitalisation transformation, comprehensively improved its service capacity, innovated the business model and management mechanism, continued to drive the implementation of microcredit strategy, and built up its characteristic microcredit brand. As at 30 June 2021, the balance of the Bank’s microcredit loans reached RMB193,367.8 million, representing an increase of RMB14,247.2 million as compared to the end of last year and accounting for 65.7% of the Bank’s total loans to customers.

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

	As at 30 June 2021		As at 31 December 2020	
	Amount	% of total	Amount	% of total
	(In RMB million, except percentages)			
Loans to small enterprises	65,378.8	33.8%	58,946.3	32.9%
Personal loans	127,989.0	66.2%	120,174.3	67.1%
Total balance of microcredit loans	193,367.8	100.0%	179,120.6	100.0%

Small and micro enterprise finance business

During the Reporting Period, under the guidance of the microcredit strategy and the “customer-oriented” principle, the Bank strengthened product management and upgrade, created featured products for small and micro financial services, focused on customer positioning and market expansion, provided microfinance customers with a full range of financial services integrating “professional team, exclusive solutions, and dedicated channels”, and continued to improve its small and micro financial client service capabilities to consolidate customer base.

During the Reporting Period, the Bank closely followed the economic trend, implemented the whole-process risk management, refined default and early warning characteristic indicators, and continued to improve the active risk management mechanism for small and micro businesses by way of, white list screening, internal assessment system optimisation, and whole-process internal control layout. At the same time, the Bank established a long-term risk monitoring mechanism, implemented comprehensive risk investigations in an on-site + off-site manner, promoted the full application of online post-loan management models, and continuously improved its risk management and control capabilities.

During the Reporting Period, the Bank continued to promote the establishment of an “online + offline” operation service system for small and micro financial business, and actively deployed online service channels based on the principles of intensive, professional and efficient, which effectively improved the performance of client end and business process operation services. At the same time, the Bank strengthened the construction of talent teams, and adopted a progressive and hierarchical training model to improve the professional level of small and micro financial teams.

As at 30 June 2021, the balance of the Bank’s loans to small enterprises amounted to RMB65,378.8 million, representing an increase of 10.9% as compared to the end of last year. The balance of NPLs for the small enterprises was RMB2,377.6 million and the NPL ratio was 3.64%.

Management Discussion and Analysis

Consumer finance business

During the Reporting Period, the Company continued to put the philosophy of “Inclusive Finance” into practice by constantly establishing an all-rounded comprehensive consumer finance service (product) system, expanded the quality business scenarios, and enriched innovative products and services to improve customer experience. By centring on strategic planning and accelerating the in-depth integration of digital technologies such as big data, cloud computing and AI and traditional financial services, the Company realised the integration of online and offline. Through continuous development of service scenarios, as well as the development and application of cutting-edge technologies, the Company improved the customer acquisition capabilities, risk control capabilities, and product operation capabilities of the Company’s consumer finance business, thereby broadening consumer financial service scenarios and customer coverage, and improving the inclusiveness of consumer finance services. During the Reporting Period, the Company significantly improved its core competencies in consumer finance business, including digital risk control capabilities, refined operation capabilities, and intelligent management capabilities, further accelerating the process of the Company’s digitalisation transformation. The consumer finance policy environment and industry environment continued to benefit the development of consumer finance business.

As at 30 June 2021, the balance of the Bank’s personal consumption loans amounted to RMB77,136.9 million.

2. Sino-Russia financial services

In 2015, the Company, as the Chinese promoter and the chairing company, together with Sberbank of Russia, initiated the establishment of the first platform for the cooperation and interaction among financial institutions of China and Russia, namely the Sino-Russia Financial Council. There were 35 founding members, and the number of members was 73 during the Reporting Period. Based on the development objective of “resources sharing, complementary advantages and mutually beneficial cooperation”, the Council is committed to giving full play to the advantages of an open and integrated platform, improving the Sino-Russian cross-border financial cooperation mechanism, consolidating the business and resource advantages of member institutions, upgrading the cross-border financial cooperation model, actively innovating Russian financial products and improving comprehensive service capabilities, and enhancing the participation and integration of financial institutions of the two countries in cross-border industrial projects, which promoted the innovation and improvement of Russian financial services, and further enhanced the service level and influence of the Sino-Russian financial market.

During the Reporting Period, the Company conducted two RMB cross-border interbank financing transactions with Russia’s only policy bank, and the funds were used to support the Sino-Russian economic and trade exchanges as well as the construction of key projects, which further promoted the use of cross-border RMB in the “Belt and Road” countries. As the first commercial bank in China that successfully joined the SberCIB Terminal, the foreign exchange trading platform of Sberbank of Russia, the Company continued to deepen cooperation with Russia’s largest state-owned commercial bank and the Russian chairman unit of the Sino-Russian Financial Council in various sectors. In addition, the Company actively established RMB and Rouble correspondent accounts for domestic and foreign banks, expanded direct channels for clearing and settlement with Russia, promoted the development of Sino-Russia local

currency settlement, and continued to play a pivotal role in cross-border clearing and settlement with Russia. As at 30 June 2021, the Company had 27 Russia accounting banks and balance of Russian interbank financing of RMB2 billion, which played an important role in the development of Sino-Russia financial cooperation.

During the Reporting Period, the Company successfully completed the development, launch and implementation of the CIPS (Cross-border Interbank Payment System), becoming the third domestic city commercial bank to access the CIPS as a direct participant, and the only domestic commercial bank that relied on the characteristics of Russian financial services to obtain such qualification. As at 30 June 2021, the Company handled Russian cross-border RMB transactions in an amount of more than RMB2 billion in total, and successfully entered into a cooperation agreement with the first Russian indirect participant bank, effectively boosting the process of RMB internationalisation. At the same time, in order to optimise cross-border clearing and settlement services, the Company fully launched the SWIFT GPI service, which may achieve full transparency of fund transaction costs in cross-border remittance transactions, trackable and traceable entire process of remittance status, and complete transmission of remittance information, significantly improving the efficiency and transparency of cross-border remittances.

During the Reporting Period, in reliance on the Russian settlement service centre established in the Harbin area of the Heilongjiang Free Trade Zone, the Company focused on the innovation in the free trade zone, and launched the “Russian Express” (俄速匯), a Russian featured settlement product, and the featured exchange rate hedging products for foreign exchange trading in Rouble, which achieved breakthroughs in business innovation such as cross-border RMB direct investment business, foreign investment and cross-border direct investment in Russia, and further improved the financial service system of the free trade zone. At the same time, the Company continuously upgraded the strategic cooperation with key Russian state-owned enterprises, leading private enterprises and comprehensive free trade zone open cooperation platforms with constant breakthroughs in key businesses such as Chinese-funded US dollar bonds, and further improvement and upgrade in the financing model of “cross-border commercial banks + cross-border investment banks”. In addition, the Company leveraged its geographical advantages to actively provide Rouble liquidity for the market. By implementing a differentiated market-making strategy, the Company ranked first in the ranking of the best Rouble price quotes in the interbank foreign exchange market.

Cross-border E-commerce payment and settlement

The cross-border E-commerce financial business of the Company maintained its robust development and constantly enriched the variety of Sino-Russia online settlement products. It can now support more than ten mainstream payment tools in Russia, such as MIR, YANDEX and WALLET ONE, and the online real-time payment, collection and settlement of more than 60 currencies with international credit cards such as MASTERCARD and JCB. During the Reporting Period, the volume of transaction settlement increased by RMB334 million, and the aggregate transaction settlement volume reached RMB15.6 billion. The platform project continued to be included under the management of the National Major Construction Project Repository of the National Development and Reform Commission as a major construction project of “the Belt and Road Initiative”.

3. *Agriculture-benefiting finance business*

During the Reporting Period, based on the overall situation of rural revitalisation and development, the Company focused on “agriculture, rural areas and farmers” inclusive finance for long, and continued to make efforts. Through innovating the products and services of agriculture-benefiting finance, the Bank improved its service capabilities for farmer customer groups and continuously provided internal growth drivers for the rural revitalisation, new rural construction and agricultural industry modernisation, effectively assisting the inclusive cause of “agriculture, rural areas and farmers” to reach a new level of high-quality development.

During the Reporting Period, the size of the Company’s loans to farmers reached the highest level in history. With the continuous optimisation of agriculture-benefiting structure, and the construction of a large-scale farmers benefiting online database, the investment of new agricultural subjects accounted for more than 85% of the total. The Company launched the first black soil land protection loan product in the province, and realised the first grant of “black soil loan” (黑土貸). By enriching and upgrading the agriculture-benefiting financial product system, the Company introduced exclusive services targeting new agricultural business entities, Chinese herbal medicine planting, “beef and dairy cattle and hog” (兩牛一豬) raising, black soil protection, high-standard farmland construction, agricultural socialisation service organisations and other national key support areas. The Company continued to deepen comprehensive financial services, retail asset-liability coordinated development, cross-promotion of marketers and scenarios, and established a full-field service model from debt to asset and from hall to village. The large-scale farmers benefiting club further enhanced its brand appeal with the number of members increasing to 1,775. The “Agricultural Flash Loan 3.0” (農閃貸3.0) big data project achieved initial results, and the online and intelligent agricultural loan model commenced to be fully promoted.

As at 30 June 2021, the balance of the agricultural loans of the Company amounted to RMB36,341 million, and the balance of the loans to farmers amounted to RMB17,293.7 million, with the scope of service covering the majority of rural village markets of 11 cities in Heilongjiang Province and 6 major Agricultural Cultivation Bureaus as well as some rural villages of Chengdu, Chongqing, Shenyang, Tianjin and Dalian areas which locate outside the province, greatly promoting the economic development of county areas and the prosperity of rural financial markets of Heilongjiang Province, and supporting the rural areas to achieve comprehensive revitalisation.

(V) Connected Transactions as Defined by the CBIRC

During the Reporting Period, the Bank conducted connected transactions with major shareholders of the Bank, their controlling shareholders, actual controllers and affiliates as defined by the CBIRC (hereinafter referred to “**major shareholders and their affiliates**”), within the scope of normal operation of the Company. The terms and conditions and pricing of the transactions were in line with the general requirements of the Bank’s business management and the requirements of the regulatory authorities. The transactions were not conducted in terms more favourable than those provided to other borrowers or counterparties. The business procedures also met the relevant requirements of the regulatory authorities and the Bank’s related party transaction management rules.

The major shareholders of the Bank as defined by the CBIRC are shareholders who hold or control not less than 5% of the shares or voting rights of the bank or that hold less than 5% of total capital or total shares of the bank but have significant impact on the business management of the bank.

During the Reporting Period, the connected transactions between the Bank and the Bank’s major shareholders and their affiliates were mainly deposit, credit transactions and capital transactions, all of which were performed normally, and did not have a negative impact on the Bank’s operating results and financial position.

1. Information of the related parties

Information of the related parties of the Bank

Name of enterprise	Relationship with the Bank	Business nature or type	Principal business	Legal representative	Place of registration	Registered capital and its changes
Harbin Economic Development and Investment Company Limited (哈爾濱經濟開發投資有限公司)	Major shareholder	Limited liability company	Financial investments in fixed-assets of municipally-owned enterprises and others and receipt of dividends in return.	Zhang Xianjun	Harbin City	RMB2,307.522 million
Heilongjiang Financial Holdings Group Co., Ltd. (黑龍江省金融控股集團有限公司)	Major shareholder	Limited liability company	Investment and asset management and capital investment services; non-public offering of securities investment funds; holding company services; and financial information services.	Yu Hong	Harbin City	RMB9,230.00 million

Management Discussion and Analysis

Name of enterprise	Relationship with the Bank	Business nature or type	Principal business	Legal representative	Place of registration	Registered capital and its changes
Harbin Heli Investment Holdings Co., Ltd. (哈爾濱合力投資控股有限公司)	Major shareholder	Limited liability company	Management and operation of self-owned assets, development, external investment and investment consultation for projects of high-tech enterprises and projects favourable for the development of the development zone (except for those subject to special national approval); real estate development and operation, land development, contracting and construction management of infrastructure construction, municipal and building construction; procurement of construction materials, and provision of relevant technical consultation and technical services; heat supply within the operation scope as approved under the qualification certification issued by provincial construction department; coal operation (no high-pollution fuels inside combustion forbidden zones).	Cui Xitao	Harbin City	RMB1,900.00 million
Harbin Investment Group Corporation Limited (哈爾濱市投資集團有限責任公司)	A related party of the Bank's major shareholder Harbin Economic Development	Limited liability company	Engaging in investment and investment information consulting for fixed assets, infrastructure, energy, heating, high-tech industries, resource development projects; organising the implementation of thermal power projects and heating projects, infrastructure construction, land consolidation, and equity investment operations (The above projects require special national approval certificates for operation).	Zhao Hongbo	Harbin City	RMB5,000.00 million

Management Discussion and Analysis

Name of enterprise	Relationship with the Bank	Business nature or type	Principal business	Legal representative	Place of registration	Registered capital and its changes
Harbin Daoli Real Estate Operation and Property Management Co., Ltd.(哈爾濱道里房產經營物業管理有限責任公司)	A related party of the Bank's major shareholder Harbin	Limited liability company Economic Development	Direct and entrusted management of real estate operation and management, property management, heat supply and collection of related fees as an agent; heat supply energy saving technology development services, centralised heat supply project for the preparation, construction and installation of GB type GB(2) grade pressure pipes (for branch operations only); pipeline installation (excluding pressure pipes), plastic steel window production and installation.	Wang Yuzhe	Harbin City	RMB10.00 million
Harbin Daowai Real Estate Operation and Property Management Co., Ltd.(哈爾濱道外房產經營物業管理有限責任公司)	A related party of the Bank's major shareholder Harbin	Limited liability company Economic Development	Real estate operations, property management, heat supply.	Sun Ruzheng	Harbin City	RMB5.00 million
Harbin Jinshanbao Heat Supply Co., Ltd.(哈爾濱金山堡供熱有限公司)	A related party of the Bank's major shareholder Harbin	Limited liability company Economic Development	Centralised heat supply; property management and collection of related fees as an agent.	Gao Baikuan	Harbin City	RMB50.00 million
Harbin Huaneng Centralized Heat Supply Co., Ltd.(哈爾濱市華能集中供熱有限公司)	A related party of the Bank's major shareholder Harbin	Limited liability company Economic Development	Heat supply and property management for urban residents and industrial and commercial properties; warehousing (excluding dangerous goods).	Wang Yuzhe	Harbin City	RMB553.341 million

Management Discussion and Analysis

Name of enterprise	Relationship with the Bank	Business nature or type	Principal business	Legal representative	Place of registration	Registered capital and its changes
Harbin Taiping Real Estate Property Operation Co., Ltd. (哈爾濱市太平房產物業經營有限責任公司)	A related party of the Bank's major shareholder Harbin	Limited liability company	Real estate operation (public housing management, rent management, real estate replacement), heat supply, property management; maintenance of heat supply facilities and equipment; providing heat supply facilities and insulation materials for subsidiaries; cleaning; heat supply pipes, heaters; sewage cleaning.	Jiang Jian	Harbin City	RMB5.00 million
Harbin Property Heating Supply Group Co., Ltd. (哈爾濱物業供熱集團有限責任公司)	A related party of the Bank's major shareholder Harbin	Limited liability company	Property management, heating source and heating network construction, real estate operation and management, heating supply production, and car park operation and management.	Luan Biao	Harbin City	RMB687.811 million
Harbin Xiangfang Property Heat Supply Co., Ltd. (哈爾濱香坊物業供熱有限責任公司)	A related party of the Bank's major shareholder Harbin	Limited liability company	Operations of state-owned real estate and real estate under entrusted management, property management, house heating supply, house repair, road transportation of ordinary cargo, loading, unloading and carrying services for ordinary cargo, ordinary cargo warehousing services (excluding dangerous chemicals and toxic goods).	Yang Yanjie	Harbin City	RMB12.842 million
Harbin Automobile Exchange Market Co., Ltd. (哈爾濱汽車交易市場有限公司)	A related party of the Bank's major shareholder Harbin	Limited liability company	Purchase and sales of: motors, automobile accessory and daily goods; wholesale of automobile decoration and accessory; organise automobile exchange market; in-market property management; automobile after-sale service (exclude maintenance); acquisition, sales, consign, agency sell and buy, lease of used automobile, as well as accessory provision and information service; provision of automobile transfer, registration and agency insurance service; organise automobile exhibition and convention; organise corporate culture and exchange activities; lease of commercial equipment; venue leasing and property leasing.	Hu Xiaoping	Harbin City	RMB50.00 million

Management Discussion and Analysis

Name of enterprise	Relationship with the Bank	Business nature or type	Principal business	Legal representative	Place of registration	Registered capital and its changes
Harbin Nangang Real Estate and Property Management Co., Ltd. (哈爾濱市南崗房產經營物業管理有限責任公司)	A related party of the Bank's major shareholder Harbin	Limited liability company Economic Development	Transfer of real estate and property management; heat supply service in accordance with the qualification; agency service for paid transfer and swap of public housing, escrow of reserved properties and real estate brokerage and consultation service.	Gao Baikuan	Harbin City	RMB10.00 million
Harbin Huahui Thermolectric Co., Ltd. (哈爾濱華匯熱電股份有限公司)	A related party of the Bank's major shareholder Harbin	Limited liability company Economic Development	Provision of urban heat supply in accordance with the approval; provision of property management in accordance with the qualification; warehousing (except for those restricted in accordance with nation laws and regulations).	Xing Bo	Harbin City	RMB20.00 million
Harbin Entrusted Property Heat Supply Co., Ltd. (哈爾濱信託物業供熱有限責任公司)	A related party of the Bank's major shareholder Harbin	Limited liability company Economic Development	Urban heat supply; centralised heat supply, collection and payment of heating fees; sales and installation of measuring equipment; property management, property swap, property leasing, property management and agency service for collection of relevant fees; thermal power generation; ordinary cargo transportation.	Na Haitao	Harbin City	RMB5.50 million
Harbin New Residential Zone Heat Supply Property Co., Ltd. (哈爾濱住宅新區供熱物業有限責任公司)	A related party of the Bank's major shareholder Harbin	Limited liability company Economic Development	Property management (class I), heat supply, paid transfer of rights of use of public residential properties and public non-residential properties, and real estate agency services.	Zhao Dexin	Harbin City	RMB7.90 million
Harbin Pingfang Property Heat Supply Co., Ltd. (哈爾濱平房物業供熱有限責任公司)	A related party of the Bank's major shareholder Harbin	Limited liability company Economic Development	Property management companies; property management; general projects: house heating, house management, house maintenance, heat source construction. Distribution: water supply equipment.	Xing Bo	Harbin City	RMB20.00 million

Management Discussion and Analysis

Name of enterprise	Relationship with the Bank	Business nature or type	Principal business	Legal representative	Place of registration	Registered capital and its changes
Harbin Heat Power Co., Ltd.(哈爾濱市熱力有限公司)	A related party of the Bank's major shareholder Harbin Economic Development	Limited liability company	Supply and sale of steam and hot water, heat supply and equipment maintenance and management, repairmen of electric instruments; construction of pipeline works; installation for building heating system; property leasing.	Gao Baikuan	Harbin City	RMB163.861 million
Heilongjiang Suibao Thermoelectric Co., Ltd.(黑龍江歲寶熱電有限公司)	A related party of the Bank's major shareholder Harbin Economic Development	Limited liability company	Power generation, heating, coal operation and sales. Production of cement, cement products, composite calcium-increasing liquid slag powder, calcium-increasing high-efficiency ash, calcium-increasing compound ash, calcium-increasing slag, calcium-increasing slag powder and compound fertiliser (limited to branch operation); heating project construction.	Zhang Xianjun	Harbin City	RMB93.70 million
Harbin Venture Capital Group Co., Ltd.(哈爾濱創業投資集團有限公司)	A related party of the Bank's major shareholder Harbin Economic Development	Limited liability company (state-owned)	Engaging in venture capital business; venture capital consulting business; providing business venture management services for venture enterprises; participating in the establishment of venture capital enterprises and venture capital management consulting institutions; accepting government commissioned services; entrepreneurial space services, entrepreneurial guidance services; socio-economic consulting (excluding futures investment consulting); real estate lease operation.	Xu Songdan	Harbin City	RMB1,124.50 million

Management Discussion and Analysis

Name of enterprise	Relationship with the Bank	Business nature or type	Principal business	Legal representative	Place of registration	Registered capital and its changes
Harbin Water Supply Group Co., Ltd. (哈爾濱供水集團有限公司)	A related party of the Bank's major shareholder Harbin Economic Development	Limited liability company (solely state-owned)	Investment in water supply and drainage industry, urban tap water, raw water, landscape water production and supply business activities; manufacturing and sales of water supply pipe fittings, supply meters; water supply engineering design (branch); urban water supply facilities planning, maintenance, engineering construction, management and construction; management of municipal facilities; lease of venues and houses; information technology consulting services.	Sun Ming	Harbin City	RMB642.45 million
Harbin Junxin Financing Guarantee Co., Ltd. (哈爾濱均信融資擔保股份有限公司)	A related party of the Bank's major shareholder Harbin Economic Development	Other joint stock company	Financing guarantee business.	Li Mingzhong	Harbin City	RMB600.60 million
Heilongjiang University Student Startup Financing Guarantee Co., Ltd. (黑龍江省大學生創業融資擔保有限公司)	A related party of the Bank's major shareholder Heilongjiang Financial Holdings	Limited liability company	Financing guarantee business: including loan guarantee, bonds issuance guarantee and other financing guarantee business; non-financial guarantee business: including tender guarantee, construction contract performance guarantee, litigation preservation guarantee and other non-financing guarantee business; service business including consultation related to guarantee business; other businesses in compliance with the laws and regulations.	Gu Tiaojiao	Harbin City	RMB200.00 million

Management Discussion and Analysis

Name of enterprise	Relationship with the Bank	Business nature or type	Principal business	Legal representative	Place of registration	Registered capital and its changes
Heilongjiang Xinzheng Financing Guarantee Group Co., Ltd. (黑龍江省鑫正融資擔保集團有限公司)	A related party of the Bank's major shareholder Heilongjiang Financial Holdings	Limited liability company	Financing guarantee; re-financing; guarantee for bond issuance; litigation provision guarantee; performance guarantee; entrusted loans; logistic supervision; financing consultation in relation to guarantee operation, intermediary services such as financial consultation; investment using self-owned funds.	Li Jinsong	Harbin City	RMB4,601 million
Northeast China Small and Medium-Sized Enterprises Credit Re-Guaranty Co., Ltd. (東北中小企業信用再擔保股份有限公司)	A related party of the Bank's major shareholder Heilongjiang Financial Holdings	Limited liability company	Loan, bill acceptance, trade and project financing, import and export, letter of credit and other guarantee re-guarantee services; litigation preservation, bidding, advance payment, project performance and other guarantee re-guarantee services; disposal of counter-guaranteed assets; financing consulting, financial advisors and other intermediaries Services; investment business; other businesses not prohibited by laws and regulations. (The license is valid until 18 April 2021). (business subject to approval by law shall be conducted upon approval by competent authorities).	Li Shi Jie	Harbin City	RMB3,052.336 million
Harbin Economic and Technologic Development Zone Infrastructure Development and Construction Co., Ltd. (哈爾濱經濟技術開發區基礎設施開發建設有限公司)	A related party of the Bank's major shareholder Heli	Limited liability company	Planning, design, contracting and construction management of infrastructure works inside the development zone; development and construction of residential zone inside the development zone; sales of construction materials (exclude flammable materials); provision of heat supply service in accordance with the scope approved under the certification; coal operation (no high-pollution fuels inside combustion forbidden zones).	Yang Xuemei	Harbin City	RMB500.00 million

Management Discussion and Analysis

Name of enterprise	Relationship with the Bank	Business nature or type	Principal business	Legal representative	Place of registration	Registered capital and its changes
Yungu Technology Co., Ltd. (雲谷科技有限公司)	A related party of the Bank's major shareholder Heli	Limited liability company	Investment, construction and management of international data city; incubation and cultivation of technology enterprises and high-tech projects, development of computer software and hardware; computer system integration; computer network engineering; development, consultation and transfer of electronic, communication and opto-mechatronics system and network information technology; provision of planning, construction, management and organisational services for enterprises; exhibition and convention services; investment and investment management in technology industry, commercial industry, industrial industry and agriculture industry using self-owned assets; domestic trade; import and export of goods and technologies.	Liu Bo	Harbin City	RMB465.633 million

2. *Deposit transactions with the major shareholders and their affiliates*

As at the end of the Reporting Period, Harbin Economic Development, a major shareholder of the Bank, together with its affiliates had a deposit balance amounted to RMB2,708.3698 million in the Bank. Heilongjiang Financial Holdings and its affiliates had a deposit balance amounted to RMB2,359.1628 million in the Bank. Heli and its affiliates had a deposit balance amounting to RMB123.0147 million with the Bank.

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

(1) On-balance sheet transactions

During the Reporting Period, there were a total of 13 loan transactions conducted between related parties of Harbin Economic Development (a major Shareholder of the Bank), including Harbin Huahui Thermoelectric Co., Ltd., Harbin Jinshanbao Heat Supply Co., Ltd., Harbin Pingfang Property Heat Supply Co., Ltd., Harbin Huaneng Centralized Heat Supply Co., Ltd., Harbin Entrusted Property Heat Supply Co., Ltd., Harbin New Residential Zone Heat Supply Property Co., Ltd., and Harbin Venture Capital Group Co., Ltd. and the Bank with a transaction amount totalling RMB926.08 million. As at the end of the Reporting Period, the aggregate credit balance granted to Harbin Economic Development and its related parties amounted to RMB4,713.5099 million, accounting for 8.54% of the net capital of the Bank. During the Reporting Period, the related party transactions conducted between Harbin Economic Development and its related parties and the Bank were significant related party transactions, which had been considered and approved by the Board and submitted to the Heilongjiang Office of CBIRC for filing.

During the Reporting Period, the Bank's major shareholder, Heilongjiang Financial Holdings, had no loan transaction with the Bank. As at the end of the Reporting Period, Heilongjiang Financial Holdings and its related parties Heilongjiang Xinzheng Financing Guarantee Group Co., Ltd., Heilongjiang University Student Startup Financing Guarantee Co., Ltd., Northeast China Small and Medium-Sized Enterprises Credit Re-guaranty Co., Ltd. conducted guarantee transactions with the Bank with a total guarantee balance of RMB158.5863 million. During the Reporting Period, the related party transactions conducted between the related parties of Heilongjiang Financial Holdings, a major shareholder of the Bank, and the Bank were ordinary related party transactions.

During the Reporting Period, the Bank's major shareholder, Heli, and its related parties had no loan transaction with the Bank. As at the end of the Reporting Period, the aggregate credit balance granted to Heli and its related parties amounted to RMB3,246.4634 million, accounting for 5.88% of the net capital of the Bank.

(2) Off-balance sheet transactions

During the Reporting Period, Harbin Economic Development, a major shareholder of the Bank, and its related parties conducted 6 off-balance sheet transaction with the Bank with a transaction amount of RMB2.5303 million. The credit balance was RMB322.5303 million. The amount of each single transaction was less than 1% of the net capital of the Bank. The accumulated balance of on – and off-balance sheet accounted for 8.55% of the net capital of the Bank.

(VI) Information on Controlling Subsidiaries

1. *Village and township banks*

As at 30 June 2021, the Company had a controlling interest in 32 village and township banks with 47 village and township sub-branches, which were mainly located in the eastern, central and western regions of China. As at 30 June 2021, the total assets of the 32 village and township banks amounted to RMB26,136 million, of which the total amount of loans amounted to RMB13,322 million, representing an increase of 1.62% as compared to the end of last year and the balance of deposit amounted to RMB21,093 million, representing an increase of 4.70% as compared to the end of last year.

All village and township banks have thoroughly implemented the overall strategy of the Group. Centring on the “four adherences”, namely localisation, lower stream expansion, specialised operation and the market positioning of serving the “Agriculture, Rural Areas and Farmers” and small and micro enterprises, the village and township banks, driven by product innovation and service culture construction, revolved around features at different development phases of the village and township banks, with innovative business development and management evaluation models, gradually formulated a unique culture, ideology, management mode and working procedures, which enhanced the core competitiveness and made significant contributions to the overall development of the Company.

Management Discussion and Analysis

2. *HB Leasing*

Since its establishment, HB Leasing has made some achievements in respect of asset scale, accumulated leased amount, business innovation model and etc., and initially maintained leading position in domestic agriculture related leasing market. As at 30 June 2021, the total assets of HB Leasing amounted to RMB24,119 million, representing a decrease of 4.76% as compared to the end of last year. During the Reporting Period, the accumulated leased amount amounted to RMB4,663 million. The net profit during the Reporting Period was RMB252 million.

HB Leasing always strives to serve the real industry and the “Agriculture, Rural Areas and Farmers” and remains steadfast in its agricultural strategies. With “strategic focus, returning to the basics, outstanding characteristics and elevating values” as corporate goals and “pragmatic and efficient, innovative development, and inclusive and win-win” as business philosophy, HB Leasing strives to build a first-class domestic financial leasing company with distinct business features, scientific corporate governance, outstanding regional advantages, sophisticated product system, tightened risk prevention and leading managerial technique. By adhering to the characteristic and differentiated development path with a focus on maintaining operation efficiency through management, HB Leasing strives to develop its featured businesses, proactively creates new business growth source, deep ploughing the agriculture and agricultural equipment industries, and vigorously developing the agricultural machinery leasing business. On the basis of its “contactless leasing service model”, HB Leasing continues to build and optimise the agricultural machinery leasing and retail business model under the empowerment of science and technology. Through “Rongyizu (融易租)” and other featured products and service innovation, HB Leasing follows the path of becoming a leasing company engaging in real leasing business.

3. *HBCF*

HBCF is the 19th licensed consumer financial company approved by the CBIRC and also the first to receive strategic investments from internet giants in China, with the Company as its major founder and a registered capital of RMB1.5 billion.

Capitalising on the extensive experience in product, customer and technology that Harbin Bank has accumulated across over a decade of in-depth operation in micro credit business, and leveraging the shareholders’ resource advantages in leading financial technology and diverse business scenarios, HBCF gives full play to its advantages such as first-class core team, agile technological research and development, strong ability of risk control on self-development, excellent asset quality and rapid market response, and delves deep into the consumption scenarios. It targets at customers who are young and ambitious with consumption credit needs, relatively stable jobs, a certain degree of debt repayment ability and certain growth and development potential in the future, as well as the entrepreneur of small and micro businesses with certain consumption capacity and profitability, whose short-term consumption credit needs are not related to housing and cars.

As at 30 June 2021, the total assets of HBCF amounted to RMB13,887 million, representing an increase of 21.89% as compared to the end of last year; the total loans was RMB13,295 million, representing an increase of 25.46% as compared to the end of last year and realising the net profit of RMB61 million; the total number of people served exceeded 26 million, and the cumulative loan amount exceeded RMB100 billion.

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

(VII) Distribution Channels

1. *Physical Network*

As at 30 June 2021, the Company had a total of 311 branch outlets, including 17 branches, 292 sub-branches, 1 branch-level financial service centre for small enterprises and 1 headquarters business department.

2. *Electronic banking*

The Bank has built up an electronic service system combining online means such as mobile phone banking, online banking, WeChat banking, phone banking and offline self-service terminals. E-channels have become the main business channels of the Bank. As at 30 June 2021, the replacement rate of business transactions through the Bank’s electronic banking reached 97%, and that of mobile banking reached 75%, representing an increase of 2 percentage points and 8 percentage points as compared to the end of last year, respectively.

(1) **Self-service banking**

The Bank has provided various convenient services to customers through self-service terminals, including deposit and withdrawal, account inquiry, passbook updating, bill payment, wealth management, QR code withdrawal, passcode changing and transfer services. While enriching the equipment functions, the Bank made scientific arrangement and assignment of the use of self-service terminals of customers, thus enhancing the management efficiency of self-service terminals of the Bank. As at 30 June 2021, the Bank had 1,435 self-service terminals, including 522 BCDMs, 348 ATMs, 246 cash smart terminals, 217 non-cash smart terminals, 87 multi-media inquiry machines and 15 card issuance machines.

(2) **Online banking**

The Bank continues to expand the functions of online banking. Currently, personal online banking provides customers with account services, transfer and remittance, membership management, loan management, investment and wealth management, credit card, special services and other functions, while corporate online banking provides customers with account management, transfer and remittance, issuing and paying for others, investment and wealth management, electronic commercial drafts, bill pools, treasury management and other functions. As at 30 June 2021, a total of 4,196.3 thousand customers maintained their online banking accounts with the Bank, representing an increase of 19.11% as compared to the same period of last year.

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(3) Phone banking

The Bank provides 24-hour telephone banking services to customers through the unified national customer service hotline 95537, which includes account inquiries, bill payment, credit card business, verbal report of card loss, operator inquiry and outgoing calls. In the first half of 2021, the telephone banking customer service centre recorded a total of 1,091 thousand business calls, representing a decrease of 10.6% as compared to the same period of last year.

The Bank provides services including credit card consultancy, complaint and advice, reporting for loss and instalment through the unified national customer service hotline for credit card 4006695537. In the first half of 2021, the credit card customer service centre recorded a total of 976.6 thousand business calls, representing an increase of 14.88% as compared to the same period of last year.

(4) Mobile phone banking

The Bank continued to expand the functions of mobile phone banking. While providing customers with basic services such as account management, investment and wealth management, transfers and remittance, living payment and credit card etc., the Bank also focused on featured businesses such as microfinance and agriculture-benefiting finance, and provided guidance and constructed relevant scenarios for mobile banking customers. Meanwhile, the Bank launched personalised and customised services for special customer groups such as social security customers and elderly customers. It put people-benefit services into practice and enriched life channel functions in mobile phone banking, achieving the online and offline integration of financial services. As at 30 June 2021, the Bank had 2,964.6 thousand active mobile banking users, representing an increase of 29.37% as compared to the same period of last year.

(5) WeChat banking

The Bank continued to upgrade the customer service and marketing capabilities of WeChat banking, and launched a business hall mini program on WeChat platform offering a variety of financial services including wealth management, deposits, loans and insurance. At the same time, it provided diversified value-added daily-life services such as online medical insurance payment, medical insurance application, and provident fund inquiry and withdrawal. As at 30 June 2021, WeChat banking had over 3,169.9 thousand followers, representing an increase of 19.25% as compared to the same period of last year.

(VIII) Information Technology

Adhering to the service philosophy of “Science and technology stand by your side”, the Bank continuously deepened IT governance, improved service efficiency, and steadily advanced financial technology innovation. Committed to improving the level of technology empowerment, the Bank has built a customer-oriented, data-based digital bank.

1. *Continuously optimising technology governance system*

The Bank continued to optimise its technology governance system. Based on the Group’s perspective, the Bank pushed forward the optimisation and process transformation of the demand and R&D systems, and continuously improved service efficiency to support business development. The Bank implemented whole life-cycle management on projects, established and improved supervision and compliance inspection, project input and output analysis, as well as key issue tracking and implementation mechanisms, enhancing the Bank’s project management capabilities at an organisation level. During the Reporting Period, an online management and approval process for the entire process of technology projects was established to realise a statistical analysis of the unified handling and implementation of the Bank’s requirements. Nine information technology management policies were issued within the Group, which effectively supported the healthy and stable development of the Bank’s business.

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

The Bank accelerated system structure transformation and consolidated the foundation for digital transformation. The Bank facilitated the implementation of hyper-converged technology and built a comprehensive storage service system integrating economy and efficiency, which provided 52T NAS resources for the Bank’s 13 business systems during the Reporting Period. The Bank carried out the migration and transformation of the ODS layer of the new-generation data platform and continued to consolidate the basic performance of the data service system to support and guarantee the smooth operation of its businesses. Through active research on and exploration of the innovation and application of emerging technologies such as blockchain and Internet of Things in the field of financial services, the Bank promoted and led the innovation of financial services in information technology.

The Company continued to strengthen the construction of its emergency response system and actively advanced the rectification of risks related to business continuity. During the Reporting Period, the Company completed the construction of same-city disaster recovery environment for 25 application systems including the intermediary business platform and the inter-bank clearing system for online payment, and realised fault tolerance and disaster recovery standardisation and automation by developing and constructing disaster recovery and fault tolerance automation processes. Practical ability was thus achieved to effectively improve support for business continuity.

Management Discussion and Analysis

3. *Steadily improving the application capability of financial technology*

The Bank adhered to digital operations and continued to advance online and intelligent businesses. Leveraging the new-generation core system technology capabilities, the Bank accelerated the construction of cross-border, community, wealth management, life and other scenarios. The Bank built a comprehensive platform for Sino-Russia cross-border financing, providing comprehensive Sino-Russia cross-border financing services integrating domestic and foreign trade, domestic and foreign currencies and offshore and onshore services, including import trade chain financing, export trade chain financing and cross-border guarantee. The Bank established a treasury management platform, constructed a new corporate model that combines industry and finance, and created a treasury platform that integrates enterprise business flow, information flow, capital flow and payment flow. The Bank implemented a comprehensive development project for social security customers to provide convenient services for the public. The Bank promoted the construction of smart channels and smart operation capabilities, and built a smart customer service system, achieving full coverage of online channels. With the advancement of the RPA system construction, the efficiency of product configuration was improved with the configuration time of a single product reduced from 30 minutes to 5 minutes. A unified intelligent risk control platform was developed within the Group to build a whole-process digital risk control system, thereby comprehensively improving the Group's integrated intelligent risk control capability.

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

During the Reporting Period, the Company relied on the implementation of independent projects to continue to strengthen the controllability of research and development. The Company independently implemented a retail intelligent customer analysis platform and established a customer-oriented 360-degree labelling and profiling system, realising the transformation to a customer-oriented service model. Meanwhile, the Company continued to expand the scope of independent and controllable systems. 38 new independent and controllable products were developed as compared to the end of 2020, and the number of independent and controllable systems increased to 179.

5. *Accelerated promotion of data governance*

During the Reporting Period, the Bank focused on promoting data governance in core areas such as data standards and data quality. Focusing on data application, the Bank empowered its business with its characteristic business intelligence. Remarkable progress has been made in intelligent risk control and intelligent marketing. The intelligent risk control platform based on big data and independently developed by the Bank won the 2021 China's Outstanding Informatisation Innovation Case Award at the 17th China Commercial Bank Information Development Strategy Summit Forum.

6. *Constantly enhancing data security capability*

During the Reporting Period, the Bank normalised and carried out system-level protection, Internet output port monitoring and early warning, loophole scanning, intrusion detection and other data security tasks. The Bank effectively ensured network and information security by carrying out network security preparation and protection during key periods, implementing information security industry standards, conducting security assessments on the use of open source software and periodically carrying out information security training for all employees so as to enhance their awareness as to information security.

IX. Risk Exposure and Management

Adhering to the core concept of “risk management creates value” as always, the Bank guided the sustainable development of its business with the concept of active risk management, and facilitated the improvement of operational risk capabilities with financial technology thinking, thereby continuously improving the comprehensive risk management system based on the new capital agreement. Under the unified risk preferences, the Bank implemented risk strategies and risk limit management, and carried out the identification, measurement, monitoring and control of various risks in an orderly manner to provide guarantee for the realisation of the Company’s business and strategic goals.

During the Reporting Period, the Bank further improved its comprehensive risk management system, maintained strategic determination, strengthened risk research and judgment, and dynamically adjusted its strategies to effectively respond to the repeated impacts of the COVID-19 pandemic and the complicated and volatile domestic and international economic situations, ensuring the stable and sustainable development of the Bank’s businesses.

(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 portfolio, investment portfolio, 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 maximise the risk-adjusted return on capital and realise the identification, measurement, monitoring and control of credit risk.

During the Reporting Period, in connection with the prevailing economic situation, national policies and regulatory requirements, and upholding the customer-oriented service concept, the Bank continued to deepen the structural adjustment of its existing customer base, strengthened the empowerment of financial technology, and kept on improving refined risk management, so as to provide a strong support for its stable business development. Affected by factors such as the downward pressure on the macro economy and the impact of the COVID-19 pandemic, the scale of potential risky assets in the banking industry has increased, so has the pressure on credit risk prevention and control, posing various challenges for business operation and risk prevention and control in the future. In accordance with national policies and regulatory requirements, the Bank conscientiously reviewed the impact that may arise from the changes in the external operating environment on the Bank’s asset quality and business operations, appropriately increased provision for impairment, proactively strengthened risk prevention efforts, and did a good job in the management of potential risky assets. The Bank comprehensively considered the pressure scenarios of asset quality uncertainty, prudently estimated the capital gap under pressure, formulated capital replenishment plans, enhanced the ability to cope with uncertainties of the external environment, and continuously improved the Bank’s various operating indicators, so as to promote the high-quality development of the Bank.

Management Discussion and Analysis

The Bank continued to promote the optimisation and application of the results of the retail and non-retail internal evaluation systems, enhanced the capability and stability of risk identification models, and improved the reliability and stability of the Bank's internal rating system, laying a solid foundation for sound business development. Meanwhile, insisting on introducing compliant and authoritative data sources, the Bank built an intelligent anti-fraud risk control engine based on financial technologies such as big data, artificial intelligence and complex network, to enrich the authenticity verification channels of customer information, thereby effectively preventing fraud risks from the business front end. The Bank applied in depth the early warning rules for corporate profiles to continuously improve the timeliness, accuracy and intelligence of early warnings. The Bank promoted compulsory enforcement notarisation for collateral credit business, strengthened risk control and improved disposal efficiency. With a core focus on identifying the liquidity of collaterals, the Bank continued to improve the standardisation and regulation of the collateral risk evaluation system, introduced the latitude and longitude data of Baidu to identify the location of fraud, optimised and updated models and real estate parameters, and improved the accuracy and timeliness of collateral risk evaluation. The Bank continued to enhance the synergy between risks and businesses and strengthened the in-depth application of risk management to ensure stable and controllable asset quality.

(II) Liquidity Risk

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

During the Reporting Period, the Bank attached great importance to the management of liquidity risk, continued to optimise liquidity risk management framework and management strategies and continuously improved liquidity risk management technologies to ensure the sufficiency of funds under normal operations and under pressure, so as to provide a stable operating environment for its continued operations. The Bank actively adjusted the structure of assets and liabilities, continued to increase the absorption of customer deposits and interbank debt funds, broadened and stabilised the source of debt funds, paid close attention to the movements of the Central Bank and the local governments, fully implemented re-lending and rediscount monetary policies, and promoted the steady growth of core liabilities. The Bank strengthened the management of liquidity risk quota to reasonably control mismatched liquidity risks. The Bank regularly conducted stress tests for liquidity risk, strengthened the prudence and coverage of such stress tests, carefully evaluated future liquidity requirements, maintained sufficient high-quality liquid assets, continuously optimised the liquidity emergency management system, and improved the liquidity early warning mechanism, so as to ensure that the Bank's overall liquidity risk is under control.

(III) Market Risk

Market risk refers to the risk of loss on the Bank's on- and off-balance sheet businesses as a result of adverse changes in market prices (interest rates, exchange rates, stock and commodity prices). The market risks currently faced by the Bank are interest rate risk and exchange rate risk.

Interest rate risk refers to the risk of loss on the Bank's on-and-off balance sheet businesses as a result of adverse changes in interest rates. As to the transaction book interest rate risk, during the Reporting Period, the Bank closely followed regulatory requirements and financial market trends, continued to improve the transaction book market risk management system, optimised the setting up of market risk quota system, and continuously enhanced the effectiveness of market risk identification, measurement and monitoring. Through sensitivity analysis, duration analysis, PVBP analysis and other means of measurement, the Bank kept its market risks under effective prevention and control, and ensured its overall interest rate risk level was controlled within the acceptable scope. As to the banking-book interest rate risk, during the Reporting Period, the Bank paid close attention to policy trends and changes in the external interest rate environment, and improved the management capabilities of the banking-book interest rate risk. The Bank measured its banking-book interest rate risks mainly by adopting gap analysis, net interest income analysis, economic value analysis, stress testing and other methods, and analysed the impact on its net interest income and economic value through the simulation of interest rate fluctuation scenarios, thereby reasonably measuring the Bank's book interest rate risk.

Exchange rate risk refers to the risk of loss in the Bank's on- and off-balance sheet businesses as a result of adverse changes in exchange rates. The Bank's exchange rate risk exists mainly in its foreign currency related trading and non-trading businesses, including foreign currency loans, foreign currency deposits, proprietary foreign exchange trading and foreign exchange settlement and sale on behalf of customers. During the Reporting Period, the Bank continuously strengthened precise limit management, improved the setting up of market risk limit for foreign exchange business, and set foreign exchange risk management targets in terms of transaction limits, stop-loss limits and exposure limits. The Bank used exposure analysis to reasonably measure exchange rate risk levels, continued to optimise the structure of monetary assets, and effectively prevented and controlled the Bank's exchange rate risk.

(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 first, second and third defence lines to manage operational risk are separate and independent from each other. On the premise of adhering to a unified operational risk appetite, the Bank used three major tools of operational risk to carry out daily risk management and control, which would effectively prevent occurrence of events of high operational risk.

Management Discussion and Analysis

During the Reporting Period, the Bank continued to promote the substantive application of the three major tools of operational risk to improve the effectiveness and timeliness of risk prevention and control. As for key risk indicators (KRI), the Bank re-assessed its KRIs regularly. As for loss data collection (LDC), the Bank increased its efforts at data collection, further expanded the channels and range of LDC and conducted multi-dimensional investigations into loss events, analysing in depth the reason behind such losses and making timely rectifications to prevent such risk from recurring. As for risk and control self-assessment (RCSA), the Bank continued to implement the RCSA assessment mechanisms for new products and new businesses and constructed a triggering assessment mechanism for key risk exposures, serving as a precaution from flawed measures of internal control and ensuring the effectiveness of the design of the control measures. The face recognition login control function in the credit system was put into trial operation across the Bank, which consolidated the foundation for operational risk management. The Bank promoted the implementation of the suspension and resumption points mechanism, so as to effectively improve the capability of refined management of operational risk.

(V) Information Technology Risk

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

During the Reporting Period, the Bank had included management of information technology risk into its general risk management system and established an information technology governance organisation structure with reasonable division of labour, clear responsibilities, mutual checks and balances, and clear reporting relationships. An information technology risk management system with three defensive lines of information technology, risk management and internal audit has been formed to gradually fulfil the responsibilities of information technology risk management. Based on its overall strategic deployment, the Bank optimised the evaluation methods for technological-related matters, improved the management and service plans of technological projects, streamlined and optimised the information technology system structure, improved the construction of the internal information technology system, and effectively implemented risk control compliance and technology risk control requirements. Meanwhile, the Bank continued to increase the quality and efficiency of various internal and external compliance, auditing and regulatory reporting, and implemented risk management measures in all key aspects of information technology works.

During the Reporting Period, the Bank continued to strengthen organisational and personnel safety management, built a three-level information security organisation and management system comprising decision-making, planning and management and executive bodies, and facilitated related works. In respect of host and system security management, the Bank strengthened the design and construction of the information security strategies of its online office environment, which were carried out in coordination with the construction of online office channels of the data centre, and improved the design and implementation of the information security strategies of the cloud desktop environment, so as to ensure the security control and management of key information assets such as business documents. In respect of information security management, the Bank carried out system grading and data classification and protection for the information systems operated by its units with reference to relevant national technical standards such as the Guidelines for the Grading of Classified Protection of Information System Security, the Baseline for Classified Protection of Information System Security and the Implementation Guidelines for the Classified Protection of Information System Security in the Financial Industry. In respect of business continuity management, emergency switching drills for disaster recovery and fault tolerance of important information systems were carried out in an orderly manner as planned, which verified the Bank's emergency response capabilities for important businesses and information systems, and confirmed its ability to respond to business interruptions and protect important business operations. In respect of information technology outsourcing management, with an aim to reinforce the service quality management and risk management of outsourcers and reduce the possibility of outsourcing risks, the Bank strived to build a high-quality technical team, improve the independent development and maintenance capabilities of its systems, and enhance the risk identification and monitoring capabilities of outsourcers.

(VI) Compliance Risk Management

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

Management Discussion and Analysis

During the Reporting Period, the Company formulated and executed a risk-based compliance management plan and deepened the work mindset of integrated “prevention, control, examination and correction”, thereby improving the refined standard for internal control compliance and optimising the comprehensive internal control risk management system which adapted to business development and transformation. The Bank strove to realise the foundation of compliance management, actively optimised the compliance system and mechanism construction, strengthened the professional capacity building of the compliance management team of the headquarters and branches, enhanced the professionalism of the compliance management team and strictly prevented and effectively resolved compliance risk; it placed emphasis on the transmission of various regulatory policies as well as system and regulations, and by leveraging the professional advantages, vigorously promoting the construction of intelligent risk control system and emphasising the substance of risks, and through pre-involved business research and development, product development and process design, it strongly supported and promoted business innovation and sound development of the Bank at different dimensions; continuously and intensively promoted special governance, risk investigation as well as inspection and self-inspection on internal control compliance for the comprehensive implementation of supervision on the work requirements of ensuring a successful financial risk prevention and resolution effort in a determined manner, and strengthened the rectification and accountability for the problems identified during inspection, thereby thoroughly showing the power of compliance risk management, and actively advocating and strictly supervising the scrupulous compliance with the bottom line among the institutions and personnel at all levels; enhanced the study of domestic and overseas bills, regulatory policies and laws and regulations, and provided a comprehensive and high-quality legal compliance services; refined and improved consumer rights protection work channels and methods to maintain healthy financial consumer relations; commenced and implemented regular compliance education and training, and enhanced the compliance professional standards and the compliance awareness of all staff members.

(VII) Anti-money Laundering Management

During the Reporting Period, the Bank conducted anti-money laundering work by strictly following the more stringent regulatory requirements for management, striving for the “risk-based” management concept. The Bank incorporated money laundering risks into the comprehensive risk management system, and, through various measures, it continued to strengthen customer identification management, perfected the suspicious transaction screening and analysis model, improved the full-process closed-loop management of money laundering risk prevention and control system, and enhanced employees’ awareness of money laundering risk prevention and business skills, which further improved the compliance and effectiveness of the Bank’s anti-money laundering management work. Meanwhile, the Bank strengthened the publicity and training of anti-money laundering, actively cooperated with regulatory authorities in conducting co-investigations into anti-money laundering, established a good internal and external environment for anti-money laundering, and effectively fulfilled corporate social responsibilities and strictly performed financial institutions’ obligations regarding anti-money laundering and anti-terrorist financing.

X. Internal control and internal audit

(I) Internal Control

Pursuant to the laws and regulations on internal control normative system for enterprises including the Basic Internal Control Norms for Enterprises and its relevant guidelines jointly issued by the five authorities as well as the Guidelines for Internal Control of Commercial Banks, the Company formulated and improved a scientific internal control system while establishing and maintaining a business environment which is under proper control and takes into account risk conditions by borrowing advanced ideas from foreign countries. The Company has a clear internal control management framework: as the decision-making body, the Board is responsible for the establishment, development and effective implementation of internal control system; as the coordination body, the management at various levels is responsible for coordinating the establishment and implementation of internal control system and its daily operation; the various branches and departments are responsible for establishing and continuously improving their own internal control systems in accordance with the requirements of laws and regulations; the compliance departments at various levels and the independent internal audit departments are responsible for the supervision and evaluation of the internal control system of the Bank, forming an internal control management and organisational structure with reasonable division of labour, definitive duties and responsibilities and clear reporting lines.

During the Reporting Period, the Company implemented a series of works on improving and optimising internal control, primarily including the following: Firstly, the Company improved its risk evaluation system. The Board, the senior management and responsible management personnel of the Company fully understood various risk exposures under the operating and management process, such as credit risk, market risk, liquidity risk, compliance risk, operation risk, legal risk and reputation risk, and basically established a comprehensive risk management system which is suitable for the Bank through years of efforts. Major risk exposures, such as credit risk, market risk, liquidity risk, compliance risk, operation risk, legal risk and reputation risk, were covered by the scope of risk management and were consistently monitored. Series of management measures and systems had been applied gradually as at the end of the Reporting Period, such as data platform, pricing management, comprehensive budget management, interest rate liberalisation project, internal assessment model for retail and non-retail business, branch transformation, team service model transformation for corporate clients, credit approval model transformation, data governance and smart risk control. Hence, the standard of delicacy management for risk assessment greatly improved.

Management Discussion and Analysis

Secondly, the Company adhered to its principles in full coverage, balancing, prudence and conformity to establish a comprehensive internal control system, which formulated comprehensive, systematic and standardised business and management systems for various business and management activities. Proper control measures were adopted to execute standardised business and management process. At the same time, the Bank identified and assessed the risk exposures during business operations with the use of scientific risks management techniques and methods to consistently monitor various types of major risks. The information system control was strengthened to improve the automatic system control on business and management activities through the effective integration of internal control process with business operation system and management information system. According to the needs for operation and management, the duties and authority of the departments and positions were defined and standardised descriptions for the responsibilities of departments and positions were formulated. The Bank rationalised the incompatible positions involved in the business process and management activities upon comprehensive systematic analysis and implemented corresponding separation measures to form interacting position arrangement. The Bank formulated internal control requirements for important positions, which established work shift and compulsory leave systems on staff at important positions. The Bank established systems to regulate staff's behaviour so as to strengthen the supervision and inspection on staff's behaviour. The reporting, investigation and punishment systems on staff's abnormal behaviour were also established. According to the business capacity, management level, risk condition and business development needs of the branches and departments, the Bank established the relevant authorisation system which defined the authorities of branches, departments, positions and employees at different levels for business operations and matters and would be subject to dynamic adjustments. The Bank strictly complied with the accounting standards and systems so as to reflect the business transactions in an accurate and timely manner while ensuring the truthfulness, reliability and completeness of the financial accounting information. The Bank established an effective verification and monitoring system to verify various accounts, certificates and statements regularly and check the tangible assets including cash and marketable securities, and important evidence in a timely manner. With respect to new business and introduction of new products and services, the Bank established the relevant management system and business process. The Bank established a comprehensive outsourcing management system, which defined the organisational structure and management responsibilities for outsourcing management, and assessed the risk of outsourcing business. The Bank established a comprehensive customer complaint handling mechanism and workflow for handling complaints so as to regularly summarise and analyse the complaint related matters to identify the potential issues for effective improvement in services and management.

Thirdly, for the establishment of information transmission and communication channels, the Company established a two-way internal communication mechanism from two dimensions, namely top-down and down-top communication. By clearly identifying the responsible departments for reporting and the reporting lines, the Bank established a better internal information exchange and communication mechanism. Furthermore, through information exchanging within the Bank, the Bank ensured that various departments and entities at all levels of the head office can convey in a timely manner all information on the strategies, policies, systems and relevant requirements at the decision-making level to the employees and at the same time provide support to the employees for timely reporting of internal control problems to the managements at various levels. Regarding external disclosure and information gathering, the Company also specified responsible departments, relevant processes and document circulation mechanisms to ensure compliance thereof and timely circulation of external documents.

Fourthly, the Company has been putting efforts in the establishment and optimisation of an effective internal control organisational system under joint supervision from multi-levels, multi-dimensions and multi-channels. The Company has established a reporting and information feedback system for internal control. The business departments, internal control management functional departments, internal audit departments and other responsible personnel had reported to the Board, the management or the relevant departments in a timely manner once they discovered any threat or defect of internal control.

Fifthly, the Bank continued to organise various compliance training sessions and seminars so as to enhance the construction of compliance culture and improve the compliance awareness among employees at all levels and capacity of internal control performance. During the Reporting Period, the Board and the senior management of the Company highly focused on the works in respect of internal control studying and training, and strengthening of incident prevention and control, consumer rights protection and anti-money laundering management. It emphasised the importance of internal control, aiming to make all employees across the Bank acknowledge the importance of internal control, be familiar with the duty requirements for different positions, understand and master the key points of internal control and take part actively in internal control, thus building an excellent internal control environment in the Bank. The Bank further promoted its compliance philosophy of “giving highest priority to compliance, making all employees in compliance, working in compliance actively, and creating value through compliance”, thereby constantly building a corporate culture of “compliance with high efficiency”.

(II) Internal Audit

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

During the Reporting Period, conforming to the external regulatory circumstances, and the internal audit requirements of the Bank’s Party Committee, the Board and the Audit Committee, with comprehensive consideration to the current industry risks and the current status of the Group’s operation and management, the internal audit department of the Company kept up with the changes in macro policies and the development trend of the banking industry in the post-pandemic era. Taking politically facilitated audit as the ideological guidance, and with the identification and revelation of risks as the core, the department thoroughly implemented regulatory opinions and requirements as well as the work deployment of the Party Committee of the Bank, and constantly promoted risk-oriented audit with big data support, effectively covering the key areas, key risks, key institutions and key personnel. It fully performed its internal audit supervision and evaluation duties to assist the Group in achieving the goal of high-quality development. The Board and senior management paid close attention to the audit discoveries and conversion of audit results, actively promoted rectification and process optimisation, as well as urged and supervised the effective performance of the audited parties to enhance risk prevention and control capacity.

Management Discussion and Analysis

XI. Prospects

At present, with the steady breakthroughs of the combined influence of the three periods, namely the period of changing pace in internal growth, the period of making painful structural adjustments, and the period of addressing existing problems, the impact of the external pandemic cases has been eased, and the economy has gradually recovered, bringing new development opportunities to the Bank. Firstly, the domestic economy has sustained steady development as expected with further strengthened impetus for economic development. Along with the faster construction of the dual-circulation development pattern, and the Central Bank's deposit interest rate self-regulation reform and the introduction of RRR cuts, the banks may provide better service for the real economy. Secondly, in the first half of the year, a series of new regulatory regulations have been issued, and the "Internal Control Compliance Management and Construction Year" initiative has been launched, which promoted the comprehensive establishment of a scientific and sound internal control management system in the banking industry. Thirdly, the Bank has continuously strengthened the Party's leadership, reinforced corporate governance, consolidated the foundation for internal control, enhanced professional competence, and improved asset quality, laying the foundation for seizing new opportunities and achieving high-quality development. In the second half of the year, the Bank will consolidate and maintain its positive development momentum with absolute confidence, continue to implement in depth the gist of the Group's annual work conference, focus on the goals and tasks of the "stability on six fronts and progress in six aspects (六穩六進)" and the theme of "high-quality development", implement the requirements of "returning to the basics, focusing on key areas, optimising the structure and reshaping the foundation", target at the "two main lines" of asset quality and operating efficiency, implement the "two-pronged" development strategy and build "three drivers". The Bank will work together with perseverance to ensure the successful completion of its annual business objectives and lay a solid foundation for a good start to its new three-year strategy plan.

Changes in Share Capital and Information on Shareholders

I. Share Capital

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

II. Statement of Changes in Shares

Unit: Shares

	1 January 2021		Increase/decrease during the Reporting Period (+/-)					30 June 2021	
	Number	Percentage	Private placement	New shares issued	Bonus issue	Others	Subtotal	Number	Percentage
Domestic Shares									
1. Non-listed shares held by									
corporations	7,908,966,550	71.93%	-	-	-	-	-	7,908,966,550	71.93%
Including: (1) Shares held by									
state-owned									
enterprises	6,886,196,734	62.63%	-	-	-	-	-	6,886,196,734	62.63%
(2) Shares held by									
private									
enterprises	1,022,769,816	9.30%	-	-	-	-	-	1,022,769,816	9.30%
2. Non-listed shares held by									
natural persons H Shares	63,063,003	0.57%	-	-	-	-	-	63,063,003	0.57%
H Shares									
3. Overseas listed foreign									
shares									
Total number of shares	3,023,570,000	27.50%	-	-	-	-	-	3,023,570,000	27.50%
	10,995,599,553	100%	-	-	-	-	-	10,995,599,553	100%

Note: Non-listed shares held by corporations (Domestic Shares) of the Company were held by 36 state-owned corporate shareholders, including Harbin Economic Development, Heilongjiang Financial Holdings, Harbin Hadong Investment Co., Ltd. (哈爾濱市哈東投資有限責任公司), and Harbin Industrial Investment Group Co., Ltd. (哈爾濱工業投資集團有限公司), etc.

Changes in Share Capital and Information on Shareholders

III. Shareholdings of Shareholders

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

Shareholdings of Top 10 Shareholders of the Company as at the Date of this Report

	Name of shareholder	Nature of shareholder	Number of shares held (shares)	Shareholding percentage (%) ²	Number of shares pledged or frozen	Type of shares
1	Harbin Economic Development and Investment Company Limited	State-owned	3,257,943,986	29.63%	–	Non overseas-listed shares
2	Heilongjiang Financial Holdings Group Co., Ltd.	State-owned	2,035,675,058	18.51%	–	Non overseas-listed shares
3	Fubon Life Insurance Company Limited	Foreign investment	749,924,000	6.82%	–	H Share
4	Huaxia Life Insurance Co., Ltd.	Private enterprise	486,702,000	4.43%	–	H Share
5	Harbin Heli Investment Holdings Co., Ltd. (哈爾濱合力投資控股有限公司)	State-owned	397,000,000	3.61%	–	Non overseas-listed shares
6	Finance Bureau of Daoli District, Harbin	State-owned	386,025,859	3.51%	–	Non overseas-listed shares
7	Finance Bureau of Nangang District, Harbin	State-owned	378,941,968	3.45%	–	Non overseas-listed shares
8	Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd. (哈爾濱高新技術產業開發區基礎設施開發建設有限公司) ¹	State-owned	301,315,846	2.74%	–	Non overseas-listed shares
9	CITIC Capital HB Investment L.P.	Foreign investment	284,212,000	2.58%	–	H Share
10	Beijing Xinrun Investment Co., Ltd. (北京新潤投資有限公司)	Private enterprise	255,418,587	2.32%	–	Non overseas-listed shares

Notes:

1. Harbin High-tech Industrial Development Zone Infrastructure Development and Construction Co., Ltd., shareholder of the Company, and Harbin Science and Technology Innovation Investment Co., Ltd. are related with each other. Harbin Science and Technology Innovation Investment Co., Ltd. held 96,220,000 shares of the Company, with aggregate shareholding of 397,535,846 shares, representing 3.62% of total shareholding.
2. The above percentage of non overseas-listed shares and H shares as at the date of this report is calculated based on the total share capital of the Company, being 10,995,599,553 shares.

Changes in Share Capital and Information on Shareholders

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

As at 30 June 2021, according to the disclosure of interest information as shown on the website of the Hong Kong Stock Exchange, the interests and short positions of the following persons (excluding the Directors, Supervisors and the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Domestic Shares

Name of shareholder	Capacity	Domestic Shares held (long position)	Percentage of issued domestic share capital of the Company	Percentage of total issued share capital of the Company
Harbin Municipal People's Government State-owned Assets Supervision and Administration Commission ¹	Interest of controlled corporation	3,258,338,652	40.87%	29.63%
Harbin Investment Group Corporation Limited ¹	Interest of controlled corporation	3,258,338,652	40.87%	29.63%
Harbin Economic Development and Investment Company ¹	Beneficial owner	3,257,943,986	40.87%	29.63%
	Interest of controlled corporation	394,666	0.005%	0.004%
Department of Finance of Heilongjiang Province of the People's Republic of China ²	Interest of controlled corporation	2,040,591,776	25.60%	18.56%
Heilongjiang Financial Holdings Group Co., Ltd. ²	Beneficial owner	2,035,675,058	25.54%	18.51%
	Interest of controlled corporation	4,300,000	0.05%	0.04%
	Interest of controlled corporation	616,718	0.008%	0.006%

Notes:

- Harbin Economic Development directly holds 3,257,943,986 Domestic Shares of the Company, and its controlled corporation by the major shareholders, Harbin Real Estate Guarantee Co., Ltd. (哈爾濱市房屋置業擔保有限責任公司), holds 394,666 Domestic Shares of the Company. Harbin Economic Development is owned as to 100% by Harbin Investment Group Corporation Limited (哈爾濱市投資集團有限責任公司), which in turn is owned as to 90% and 10% by the Harbin Municipal People's Government State-owned Assets Supervision and Administration Commission (哈爾濱市人民政府國有資產監督管理委員會) and the Heilongjiang Municipal People's Government State-owned Assets Supervision and Administration Commission (黑龍江省人民政府國有資產監督管理委員會) respectively. According to the SFO, each of the Harbin Municipal People's Government State-owned Assets Supervision and Administration Commission and Harbin Investment Group Corporation Limited is deemed to be interested in the 3,258,338,652 Domestic Shares held by Harbin Economic Development. Harbin Economic Development was established on 22 August 1992 with a registered capital of RMB2,307,522,010, and Mr. Zhang Xianjun (張憲軍) being the legal representative. The business scope of Harbin Economic Development is to make financial investments in areas like fixed-assets to municipally owned enterprises and to receive dividends in return (business subject to approval by law shall be conducted upon approval by competent authorities).

Changes in Share Capital and Information on Shareholders

2. Heilongjiang Financial Holdings directly holds 2,035,675,058 Domestic Shares of the Company and indirectly holds 4,300,000 and 616,718 Domestic Shares of the Company through its indirectly controlled entity, namely Harbin Dazheng Microcredit Co., Ltd. (哈爾濱市大正小額貸款有限責任公司), and Heilongjiang Dazheng Investment Group Co., Ltd. (黑龍江省大正投資集團有限責任公司) respectively. According to the SFO, Heilongjiang Financial Holdings is deemed to be interested in a total of 2,040,591,776 Domestic Shares of the Company. In addition, Heilongjiang Financial Holdings is wholly owned by the Department of Finance of Heilongjiang Province (黑龍江省財政廳). According to the SFO, the Department of Finance of Heilongjiang Province is also deemed to be interested in such 2,040,591,776 Domestic Shares of the Company. Heilongjiang Financial Holdings was established on 18 January 2019 with a registered capital of RMB13,600,000,000 and Yu Hong (于宏) being the legal representative. The business scope of Heilongjiang Financial Holdings is investment and asset management and capital investment services; non-public offering of securities investment funds; holding company services; and financial information services (business subject to approval by law shall be conducted upon approval by competent authorities).

H Shares

Name of shareholder	Capacity	Number of H Shares held (long position)	Percentage of issued H share capital of the Company	Percentage of total issued share capital of the Company
Fubon Financial Holding Co., Ltd. ¹	Interest of controlled corporation	749,924,000	24.80%	6.82%
Huaxia Life Insurance Co., Ltd. ²	Beneficial owner	486,702,000	16.10%	4.43%
CITIC Capital Holdings Limited ³	Interest of controlled corporation	284,212,000	9.40%	2.58%

Notes:

- Fubon Financial Holding Co., Ltd. held the interests in 749,924,000 H Shares of the Company through its 100% owned corporation, Fubon Life Insurance Company Limited. Fubon Life Insurance Company Limited was established in March 2007 with a registered capital of TWD110,831,140,000 and Mr. Ming-Hsing (Richard) Tsai being the legal representative. The business scope of Fubon Life Insurance Company Limited is provision of life insurance. Fubon Life Insurance Company Limited held 18% equity interest in CITIC Capital Holdings Limited and nominated director. The two companies are therefore parties related to each other. Due to reasons including different requirements under the laws of Taiwan and Mainland China, Fubon Life Insurance Company Limited has not obtained the approval on shareholder's qualification as at the date of this report.
- On 17 July 2020, the CBIRC decided to take over four insurance companies including Huaxia Life Insurance Co., Ltd. and two trust companies for term of one year. On 16 July 2021, the CBIRC issued an announcement, deciding to extend the takeover period by one year. As of the disclosure date of this report, the takeover of Huaxia Life Insurance Co., Ltd. does not have a negative impact on the normal operation and management of the Bank.
- CITIC Capital Holdings Limited held the interests in the relevant shares through a series of controlled corporations. Pursuant to the requirements of regulatory authorities, CITIC Capital HB Investment L.P. (an indirect non-wholly subsidiary of CITIC Capital Holdings Limited) is applying for the approval on shareholder's qualification together with Fubon Life Insurance Company Limited, which has not been obtained as at the date of this report. On 14 May 2021, CITIC Capital HB Investment, L.P. gifted 117.063 million shares to MAGIC SWING LIMITED, and its shareholding ratio of the total issued share capital of the Company decreased by 1.07%.

Save as disclosed above, to the knowledge of the Directors, none of other persons (excluding the Directors, Supervisors and the chief executive of the Company) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2021.

Changes in Share Capital and Information on Shareholders

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

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

1. As at 30 June 2021, Harbin Economic Development, the largest shareholder of the Company, held 29.63% of the total issued shares of the Company. According to the Business License (Unified Social Credit Code: 91230100424004064C) issued by the Market Supervision and Administration Bureau of Harbin on 17 December 2019, and the Articles of Association of Harbin Economic Development and Investment Company amended on 27 November 2019, Harbin Economic Development is a validly subsisting economic entity with limited liability (sole proprietorship invested or controlled by non-natural person). Harbin Economic Development is owned as to 100% by Harbin Investment Group Corporation Limited, which in turn is owned as to 90% and 10% by the Harbin Municipal People's Government State-owned Assets Supervision and Administration Commission and the Heilongjiang Municipal People's Government State-owned Assets Supervision and Administration Commission respectively.
2. As at 30 June 2021, Heilongjiang Financial Holdings directly and indirectly held 18.56% of the total issued shares of the Company. According to the Business License (Unified Social Credit Code: 91230100MA1BF51Q38) issued by the Market Supervision and Administration Bureau of Harbin on 18 January 2019 and the Articles of Association of Heilongjiang Financial Holdings Group Co., Ltd., Heilongjiang Financial Holdings is a validly subsisting economic entity with limited liability (wholly state-owned). Heilongjiang Financial Holdings is wholly owned by the Department of Finance of Heilongjiang Province.

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

As at 30 June 2021, no shares held by any shareholder with shareholding of 5% or more of the Company were pledged or judicially frozen.

VI. Controlling Shareholder and De Facto Controller

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

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

Please see "III. Shareholdings of Shareholders" above for the particulars of shareholders with shareholding of 5% or more of the Company as at 30 June 2021.

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

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

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

During the period from 1 January 2021 to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company.

Directors, Supervisors, Senior Management and Employees

Directors

As at the date of publication of this report, the Directors of the Company are as follows:

Name	Gender	Age	Position	Term of office
Deng Xinquan	Male	56	Executive Director and Chairman of the Board	2021.3.10 – expiry of Eighth Session of the Board
Lyu Tianjun	Male	54	Executive Director and President	2021.2.24 – expiry of Eighth Session of the Board
Sun Feixia	Female	51	Executive Director and Vice Chairman of the Board	2021.2.24 – expiry of Eighth Session of the Board
Zhao Hongbo	Male	52	Non-Executive Director	2021.2.24 – expiry of Eighth Session of the Board
Zhang Xianjun	Male	47	Non-Executive Director	2021.2.24 – expiry of Eighth Session of the Board
Yu Hong	Male	58	Non-Executive Director	2021.2.24 – expiry of Eighth Session of the Board
Lang Shufeng	Male	51	Non-Executive Director	2021.2.24 – expiry of Eighth Session of the Board
Sun Yan	Male	52	Independent Non-Executive Director	2021.2.24 – expiry of Eighth Session of the Board
Zhang Zheng	Male	49	Independent Non-Executive Director	2021.2.24 – expiry of Eighth Session of the Board
Hou Bojian	Male	62	Independent Non-Executive Director	2021.2.24 – expiry of Eighth Session of the Board
Jin Qinglu	Male	48	Independent Non-Executive Director	2021.3.25 – expiry of Eighth Session of the Board

Directors, Supervisors, Senior Management and Employees

Supervisors

As at the date of publication of this report, the Supervisors of the Company are as follows:

Name	Gender	Age	Position	Term of office
Wang Haibin	Male	51	Chairman of the Board of Supervisors and Employee Representative Supervisor	2021.2.24 – expiry of Eighth Session of the Board of Supervisors
Luo Zhonglin	Male	56	Employee Representative Supervisor	2021.2.24 – expiry of Eighth Session of the Board of Supervisors
Fang Shang	Male	49	Employee Representative Supervisor	2021.2.24 – expiry of Eighth Session of the Board of Supervisors
Yang Xuemei	Female	49	Shareholder Representative Supervisor	2021.2.24 – expiry of Eighth Session of the Board of Supervisors
Li Dong	Male	62	External Supervisor	2021.2.24 – expiry of Eighth Session of the Board of Supervisors
Li Zhaohua	Female	55	External Supervisor	2021.2.24 – expiry of Eighth Session of the Board of Supervisors
Sun Yi	Male	50	External Supervisor	2021.2.24 – expiry of Eighth Session of the Board of Supervisors

Directors, Supervisors, Senior Management and Employees

Senior Management

During the Reporting Period and as at the date of publication of this report, the senior management of the Company was/is comprised of:

Name	Gender	Age	Position	Term of office
Lyu Tianjun	Male	54	Executive Director and President	2021.2.24 – expiry of Eighth Session of the Board
Sun Feixia	Female	51	Executive Director, Vice Chairman of the Board, Secretary of the Board and Company Secretary	2021.2.24 – expiry of Eighth Session of the Board
Zhou Jie	Female	46	Assistant to the President	2021.2.24 – expiry of Eighth Session of the Board
Qi Yilei	Male	49	Chief Credit Approval Officer	2021.2.24 – expiry of Eighth Session of the Board
Yang Dazhi	Male	44	Assistant to the President	2021.2.24 – expiry of Eighth Session of the Board
Wang Ying	Female	50	Chief Audit Officer	2021.2.24 – expiry of Eighth Session of the Board
Gong Tiemin	Male	45	Chief Risk Officer	2021.2.24 – expiry of Eighth Session of the Board
Liang Yong	Male	49	Chief Information Officer	2021.2.24 – expiry of Eighth Session of the Board

Changes in Directors and Supervisors

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

Directors, Supervisors, Senior Management and Employees

Changes in Information of Directors, Supervisors and Chief Executive

The biography changes of Mr. Deng Xinquan, a Director of the Company, are as follow:

Mr. Deng Xinquan (鄧新權), has been an executive Director, chairman of the Board and the legal representative of the Company since March 2021, and the secretary of the Party Committee of the Company since October 2020. Mr. Deng has served as the chairman of the Board of Supervisors and the employee representative Supervisor of the Company from May 2018 to February 2021. From November 2007 to May 2018, Mr. Deng was a member of the Party Committee and deputy director of Heilongjiang Office of the China Banking Regulatory Commission (CBRC). From August 2006 to November 2007, he was the director of the office (office of the Party Committee) of Heilongjiang Office of the CBRC. From December 2003 to August 2006, he was the head of the preparation team, secretary to the Party Committee and director of Daqing Branch of the CBRC. From June 1997 to December 2003, he was a deputy head of the rural cooperative finance management division of Heilongjiang Provincial Branch of People's Bank of China (PBOC), deputy head and head of the second bank supervision division of Shenyang Branch of the PBOC, head of the joint-stock commercial bank supervision division of Shenyang Branch of the PBOC, secretary to the Party Committee and president of Daqing City Center Sub-branch of the PBOC. From August 1984 to June 1997, he was an officer of the industrial and commercial credit division, an officer and deputy chief officer of the commercial credit division and chief officer and deputy head of the credit cooperation division of Heilongjiang Provincial Branch of Agricultural Bank of China. Mr. Deng received a Master's degree in Business Administration of Senior Management from Harbin Institute of Technology in July 2010. He is currently a senior economist as accredited by the Evaluation Committee of Senior Professional Qualification in Economics of the PBOC.

Save as disclosed above, as at the date of publication of this report, the Directors, Supervisors and chief executive confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

Securities Transactions by Directors and Supervisors

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

Directors, Supervisors, Senior Management and Employees

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

Save as disclosed below, to the knowledge of the Company, as at 30 June 2021, the Directors, Supervisors and chief executive of the Company did not hold any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be registered in the register pursuant to section 352 of the SFO or to be disclosed to the Company and the Hong Kong Stock Exchange as provided by the Model Code.

Name	Position	Nature of Interest	Class of Shares	Number of Shares held (shares)	Percentage of
					Total Number of Shares of the Company (%)
Deng Xinquan	Executive Director	Beneficial owner	Domestic Shares	1,205	0.00001
Sun Feixia	Executive Director	Beneficial owner	Domestic Shares	378,907	0.003
Lang Shufeng	Non-executive Director	Spouse interest	Domestic Shares	10,032	0.00009

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

Employees

(I) Personnel Composition

As at 30 June 2021, the Company (excluding subsidiaries) had 6,900 employees, among which 1,111 were headquarters staff, accounting for 16.10% of the total, and 2,392 were Harbin Branch staff, accounting for 34.67% of the total. Regarding the age composition, the average age of employees of the Company was 36.34. 1,157 were between 21 and 30 years old, accounting for 16.77% of the total. Regarding the educational background composition, there were 6,210 employees with a bachelor's degree or above in the Company, accounting for 90% of the total. Regarding the number of years of services, the Company had 2,897 employees with 10 years or more banking experiences, accounting for 41.99% of the total. Staff turnover rate of the Company (excluding subsidiaries) was 1.42%.

As at 30 June 2021, the subsidiaries of the Company had a total of 1,653 employees.

(II) Staff Training Programmes

During the Reporting Period, the Bank, adhering to the work theme of "high-quality development", focused on the training needs of staff from different levels with respect to job competency and core competency improvement, with particular emphasis on "new employees" and "employees in new management positions". We continued to advance the professional capabilities of the staff by initiating the "Ten Hundreds"(十個一百) construction project and creating the "embark, endure, guide, escort, voyage, cruise, pilot" (啟航、續航、導航、護航、遠航、巡航、領航) training system with online and offline integration for the continued creation of excellent training programs. Both training completion rate and coverage rate were 100%. In the first half of 2021, the Company (excluding subsidiaries) arranged 303 training sessions in total, including 251 internal training sessions, and 52 external training sessions for selected staff of the Company. The total training hours amounted to 1,780.

(III) Staff Incentive Policy

Guided by the Bank's strategic goals and annual business plans, the Bank has set up a differentiated assessment structure and has established a scientific and reasonable staff evaluation system according to different assessment groups to implement comprehensive performance management. At the beginning of each year, the Bank sets up performance plan for each staff by breaking down its strategic objectives layer by layer, and carries out review once every half year. Apart from the performance review on business, the Bank has also adopted multi-dimensional measurement to evaluate employee performance and set quantitative or qualitative appraisal indicators. From 2021, the management concept of "equal emphasis on incentives and restraints" in performance appraisal will be more prominent. In addition, effective performance communication has been emphasised to help employees reach their performance goals.

The Bank has established a series of staff incentive policies in line with its development needs based on scientific performance review results: firstly, the Bank has adopted a broadband salary system. With the same position and rank, different salary grades reflect the differences in the competence and qualities of the employees of the same position. The higher the salary grade, the higher the requirements for the ability and quality of the employees and their cumulative contribution will be. According to the performance appraisal results of the employees, their salaries are dynamically adjusted within the salary band of the rank to provide staff with incentive remuneration by raising and lowering remuneration grades; secondly, we adopted a points system for the performance review results, with employees' annual performance review results translated into points, which may be redeemed for rank or salary adjustment qualifications, ensuring the "fairness, openness, transparency" in the rank and salary adjustment system.

(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 region-diversified management scheme in order to scientifically and effectively motivate the Bank's employees and ensure the smooth implementation of the Bank's strategic development. The Bank's remuneration package is composed of fixed remuneration, variable remuneration and welfare income, setting up differentiated combination of elements of remuneration for different groups. Meanwhile, the Bank is able to strictly comply with regulatory requirements in remuneration payment by adopting deferred payment and setting up a lock-up period for payment to 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.

(V) Retirement and Benefits

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

Important Events

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 PRC, the Commercial Bank Law of the PRC 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 has adopted the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, has met the relevant requirements of the PRC commercial bank administrative measures and corporate governance requirements and has established a sound corporate governance system. Currently, the primary corporate governance documents of the Company include: the Articles of Association, the Rules of Procedure for the Shareholders' General Meeting, the Rules of Procedure for the Board of Directors' Meetings, the Rules of Procedure for the Board of Supervisors' Meetings, the Working Rules for the Independent Directors, the Terms of Reference of the Development Strategy Committee of the Board, the Terms of Reference of the Risk Management and Related Transactions Control Committee of the Board, the Terms of Reference of the Audit Committee of the Board, the Terms of Reference of the Nomination and Remuneration Evaluation Committee of the Board, the Terms of Reference of the Consumer Rights Protection Committee of the Board, the Terms of Reference of the President, the Administrative Measures for Connected Transactions, the Information Disclosure Administrative Measures, etc. The Board believes that during the Reporting Period, save as disclosed below, the Bank had complied with the requirements of the provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules.

The Company's former auditor Ernst & Young did not attend the 2020 annual general meeting of the Company due to the COVID-19 pandemic.

II. Issuance of Debt Securities

(I) Bond Issuance during the Reporting Period

According to the resolutions of the 22nd meeting of the sixth session of the Board held on 28 March 2018 and the 2017 annual general meeting of the Company held on 18 May 2018, the Board and the general meeting of the Company approved the Proposal on the Issuance of not more than RMB15.0 Billion Capital Supplemental Bonds, pursuant to which the Company was approved to issue capital supplemental bonds by way of public or non-public issuance to onshore or offshore investors, and the capital supplemental bonds not exceeding RMB15.0 billion (inclusive) shall, upon approval by regulatory authorities, be issued in a single or multiple series in accordance with the relevant procedures. The actual issuance size of the capital supplemental bonds is to be determined by the Board or its designated person within the abovementioned scope, in accordance with the capital needs of the Company and the market condition at the time of the issuance. The capital supplemental bonds are to be issued at the par value. All target investors shall subscribe for the capital supplemental bonds in cash. The initial term of the capital supplemental bonds shall not be less than 5 years. There will be no fixed expiration date prior to the exercise of redemption right by the Company. Interests on the capital supplemental bonds shall be paid in cash. The interest-bearing principal amount of the capital supplemental bonds shall be the aggregate amount of the relevant series of the capital bonds without a fixed term then issued and outstanding. After receiving the interests at the prescribed interest rate, the holders of the capital supplemental bonds shall

not be entitled to any distribution of residual profits of the Company together with the ordinary shareholders. Relevant matters in respect of the proposed issuance of the capital supplemental bonds by the Company were disclosed in the circular dated 6 April 2018 and the announcement dated 18 May 2018 of the Company. The Bank received the Approval of Heilongjiang Regulatory Bureau of the CBIRC for Harbin Bank to Issue the Capital Bonds Without a Fixed Term (Hei Yin Bao Jian Fu [2021] No. 44) on 5 February 2021 and the Administrative Approval Decision of the People's Bank of China (Banking Market Licence [2021] No. 92) issued by the PBOC on 7 June 2021, approving the Bank's issuance of capital bonds without a fixed term in an amount not more than RMB15 billion, which shall be included in additional tier 1 capital according to relevant regulations. The Company has successfully issued the Capital Bonds Without a Fixed Term of Harbin Bank Co., Ltd. in 2021 in the national inter-bank bond market. The bookkeeping of the bonds has been filed on 25 June 2021, and the issuance of the bonds has been completed on 29 June 2021 with a total issuing scale of RMB8 billion. The coupon rate of the bonds for the first five years is 4.8%, and is subject to adjustment every five years. The issuer's conditional redemption right is attached to the bonds which can be exercised on the annual interest payment date of the fifth year and the subsequent years.

(II) Previous Financial Bonds Issuance

1. 2016 tier-2 capital bonds

According to the resolutions of the 6th meeting of the sixth session of the Board of the Company on 7 December 2015 and the 2016 first extraordinary general meeting of the Company on 22 January 2016, the Board and the shareholders' general meeting of the Company approved the issuance of the tier-2 capital bonds of not more than RMB8.0 billion. According to the Approval of Heilongjiang Regulatory Bureau of the CBRC for Issuance of Tier-2 Capital Bonds by Harbin Bank (Hei Yin Jian Fu [2016] No. 29) issued by the Heilongjiang Regulatory Bureau of the CBRC on 18 March 2016 and the Administrative Approval Decision of the People's Bank of China (Banking Market Licence [2016] No. 89) issued by the PBOC on 2 June 2016, the issuance of tier-2 capital bonds of not more than RMB8.0 billion by the Company in the interbank bond market was approved. The Company obtained the consent and approval from the Heilongjiang Regulatory Bureau of the CBRC and the PBOC for the issuance of the "2016 Tier-2 Capital Bonds of Harbin Bank Co., Ltd." on 14 June 2016.

The issuance size of the 2016 tier-2 capital bonds of Harbin Bank Co., Ltd. was RMB8.0 billion with right allowing issuer to redeem subject to conditions precedent at the end of the 5th year. The bonds have a term of 10 years with a fixed coupon rate of 4.00% and its short name as "16 Harbin Bank Tier-2" (bond code: 1620026), and its principal and interests were paid on 16 June 2021.

2. 2017 green financial bonds

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

Important Events

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

The 2017 first tranche of green financial bonds of Harbin Bank Co., Ltd. has an issuance size of RMB2.0 billion with a term of three years. The coupon rate is 4.79% and the interest is calculated annually at a fixed rate. Its short name is "17 Harbin Bank Green Finance 01" (bond code: 1720015), and its principal and interests were due and paid on 11 April 2020. The 2017 second tranche of green financial bonds (Category I) of Harbin Bank Co., Ltd. has an issuance size of RMB2.0 billion with a term of three years. The coupon rate is 4.68% and the interest is calculated annually at a fixed rate. Its short name is "17 Harbin Bank Green Finance 02" (bond code: 1720021), and its principal and interests were due and paid on 10 May 2020. The 2017 second tranche of green financial bonds (Category II) of Harbin Bank Co., Ltd. has an issuance size of RMB1.0 billion with a term of five years. The coupon rate is 4.75% and the interest is calculated annually at a fixed rate. Its short name is "17 Harbin Bank Green Finance 03" (bond code: 1720022).

3. 2018 HB Leasing Second Tranche of financial bonds

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

HB Leasing obtained the consent and approval from the CBRC and the PBOC for the issuance of the 2018 second tranche of financial bonds on 2 May 2018. The issuance size was RMB1.0 billion with a term of 3 years and a coupon rate of 5.48%, and the interest is calculated annually at a fixed rate, and its short name was "18 HB Leasing Bond 01" (bond code: 1822011). Its principal and interest were due and paid on 4 May 2021.

(III) Proposed Issuance of Financial Bonds

1. According to the resolutions of the 22nd meeting of the sixth session of the Board held on 28 March 2018 and the 2017 annual general meeting of the Company held on 18 May 2018, the Board and the general meeting of the Company approved the Proposal on the Issuance of not more than RMB10 Billion Non-capital Financial Bonds, pursuant to which the issuance of non-capital financial bonds of not more than RMB10.0 billion by the Company was approved. The bond types include, but not limited to, non-capital financial bonds such as ordinary financial bonds, special financial bonds for small and micro enterprises, special financial bonds for “agriculture, rural area and farmer” and green financial bonds. Each bond will have a term of no longer than 10 years. Within the issuance size and prior to the issuance, the actual proportion and size of various types of bonds would be finalised according to the Company’s actual demand, market conditions or investors’ subscription. Relevant matters in respect of the proposed issuance of non-capital financial bonds by the Company were disclosed in the circular dated 6 April 2018 and the announcement dated 18 May 2018 of the Company.
2. According to the resolution of the 23rd meeting of the second session of the board of directors of HB Leasing held on 19 April 2019 and the 2018 annual general meeting of HB Leasing held on 20 June 2019, the board of directors and the general meeting of HB Leasing approved the Proposal on the Issuance of Financial Bonds, approving the public issuance of not more than RMB3.5 billion financial bonds by HB Leasing with a term of not more than 5 years. The interest rate of the bond is fixed/floating, which is finally determined through bookkeeping or other means. The interest will be paid annually, and the repayment of principal is in a lump sum when it becomes due. The proceeds raised from the issuance of bonds will be used in the investment in agriculture and greening projects.
3. According to the resolutions of the 18th meeting of the seventh session of the Board held on 30 March 2020 and the 2019 annual general meeting of the Company held on 15 May 2020, the Board and the general meeting of the Company approved the Proposal on the Issuance of Eligible Tier-2 Capital Instruments, pursuant to which the Company was approved to issue eligible tier-2 capital instruments of not more than RMB20.0 billion by way of public issuance. The bonds will have a term of ten years, and the issuer may redeem the bonds at the end of the fifth year subject to certain conditions. The interest rate of the bonds is fixed, which will be determined through book building or other means. The proceeds raised from the issuance of bonds will be fully used to replenish the tier-2 capital of the Company pursuant to applicable laws and as approved by regulatory authorities.

III. Material Connected Transaction

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

Important Events

IV. Material Legal Proceedings and Arbitrations

As at the end of the Reporting Period, the amount involved in significant outstanding legal proceedings against the Bank (as a defendant or a third party defendant) amounted to RMB75 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.

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

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

VI. Material Contracts and Their Performance

On 11 June 2021, the Company entered into an equity transfer agreement with Dongninglizhi Decoration Engineering Co., Ltd. ("Dongninglizhi"), pursuant to which the Company acquired from Dongninglizhi the 15% equity interest held by it in Harbin Bank Financial Leasing for a consideration of RMB489 million. Upon completion of the equity transfer, the Company will hold 95% of the equity interest in Harbin Bank Financial Leasing. The transfer is still pending for approval from the regulatory authority.

VII. Audit Review

The Company's unaudited consolidated interim financial statements for 2021 prepared in accordance with International Financial Reporting Standards had been reviewed by BDO Limited, who had issued an unqualified review report.

The Company's 2021 interim results, 2021 interim report and 2021 unaudited interim consolidated financial statement had been reviewed by the Audit Committee of the Board and the Board of the Company.

VIII. Implementation of Share Incentive Plan during the Reporting Period

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

IX. Appointment and Dismissal of Auditors

The appointment of BDO China Shu Lun Pan CPAs LLP and BDO Limited as the respective domestic and overseas auditors of the Company for the year 2021 was considered and approved at the 2020 annual general meeting of the Company held on 21 May 2021.

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

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

XI. Profit Distribution during the Reporting Period

The Proposal on the 2020 Profit Distribution Plan was considered and approved at the 2020 annual general meeting held on 21 May 2021, pursuant to which, the Company would not distribute cash dividends to all shareholders. The Company has not distributed, or proposes to distribute any interim dividend for the six months ended 30 June 2021.

XII. Pledge of Assets

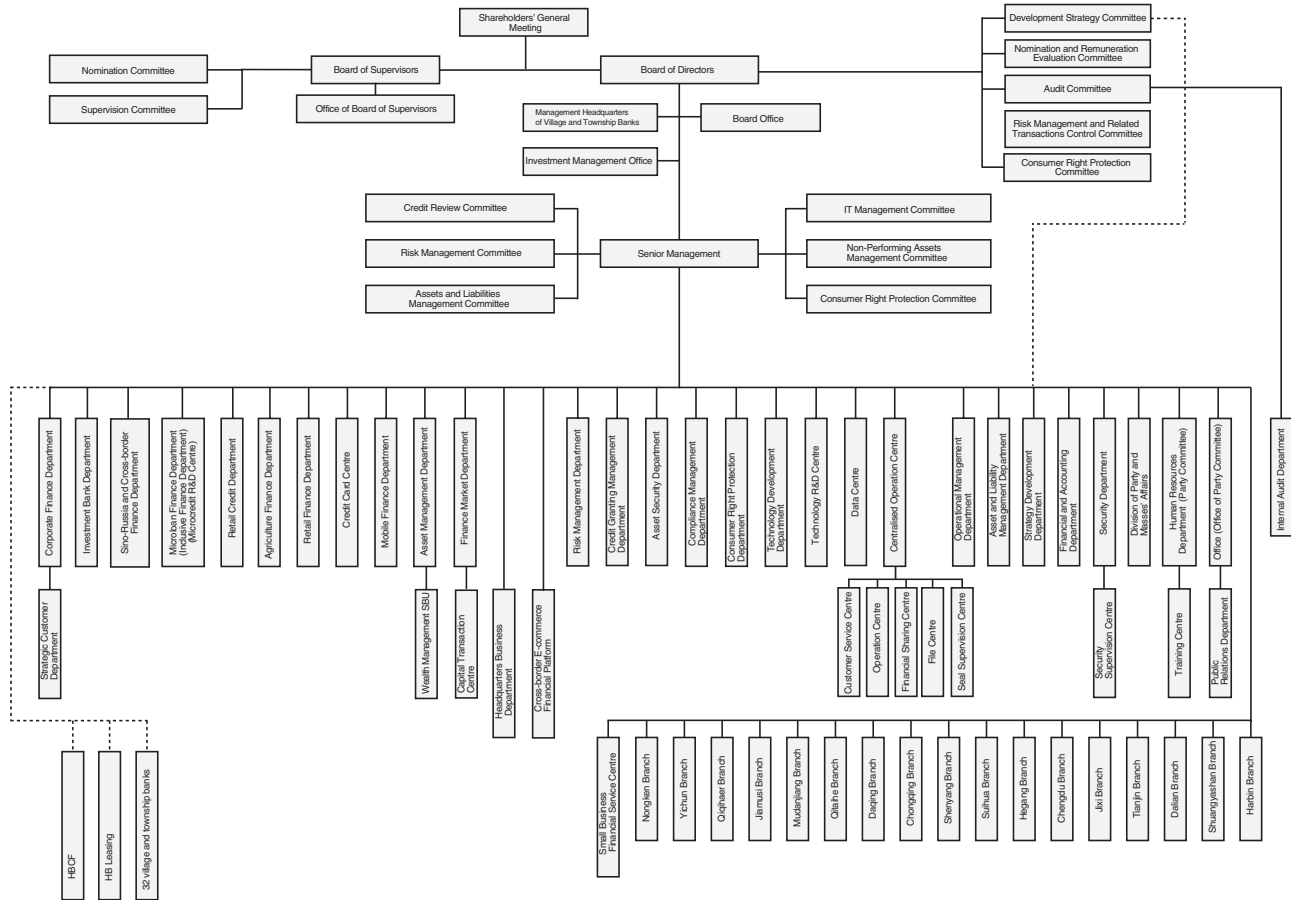
For the details of the Group's pledge of assets, please refer to "Commitments and Contingent Liabilities" in the notes to financial statements of this report.

XIII. Significant Subsequent Events

The Company has no significant subsequent events from the end of the Reporting Period to the date of publication of this report.

Organisation Chart

Organisation Chart of Harbin Bank



Financial Statements

- I. Report on Review of Interim Financial Information
- II. Unaudited Condensed Consolidated Interim Financial Information (Condensed Consolidated Statement of Profit or Loss, 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



25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

香港干諾道中111號
永安中心25樓

To the Board of Directors of Harbin Bank Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 105 to 195, which comprise the condensed consolidated statement of financial position of Harbin Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2021 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and other 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 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.

Other matter

The interim financial information for the six months ended 30 June 2020 were reviewed by another auditor who express an unmodified opinion on 28 August 2020. The consolidated financial statements of the Group for the year ended 31 December 2020 were audited by the same auditor who expressed an unmodified opinion on those statements on 31 March 2021.

Conclusion

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

BDO Limited

Certified Public Accountants

Chan Wing Fai

Practising Certificate no. P05443

Hong Kong, 30 August 2021

Condensed Consolidated Statement of Profit or Loss

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

	Notes	For the six-month period ended 30 June	
		2021	2020
		Unaudited	Unaudited
Interest income	4	13,051,322	14,443,559
Interest expense	4	(7,995,535)	(8,125,809)
NET INTEREST INCOME	4	5,055,787	6,317,750
Fee and commission income	5	368,969	682,506
Fee and commission expense	5	(68,635)	(109,657)
NET FEE AND COMMISSION INCOME	5	300,334	572,849
Net trading income	6	492,463	629,222
Net gain on financial investments	7	126,956	253,574
Other operating income, net	8	158,895	67,524
OPERATING INCOME		6,134,435	7,840,919
Operating expenses	9	(1,971,707)	(1,834,014)
Credit impairment losses	10	(2,907,800)	(3,586,807)
OPERATING PROFIT		1,254,928	2,420,098
PROFIT BEFORE TAX		1,254,928	2,420,098
Income tax expense	11	(314,654)	(566,762)
PROFIT FOR THE PERIOD		940,274	1,853,336
Attributable to:			
Equity holder of the Bank		851,162	1,857,835
Non-controlling interests		89,112	(4,499)
		940,274	1,853,336
EARNINGS PER SHARE (RMB yuan)			
Basic and diluted	13	0.08	0.17

Details of the dividends declared and paid or proposed are disclosed in note 12 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 2021

(Amount in thousands of RMB, unless otherwise stated)

	Notes	For the six-month period ended 30 June	
		2021	2020
		Unaudited	Unaudited
Profit for the period		940,274	1,853,336
Other comprehensive income (after tax, net):			
Other comprehensive income attributable to equity holders of the Bank	36	(42,062)	(97,235)
Item that will not be reclassified to profit or loss			
– Net losses on investments in equity instruments designated at fair value through other comprehensive income	36	–	(1,087)
Items that may be reclassified subsequently to profit or loss			
– Net losses on investments in debt instruments measured at fair value through other comprehensive income	36	(43,763)	(131,746)
– Allowance for credit impairment on investments in debt instruments measured at fair value through other comprehensive income	36	1,701	35,598
Subtotal of other comprehensive income for the period, net of tax		(42,062)	(97,235)
Total comprehensive income for the period		898,212	1,756,101
Total comprehensive income attributable to:			
Equity holders of the Bank		809,100	1,760,600
Non-controlling interests		89,112	(4,499)
Total		898,212	1,756,101

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

Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

	Notes	As at 30 June 2021	As at 31 December 2020
		Unaudited	Audited
ASSETS			
Cash and balances with the central bank	14	72,267,979	62,771,096
Due from banks and other financial institutions	15	6,914,122	6,206,118
Reverse repurchase agreements	16	2,200,074	–
Loans and advances to customers	17	284,757,015	272,350,602
Derivative financial assets	18	–	16,395
Financial investments	19	224,477,549	216,849,308
– financial assets at fair value through profit or loss	(a)	59,328,477	53,573,633
– financial assets at fair value through other comprehensive income	(b)	23,860,191	20,152,230
– financial assets at amortised cost	(c)	141,288,881	143,123,445
Financial lease receivables	20	22,672,106	23,089,177
Property and equipment	21	8,909,520	9,098,535
Deferred income tax assets	22	4,113,972	3,743,549
Other assets	23	6,001,451	4,478,837
TOTAL ASSETS		632,313,788	598,603,617
LIABILITIES			
Due to the central bank	24	2,927,081	3,639,219
Borrowings from banks and other financial institutions	25	12,021,303	9,847,931
Due to banks	26	22,378,892	15,921,469
Derivative financial liabilities	18	–	16,395
Repurchase agreements	27	15,633,842	1,499,442
Due to customers	28	494,227,107	476,333,139
Income tax payable		647,389	885,597
Debt securities issued	29	16,815,423	33,575,110
Other liabilities	30	7,655,407	5,776,183
TOTAL LIABILITIES		572,306,444	547,494,485
EQUITY			
Equity attributable to equity holders of the Bank			
Share capital	31	10,995,600	10,995,600
Other equity instruments	37	8,000,000	–
Capital reserve	32	7,661,124	7,661,124
Other comprehensive income	36	54,422	96,484
Surplus reserves	33	3,886,909	3,886,909
General and regulatory reserves	34	7,570,143	7,550,747
Undistributed profits	35	19,888,029	19,056,263
		58,056,227	49,247,127
Non-controlling interests		1,951,117	1,862,005
TOTAL EQUITY		60,007,344	51,109,132
TOTAL EQUITY AND LIABILITIES		632,313,788	598,603,617

Deng Xinquan

Chairman

Lyu Tianjun

President

Yang Dazhi

Assistant to the President
(in Charge of Finance)

Dong Kai

General Manager of Finance
and Accounting Department

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 2021

(Amount in thousands of RMB, unless otherwise stated)

		Unaudited								
		Equity attributable to equity holders of the Bank								
		Other equity instruments		Other		General and		Non-		Total
Notes		Share capital	Perpetual bonds	Capital reserve	comprehensive income	Surplus reserves	regulatory reserves	Undistributed profits	controlling interests	
	Balance at 1 January 2021	10,995,600	-	7,661,124	96,484	3,886,909	7,550,747	19,056,263	1,862,005	51,109,132
	Movements in this period	-	8,000,000	-	(42,062)	-	19,396	831,766	89,112	8,898,212
	Total comprehensive income	36	-	-	(42,062)	-	-	851,162	89,112	898,212
	Issuance of perpetual bonds	37	-	8,000,000	-	-	-	-	-	8,000,000
	Profit distribution		-	-	-	-	19,396	(19,396)	-	-
	1. Appropriation to general and regulatory reserves (i)	34	-	-	-	-	19,396	(19,396)	-	-
	Balance at 30 June 2021	10,995,600	8,000,000	7,661,124	54,422	3,886,909	7,570,143	19,888,029	1,951,117	60,007,344

(i) Includes the appropriation made by subsidiaries in the amount of RMB19,396 thousand.

		Unaudited								
		Equity attributable to equity holders of the Bank								
		Other equity instruments		Other		General and		Non-		Total
Notes		Share capital	Perpetual bonds	Capital reserve	comprehensive income	Surplus reserves	regulatory reserves	Undistributed profits	controlling interests	
	Balance at 1 January 2020	10,995,600	-	7,663,342	319,926	3,782,467	7,520,778	19,544,558	1,814,493	51,641,164
	Movements in this period	-	-	-	(97,235)	-	29,762	728,513	(4,499)	656,541
	Total comprehensive income	36	-	-	(97,235)	-	-	1,857,835	(4,499)	1,756,101
	Profit distribution		-	-	-	-	29,762	(1,129,322)	-	(1,099,560)
	1. Appropriation to general and regulatory reserves (i)		-	-	-	-	29,762	(29,762)	-	-
	2. Distribution to shareholders		-	-	-	-	-	(1,099,560)	-	(1,099,560)
	Balance at 30 June 2020	10,995,600	-	7,663,342	222,691	3,782,467	7,550,540	20,273,071	1,809,994	52,297,705

(i) Includes the appropriation made by subsidiaries in the amount of RMB29,762 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 2021
(Amount in thousands of RMB, unless otherwise stated)

		Audited								
		Equity attributable to equity holders of the Bank								
	Notes	Share capital	Other equity instruments Perpetual bonds	Capital reserve	Other comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Non-controlling interests	Total
Balance at 1 January 2020		10,995,600	-	7,663,342	319,926	3,782,467	7,520,778	19,544,558	1,814,493	51,641,164
Movements during the year		-	-	(2,218)	(223,442)	104,442	29,969	(488,295)	47,512	(532,032)
Total comprehensive income	36	-	-	-	(223,442)	-	-	745,676	50,156	572,390
Profit distribution		-	-	-	-	104,442	29,969	(1,233,971)	(4,862)	(1,104,422)
1. Appropriation to surplus reserves	33	-	-	-	-	104,442	-	(104,442)	-	-
2. Appropriation to general and regulatory reserves (i)	34	-	-	-	-	-	29,969	(29,969)	-	-
3. Distribution to shareholders	35	-	-	-	-	-	-	(1,099,560)	(4,862)	(1,104,422)
Others		-	-	(2,218)	-	-	-	-	2,218	-
Balance at 31 December 2020		10,995,600	-	7,661,124	96,484	3,886,909	7,550,747	19,056,263	1,862,005	51,109,132

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

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

Condensed Consolidated Statement of Cash Flows

FOR THE SIX-MONTH ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

	Notes	For the six-month period ended 30 June	
		2021	2020
		Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,254,928	2,420,098
Adjustments for:			
Depreciation and amortisation	9	374,383	390,730
Net trading gains	6	(492,463)	(629,222)
Dividend income	7	(10,128)	–
Interest income on financial investments	4	(3,453,625)	(4,278,636)
Impairment losses on loans and advances to customers	10	2,599,885	2,901,995
Impairment losses on other assets	10	307,915	684,812
Unrealised foreign exchange losses		(13,566)	(29,576)
Interest expense on issuance of bonds	4	532,259	861,959
Interest expense on lease liabilities	4	10,542	11,621
Accreted interest on impaired loans	4	(173,484)	(66,032)
Net gain on disposal of financial investments	7	(116,828)	(253,574)
Net gain on disposal of property and equipment	8	(125,448)	(65)
		694,370	2,014,110
Net (increase)/decrease in operating assets:			
Due from the central bank		874,660	(10,437,313)
Due from banks and other financial institutions		(1,565,330)	564,802
Reverse repurchase agreements		(134)	–
Loans and advances to customers		(15,006,298)	(18,540,473)
Financial lease receivables		443,014	(1,788,925)
Other assets		4,249,444	(1,483,377)
		(11,004,644)	(31,685,286)
Net (decrease)/increase in operating liabilities:			
Due to the central bank		(712,138)	735,575
Borrowings from banks and other financial institutions		2,173,372	(4,381,321)
Due to banks		6,457,423	4,726,501
Repurchase agreements		14,134,400	(15,700,297)
Due to customers		17,893,968	71,505,138
Other liabilities		1,641,016	117,380
		41,588,041	57,002,976
Net cash flows from operating activities before tax		31,277,767	27,331,800
Income tax paid		(3,250,130)	(1,233,182)
Net cash flows from operating activities		28,027,637	26,098,618

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

Condensed Consolidated Statement of Cash Flows

FOR THE SIX-MONTH ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

	Notes	For the six-month period ended 30 June	
		2021	2020
		Unaudited	Unaudited
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment, intangible assets and other long term assets		(255,693)	(376,250)
Proceeds from disposal of property and equipment		230,550	511
Cash paid for investments		(418,101,748)	(610,677,726)
Proceeds from sale and redemption of investments		409,725,855	608,908,713
Return on investments		919,450	5,009,699
Net cash flows (used in)/from investing activities		(7,481,586)	2,864,947
CASH FLOWS USED IN FINANCING ACTIVITIES			
Proceed from issuance of perpetual bonds	37	8,000,000	—
Proceeds from issue of other debt securities		24,619,204	57,958,606
Payment for redemption of debt securities		(41,140,647)	(59,914,500)
Interest and issue expenses paid on debt securities		(238,423)	(1,506,622)
Payment for lease liabilities		(32,179)	(38,233)
Dividends paid on ordinary shares		(731)	(531,362)
Net cash flows used in financing activities		(8,792,776)	(4,032,111)
NET INCREASE IN CASH AND CASH EQUIVALENTS		11,753,275	24,931,454
Cash and cash equivalents at the beginning of the period		20,522,212	16,414,032
Effect of exchange rate changes on cash and cash equivalents		(22,340)	(6,473)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	38	32,253,147	41,339,013
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		13,194,546	9,001,342
Interest paid		(10,314,267)	(6,158,871)

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 2021

(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 and Insurance Regulatory Commission (“CBIRC”). The Bank obtained its business licence No. 912301001275921118 from the Market Supervision Administration of Harbin. The legal representative is Deng Xinquan and the registered office is located at No. 160 Shangzhi Avenue, Daoli District, Harbin, Heilongjiang Province.

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

The subsidiaries of the Bank as at 30 June 2021 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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(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
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	270,000	99.63	269,000	Village and township bank
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	253,000	100.00	253,000	Village and township bank
Yanshi Rongxing Village and Township Bank Co., Ltd.	Yanshi, Henan	50,000	100.00	50,000	Village and township bank
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	160,000	100.00	160,000	Village and township bank
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	106,000	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	33,300	90.09	30,000	Village and township bank
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	60,000	100.00	30,000	Village and township bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	40,000	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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(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
			%		
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	50,000	100.00	50,000	Village and township bank
Chongqing Youyang Village and Township Bank Co., Ltd.	Youyang, Chongqing	60,000	100.00	60,000	Village and township bank
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 Kongtong Rongxing Village and Township Bank Co., Ltd.	Pingliang, Gansu	50,000	90.00	45,000	Village and township bank
Tianshui Maiji 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
Chengdu Qingbaijiang Rongxing Village and Township Bank Co., Ltd.	Chengdu, Sichuan	100,000	70.00	70,000	Village and township bank
Langzhong Rongxing Village and Township Bank Co., Ltd.	Langzhong, Sichuan	50,000	90.00	45,000	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	1,500,000	53.00	795,000	Consumer finance company

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2. Basis of presentation and principal accounting policies

The unaudited condensed consolidated interim financial information for the six-month period ended 30 June 2021 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 2020.

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 2020.

2.1 Standards and amendments effective in 2021

On 1 January 2021, the Group adopted the following new standards and amendments.

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2

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

The adoption of the above standards and amendments 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 2021

(Amount in thousands of RMB, unless otherwise stated)

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

2.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2021

Standards	Subject of amendment	Effective for annual periods beginning on or after
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
Amendments to IAS 16	<i>Proceeds before Intended Use</i>	1 January 2022
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined
Amendment to IFRS 16	<i>Covid-19 – Related Rent Concessions beyond 30 June 2021</i>	1 April 2021
Amendment to IFRS 17	<i>Insurance contracts</i>	1 January 2023
Amendments to IAS 1	<i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>	1 January 2023
Annual Improvements to IFRSs	<i>Annual Improvements to HKFRSs 2018-2020</i>	1 January 2022
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from Single Transaction</i>	1 January 2023

The Group is considering the impact of the above standards on the consolidated financial statements.

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 annual financial statements for the year ended 31 December 2020.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

4. Net interest income

	For the six-month period ended 30 June	
	2021	2020
Interest income on:		
Loans and advances to customers	8,332,476	8,864,810
– Corporate loans and advances	4,307,102	4,584,806
– Personal loans	3,998,440	4,175,417
– Discounted bills	26,934	104,587
Reverse repurchase agreements	136,328	102,126
Financial assets at fair value through other comprehensive income	409,306	625,270
Financial assets at amortised cost	3,044,319	3,653,366
Due from the central bank	390,999	362,311
Due from banks and other financial institutions	40,220	78,295
Financial lease receivables	697,674	757,381
Subtotal	13,051,322	14,443,559
Interest expense on:		
Due to customers	(6,821,425)	(6,513,754)
Repurchase agreements	(107,416)	(154,618)
Due to banks	(213,733)	(210,504)
Debt securities issued	(532,259)	(861,959)
Due to the central bank	(41,057)	(59,500)
Borrowings from banks and other financial Institutions	(269,103)	(313,853)
Lease liabilities	(10,542)	(11,621)
Subtotal	(7,995,535)	(8,125,809)
Net interest income	5,055,787	6,317,750
Including: interest income on impaired loans	173,484	66,032

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

5. Net fee and commission income

	For the six-month period ended 30 June	
	2021	2020
Fee and commission income		
Advisory and consulting fees	95,675	121,488
Settlement and clearing fees	23,776	8,670
Agency and custodian fees	122,044	316,291
Including: non-guaranteed wealth management products	43,384	166,215
Bank card fees	125,604	232,527
Others	1,870	3,530
Subtotal	368,969	682,506
Fee and commission expense		
Settlement and clearing fees	(6,049)	(62,831)
Agency fees	(19,458)	(2,861)
Bank card fees	(27,945)	(17,852)
Others	(15,183)	(26,113)
Subtotal	(68,635)	(109,657)
Net fee and commission income	300,334	572,849

6. Net trading income

	For the six-month period ended 30 June	
	2021	2020
Financial assets at fair value through profit or loss	492,463	629,222

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

7. Net gain on financial investments

	For the six-month period ended 30 June	
	2021	2020
Gain on disposal of financial assets at amortised cost	36,363	56,895
Gain on disposal of financial assets at fair value through other comprehensive income, net	80,465	196,679
Dividends from equity investments at fair value through other comprehensive income	10,128	–
Total	126,956	253,574

8. Other operating income, net

	For the six-month period ended 30 June	
	2021	2020
Net gain on sale of property and equipment	125,448	65
(Loss)/gain on foreign exchange, net	(8,774)	23,103
Leasing income	23,362	33,329
Government grants and subsidies	13,031	4,697
Others	5,828	6,330
Total	158,895	67,524

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

9. Operating expenses

	For the six-month period ended 30 June	
	2021	2020
Staff costs:		
Salaries, bonuses and allowances	602,072	658,097
Social insurance	169,378	116,525
Housing fund	82,932	76,712
Staff benefits	36,619	34,444
Labour union expenditure and education costs	8,468	8,216
Early retirement benefits	5,454	84
Subtotal	904,923	894,078
General and administrative expenses	374,307	233,829
Tax and surcharges	122,801	106,316
Depreciation and amortisation	374,383	390,730
Leasing expense	59,619	35,029
Auditors' remuneration	1,800	1,500
Others	133,874	172,532
Total	1,971,707	1,834,014

10. Credit impairment losses

	For the six-month period ended 30 June	
	2021	2020
(Reversal of)/provision for impairment losses on:		
Loans and advances to customers at amortised cost	2,846,058	2,901,995
Financial investments at amortised cost	145,372	583,421
Financial lease receivables	(25,943)	45,762
Others	(57,687)	55,629
Total	2,907,800	3,586,807

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

11. Income tax expense

(a) Income tax

	For the six-month period ended 30 June	
	2021	2020
Current income tax	671,056	899,437
Deferred income tax	(356,402)	(332,675)
Total	314,654	566,762

(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	
	2021	2020
Profit before tax	1,254,928	2,420,098
Tax at the PRC statutory income tax rate	313,732	605,025
Items not deductible for tax purposes (i)	138,596	14,668
Non-taxable income (ii)	(173,444)	(189,725)
Adjustment for income tax from prior years	17,669	72,365
Effect of different tax rates for certain subsidiaries	(3,520)	12,035
Effect of unrecognised tax deductible losses	21,621	52,394
Tax expense at the Group's effective income tax rate	314,654	566,762

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 local government bonds, and public fund dividends, which are exempted from income tax under Chinese tax regulations.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

12. Dividends

	For the six-month period ended 30 June	
	2021	2020
Dividend on ordinary shares declared and paid or proposed:		
Final dividend for 2020: Nil * (2019: RMB0.10 per share **)	–	1,099,560

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

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

13. Earnings per share

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

	For the six-month period ended 30 June	
	2021	2020
Earnings:		
Profit attributable to owners of the parent	851,162	1,857,835
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)	0.08	0.17

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 2021 (For the six-month period ended 30 June 2020: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

14. Cash and balances with the central bank

	30 June 2021	31 December 2020
Cash on hand	1,016,350	782,714
Mandatory reserves with the central bank (i)	46,330,835	47,403,114
Surplus reserves with the central bank (ii)	24,539,373	14,401,466
Fiscal deposits with the central bank	360,298	159,517
Subtotal	72,246,856	62,746,811
Accrued interest	21,123	24,285
Total	72,267,979	62,771,096

- (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 2021 and 31 December 2020, 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.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

15. Due from banks and other financial institutions

	30 June 2021	31 December 2020
Nostro accounts:		
Banks operating in Mainland China	2,389,701	2,694,400
Other financial institutions operating in Mainland China	387,540	204,936
Banks operating outside Mainland China	873,159	1,282,036
Subtotal	3,650,400	4,181,372
Accrued interest	9,666	2,656
Less: Allowance for impairment losses	(31,545)	(14,244)
Subtotal	3,628,521	4,169,784
Placements with banks and other financial institutions:		
Banks operating in Mainland China	700,000	200,000
Other financial institutions operating in Mainland China	580,000	1,530,000
Banks operating outside Mainland China	2,000,000	300,000
Subtotal	3,280,000	2,030,000
Accrued interest	8,201	9,457
Less: Allowance for impairment losses	(2,600)	(3,123)
Subtotal	3,285,601	2,036,334
Total	6,914,122	6,206,118

As at 30 June 2021 and 31 December 2020, all the amounts due from banks and other financial institutions of the Group were in Stage 1, and measured the impairment losses based on expected credit loss ("ECL") in the next 12 months.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
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16. Reverse repurchase agreements

	30 June 2021	31 December 2020
Reverse repurchase agreements analysed by counterparty:		
Banks operating in Mainland China	2,199,940	–
Interest receivable	134	–
Total	2,200,074	–
Reverse repurchase analysed by collateral:		
Bonds	2,199,940	–
Interest receivable	134	–
Total	2,200,074	–

17. Loans and advances to customers

17.1 Analysis of loans and advances to customers by measurement category

	30 June 2021	31 December 2020
Loans and advances measured at amortised cost		
– Corporate loans and advances	164,829,411	158,551,787
– Personal loans	127,988,987	120,174,328
Subtotal	292,818,398	278,726,115
Loans and advances measured at fair value through other comprehensive income		
– Discounted bills	1,580,288	1,841,061
Total loans and advances to customers	294,398,686	280,567,176
Accrued interest	3,160,370	2,888,133
Less: allowance for impairment losses	(12,802,041)	(11,104,707)
Loans and advances to customers, net	284,757,015	272,350,602

17.2 Analysis of loans and advances to customers by industry, collateral type and analysis of overdue loans and advances to customers are presented in Note 45(a).

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(Amount in thousands of RMB, unless otherwise stated)

17. Loans and advances to customers (Continued)

17.3 Analysis of loans and advances to customers

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 30 June 2021				
Total loans and advances at amortised cost	265,111,889	13,506,316	14,200,193	292,818,398
Accrued interest	2,896,398	260,960	3,012	3,160,370
Allowance for impairment losses	(3,549,008)	(2,281,006)	(6,972,027)	(12,802,041)
Loans and advances to customers at amortised cost, net	264,459,279	11,486,270	7,231,178	283,176,727
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 31 December 2020				
Total loans and advances at amortised cost	253,603,790	11,018,817	14,103,508	278,726,115
Accrued interest	2,831,592	56,509	32	2,888,133
Allowance for impairment losses	(2,807,065)	(1,940,480)	(6,357,162)	(11,104,707)
Loans and advances to customers at amortised cost, net	253,628,317	9,134,846	7,746,378	270,509,541

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FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

17. Loans and advances to customers *(Continued)*

17.4 Reconciliation of allowances for impairment losses on loans and advances to customers

	For the six-month period ended 30 June 2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2021	2,807,065	1,940,480	6,357,162	11,104,707
Exchange difference	–	–	(1,195)	(1,195)
Charge for the period	604,522	(213,807)	2,455,343	2,846,058
Stage conversion	137,421	554,333	(691,754)	–
Converted to Stage 1	409,931	(198,104)	(211,827)	–
Converted to Stage 2	(105,471)	1,039,527	(934,056)	–
Converted to Stage 3	(167,039)	(287,090)	454,129	–
Write-off and transfer out	–	–	(1,010,288)	(1,010,288)
Recovery of loans and advances previously written off	–	–	36,243	36,243
Accreted interest on impaired loans	–	–	(173,484)	(173,484)
As at 30 June 2021	3,549,008	2,281,006	6,972,027	12,802,041

As at 30 June 2021, the Group adjusted the five-level classification and customer rating of loans and advance to customers. The loan principal transferred from stage 1 to stage 2 and stage 3 was RMB7,290 million, and corresponding impairment provision increased by RMB1,732 million. The loan principal transferred from stage 2 to stage 3 was RMB1,374 million, impairment provision increasing by RMB293 million. The loan principal transferred from stage 2 to stage 1 was RMB1,177 million, impairment provision decreasing by RMB149 million.

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(Amount in thousands of RMB, unless otherwise stated)

17. Loans and advances to customers *(Continued)*

17.4 Reconciliation of allowances for impairment losses on loans and advances to customers *(Continued)*

	For the year ended 31 December 2020			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
As at 1 January 2020	2,660,191	1,746,632	3,601,531	8,008,354
Exchange difference	–	–	(186)	(186)
Charge for the year	375,190	805,779	6,094,823	7,275,792
Stage conversion	(228,316)	(611,931)	840,247	–
Converted to Stage 1	163,143	(109,197)	(53,946)	–
Converted to Stage 2	(153,706)	163,476	(9,770)	–
Converted to Stage 3	(237,753)	(666,210)	903,963	–
Write-off and transfer out	–	–	(3,976,376)	(3,976,376)
Recovery of loans and advances previously written off	–	–	148,613	148,613
Accreted interest on impaired loans	–	–	(351,490)	(351,490)
As at 31 December 2020	2,807,065	1,940,480	6,357,162	11,104,707

In 2020, the Group adjusted the five-level classification and customer rating of loans and advances to customers. The loan principal transferred from stage 1 to stage 2 and stage 3 was RMB16,248 million, and corresponding impairment provision increased by RMB5,225 million. The loan principal transferred from stage 2 to stage 3 was RMB3,133 million, impairment provision increasing by RMB976 million. The loan principal transferred from stage 2 to stage 1 was RMB4,833 million, impairment provision decreasing by RMB98 million. The loan principal transferred from stage 3 to stage 1 and stage 2 was not significant.

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18. Derivative financial instruments

The Group enters into related derivative financial instruments related to interest rate, currency rate, and price of precious metal, for trading and on behalf of customers.

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

	30 June 2021			31 December 2020		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Option contracts	–	–	–	727,830	16,395	(16,395)

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(Amount in thousands of RMB, unless otherwise stated)

19. Financial investments

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

	30 June 2021	31 December 2020
Government debt securities	560,984	559,927
Financial institution debt securities	174,800	344,321
Corporate debt securities	3,099,852	2,937,970
Funds (i)	9,544,057	7,663,828
Trust fund plans and asset management plans (ii)	45,498,651	41,731,606
Subtotal	58,878,344	53,237,652
Equity instruments	277,626	277,626
Accrued interest	172,507	58,355
Total	59,328,477	53,573,633

- (i) The Group's fund investments were debt instruments that could not pass the SPPI tests and classified as financial assets at fair value through profit or loss.
- (ii) The Group classified the trust fund plans and asset management plans that could not pass the SPPI tests as financial assets at fair value through profit or loss.

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19. Financial investments (Continued)

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

	30 June 2021	31 December 2020
Government debt securities	11,507,853	9,521,517
Policy bank debt securities	1,849,243	2,226,333
Financial institution debt securities	1,458,709	628,245
Corporate debt securities	8,395,700	7,141,561
Subtotal (i)	23,211,505	19,517,656
Equity investments (ii)	350,561	250,561
Accrued interest	298,125	384,013
Net balance	23,860,191	20,152,230

(i) As at 30 June 2021, RMB69 million debt securities at fair value through other comprehensive income of the Group were in Stage 3, and the Group's accumulated allowance for impairment losses on the above-mentioned debt instruments amounted to RMB105 million. Other debt securities at fair value through other comprehensive income were in stage 1 and the corresponding accumulated allowance for impairment losses amounted to RMB8 million. As at 31 December 2020, RMB69 million debt securities at fair value through other comprehensive income of the Group were in Stage 3, and the Group's accumulated allowance for impairment losses on the above-mentioned debt instruments amounted to RMB105 million. Other debt securities at fair value through other comprehensive income were in Stage 1, and the corresponding accumulated allowance for impairment losses amounted to RMB6 million.

(ii) The Group irrevocably designated parts of its equity investments at fair value through other comprehensive income.

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19. Financial investments (Continued)

(c) Financial assets at amortised cost

	30 June 2021	31 December 2020
Government debt securities	26,248,927	25,949,771
Policy bank debt securities	17,123,812	18,049,199
Financial institution debt securities	850,360	670,279
Corporate debt securities	14,980,594	12,753,587
Trust fund plans and asset management plans	84,477,156	88,057,105
Subtotal	143,680,849	145,479,941
Accrued interest	2,234,165	2,124,265
Allowance for impairment losses (i)	(4,626,133)	(4,480,761)
Net balance	141,288,881	143,123,445

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

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2021	743,992	322,254	3,414,515	4,480,761
Impairment loss (reversal)/charge during the period	(85,844)	(104,887)	336,103	145,372
As at 30 June 2021	658,148	217,367	3,750,618	4,626,133

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2020	660,360	261,546	3,073,409	3,995,315
Impairment loss charge during the year	83,632	60,708	341,106	485,446
As at 31 December 2020	743,992	322,254	3,414,515	4,480,761

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20. Financial lease receivables

	30 June 2021	31 December 2020
Financial lease receivables	26,169,806	26,770,922
Less: unearned financial lease income	(2,523,683)	(2,782,870)
Present value of minimum financial lease receivables	23,646,123	23,988,052
Accrued interest	198,614	299,699
Less: allowance for impairment losses	(1,172,631)	(1,198,574)
Net balance	22,672,106	23,089,177

As at 30 June 2021, the carrying amounts of financial lease receivables in Stages 1, 2 and 3 were RMB22,941 million, RMB120 million and RMB585 million respectively, and allowances for impairment losses in Stages 1, 2 and 3 were RMB564 million, RMB48 million and RMB560 million respectively. As at 31 December 2020, the carrying amounts of financial lease receivables in Stages 1, 2 and 3 were RMB23,240 million, RMB0.41 million and RMB748 million respectively, and allowances for impairment losses in Stages 1, 2 and 3 were RMB603 million, RMB5,000 and RMB596 million respectively.

Financial lease receivables, unearned financial lease income and minimum financial lease receivables analysed by remaining period are as follows:

	30 June 2021			31 December 2020		
	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	11,320,454	(894,318)	10,426,136	11,990,672	(1,037,320)	10,953,352
1 year to 2 years	7,408,009	(724,426)	6,683,583	7,263,748	(779,993)	6,483,755
2 years to 3 years	4,521,881	(559,174)	3,962,707	4,911,466	(628,459)	4,283,007
3 years to 5 years	2,848,321	(338,897)	2,509,424	2,549,976	(330,385)	2,219,591
More than 5 years	71,141	(6,868)	64,273	55,060	(6,713)	48,347
	26,169,806	(2,523,683)	23,646,123	26,770,922	(2,782,870)	23,988,052

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21. Property and equipment

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Cost:							
At 1 January 2020	6,774,871	2,354,283	600,002	2,099,326	70,729	314,398	12,213,609
Additions	104,715	373,534	34,207	99,045	3,747	-	615,248
Transfer from construction in progress	42,831	(69,862)	-	27,031	-	-	-
Disposals	(3,292)	-	-	(92,263)	(5,531)	-	(101,086)
At 31 December 2020 and 1 January 2021	6,919,125	2,657,955	634,209	2,133,139	68,945	314,398	12,727,771
Additions	38,194	41,038	52,707	18,010	579	337	150,865
Transfer from construction in progress	3,242	(7,501)	-	4,259	-	-	-
Disposals	(97,662)	-	(3,185)	(88,057)	(1,476)	-	(190,380)
At 30 June 2021	6,862,899	2,691,492	683,731	2,067,351	68,048	314,735	12,688,256
Accumulated depreciation:							
At 1 January 2020	1,159,099	-	476,115	1,502,489	53,914	74,670	3,266,287
Depreciation charge for the year	202,916	-	48,874	179,461	5,132	15,013	451,396
Disposals	(2,036)	-	-	(80,948)	(5,463)	-	(88,447)
At 31 December 2020 and 1 January 2021	1,359,979	-	524,989	1,601,002	53,583	89,683	3,629,236
Depreciation charge for the period	99,104	-	35,673	87,593	2,223	7,708	232,301
Disposals	(33,769)	-	(1,361)	(46,268)	(1,403)	-	(82,801)
At 30 June 2021	1,425,314	-	559,301	1,642,327	54,403	97,391	3,778,736
Net carrying amount:							
At 31 December 2020	5,559,146	2,657,955	109,220	532,137	15,362	224,715	9,098,535
At 30 June 2021	5,437,585	2,691,492	124,430	425,024	13,645	217,344	8,909,520

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21. Property and equipment *(Continued)*

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

	30 June 2021	31 December 2020
Held in China:		
Over 50 years	1,600,550	1,582,553
10 to 50 years	3,476,264	3,942,057
Less than 10 years	360,771	34,536
	5,437,585	5,559,146

As at 30 June 2021, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,029 million (31 December 2020: RMB2,299 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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22. Deferred income tax assets and liabilities

(a) Analysed by nature

	30 June 2021		31 December 2020	
	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	16,638,304	4,115,841	14,924,262	3,715,285
Contingent liabilities	12,892	3,223	63,458	15,865
Salaries, bonuses, allowances and subsidies payable	185,064	43,869	188,717	45,726
Early retirement benefits	34,239	8,560	38,005	9,501
Deferred revenue	35,712	8,870	75,067	18,383
Deductible losses	11,385	2,846	–	–
Changes in fair value of financial assets at fair value through other comprehensive income	40,780	10,195	–	–
Others	64,514	13,580	94,398	23,397
Subtotal	17,022,890	4,206,984	15,383,907	3,828,157
Deferred income tax liabilities:				
Changes in fair value of financial assets at fair value through profit or loss	(369,781)	(92,445)	(320,859)	(80,215)
Changes in fair value of financial assets at fair value through other comprehensive income	–	–	(17,571)	(4,393)
Allowance for impairment losses on the financial assets at fair value through other comprehensive income	(2,268)	(567)	–	–
Subtotal	(372,049)	(93,012)	(338,430)	(84,608)
Net deferred income tax	16,650,841	4,113,972	15,045,477	3,743,549

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22. Deferred income tax assets and liabilities (Continued)

(b) Movements in deferred income tax

	At 1 January 2021	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 30 June 2021
Deferred income tax assets:				
Allowance for impairment losses	3,715,285	400,556	–	4,115,841
Contingent liabilities	15,865	(12,642)	–	3,223
Changes in fair value of financial assets at fair value through profit or loss	(80,215)	(12,230)	–	(92,445)
Changes in fair value of financial assets at fair value through other comprehensive income	(4,393)	–	14,588	10,195
Allowance for impairment losses on the financial assets at fair value through other comprehensive income	–	–	(567)	(567)
Salaries, bonuses, allowances and subsidies payable	45,726	(1,857)	–	43,869
Early retirement benefits	9,501	(941)	–	8,560
Deferred revenue	18,383	(9,513)	–	8,870
Deductible losses	–	2,846	–	2,846
Others	23,397	(9,817)	–	13,580
Net deferred income tax	3,743,549	356,402	14,021	4,113,972

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(Amount in thousands of RMB, unless otherwise stated)

22. Deferred income tax assets and liabilities (Continued)

(b) Movements in deferred income tax (Continued)

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

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(Amount in thousands of RMB, unless otherwise stated)

23. Other assets

	30 June 2021	31 December 2020
Interest receivable (a)	692,613	1,189,879
Right-of-use assets (b)	437,104	494,839
Land use rights (c)	4,348	4,527
Advance payments	254,612	164,027
Settlement and clearing accounts	3,581,164	2,039,270
Intangible assets (d)	417,114	397,844
Other receivables	856,962	586,044
Others	107,782	7,236
Subtotal	6,351,699	4,883,666
Impairment loss	(350,248)	(404,829)
Total	6,001,451	4,478,837

(a) Interest receivable

As at 30 June 2021, the carrying amounts of the Group's overdue interest receivables in Stages 1, 2 and 3 were RMB161,001 thousand, RMB515,473 thousand and RMB16,139 thousand, respectively, and the impairment losses were RMB8,973 thousand, RMB85,496 thousand and RMB5,494 thousand, respectively. As at 31 December 2020, the carrying amounts of the Group's overdue interest receivables in Stages 1, 2 and 3 were RMB320,639 thousand, RMB786,241 thousand and RMB82,999 thousand, respectively, and the impairment losses were RMB13,244 thousand, RMB92,777 thousand and RMB37,340 thousand, respectively.

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(Amount in thousands of RMB, unless otherwise stated)

23. Other assets (Continued)

(b) Right-of-use assets

	Properties and buildings	Motor vehicles and others	Total
Cost:			
At 1 January 2021	710,476	87,808	798,284
Additions	42,684	9,996	52,680
Decrease	(15,753)	(4,275)	(20,028)
At 30 June 2021	737,407	93,529	830,936
Accumulated depreciation:			
At 1 January 2021	259,698	43,747	303,445
Additions	82,402	12,765	95,167
Decrease	(3,886)	(894)	(4,780)
At 30 June 2021	338,214	55,618	393,832
Net carrying amount:			
At 1 January 2021	450,778	44,061	494,839
At 30 June 2021	399,193	37,911	437,104
	Properties and buildings	Motor vehicles and others	Total
Cost:			
At 1 January 2020	711,270	124,735	836,005
Additions	124,019	2,865	126,884
Decrease	(124,813)	(39,792)	(164,605)
At 31 December 2020	710,476	87,808	798,284
Accumulated depreciation:			
At 1 January 2020	188,078	47,139	235,217
Additions	192,508	34,652	227,160
Decrease	(120,888)	(38,044)	(158,932)
At 31 December 2020	259,698	43,747	303,445
Net carrying amount:			
At 1 January 2020	523,192	77,596	600,788
At 31 December 2020	450,778	44,061	494,839

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23. Other assets (Continued)

(c) Land use rights

	30 June 2021	31 December 2020
Located in Mainland China		
10 to 50 years	4,348	4,527

(d) Intangible assets

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

24. Due to the central bank

	30 June 2021	31 December 2020
Medium-term lending facility	–	1,000,000
Small enterprises supporting re-lending	2,079,009	1,915,130
Agricultural supporting re-lending	543,555	559,150
Poverty alleviation re-lending	60,650	71,845
Rediscounted bills	227,154	72,771
Credit loan support program	15,393	–
Subtotal	2,925,761	3,618,896
Accrued interest	1,320	20,323
Total	2,927,081	3,639,219

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25. Borrowings from banks and other financial institutions

	30 June 2021	31 December 2020
Unsecured borrowings	11,887,123	9,727,612
Subtotal	11,887,123	9,727,612
Accrued interest	134,180	120,319
Total	12,021,303	9,847,931

26. Due to banks

	30 June 2021	31 December 2020
Deposits:		
Banks operating in Mainland China	19,729,132	14,271,065
Banks operating outside Mainland China	6,030	3,407
Subtotal	19,735,162	14,274,472
Accrued interest	132,865	150,481
Subtotal	19,868,027	14,424,953
Placements:		
Banks operating in Mainland China	1,804,469	859,756
Other financial institutions operating in Mainland China	670,000	620,000
Subtotal	2,474,469	1,479,756
Accrued interest	36,396	16,760
Subtotal	2,510,865	1,496,516
Total	22,378,892	15,921,469

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

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27. Repurchase agreements

	30 June 2021	31 December 2020
Repurchase agreements analysed by counterparty:		
Banks operating in Mainland China	2,631,400	1,470,165
Other financial institutions operating in Mainland China	12,983,527	–
Accrued interest	18,915	29,277
Total	15,633,842	1,499,442
Repurchase agreements analysed by collateral:		
Bonds	15,614,927	1,470,165
Accrued interest	18,915	29,277
Total	15,633,842	1,499,442

28. Due to customers

	30 June 2021	31 December 2020
Demand deposits:		
Corporate customers	101,092,533	101,577,440
Personal customers	51,914,892	57,215,361
Subtotal	153,007,425	158,792,801
Time deposits:		
Corporate customers	90,027,646	88,371,236
Personal customers	246,375,521	222,115,974
Subtotal	336,403,167	310,487,210
Demand and time deposits	489,410,592	469,280,011
Accrued interest	4,816,515	7,053,128
Total	494,227,107	476,333,139

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29. Debt securities issued

	30 June 2021	31 December 2020
Financial bonds issued	1,000,000	1,997,742
Tier 2 capital bonds issued	–	8,000,000
Negotiable certificates of deposit issued	15,808,655	23,332,177
Subtotal	16,808,655	33,329,919
Accrued interest	6,768	245,191
Total	16,815,423	33,575,110

As approved by the PBOC and the CBIRC, the Group has issued financial bonds through the open market in recent years, 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 2021 (2020: 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)
16 Harbin Bank Tier 2 (Note)	14 June 2016	100	4.00%	16 June 2016	16 June 2026	8,000 million
17 Harbin Bank Green Finance 03	5 May 2017	100	4.75%	10 May 2017	10 May 2022	1,000 million
18 Harbin Bank leasing financial bonds 01 (Note)	2 May 2018	100	5.48%	4 May 2018	4 May 2021	1,000 million

For the six-month period ended 30 June 2021 and the year ended 31 December 2020, the Group issued respectively 155 tranches and 341 tranches of negotiable certificates of deposit at a face value of RMB100 through the domestic interbank bond market, and sold them at discount. As at 30 June 2021 and 31 December 2020, 121 tranches and 104 tranches of negotiable certificates of deposit issued by the Group have not yet expired, the balances of which were RMB15,809 million and RMB23,333 million respectively, the term ranging from 1 month to 1 year.

Note: The 16 Harbin Bank Tier 2 and the 18 Harbin Bank leasing financial bonds 01 have been fully repaid during the period.

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30. Other liabilities

	30 June 2021	31 December 2020
Wealth management products payable	4,474	4,467
Settlement and clearing accounts	3,283,619	1,002,263
Account payable from agency services	278,016	226,388
Salaries, bonuses, allowances and subsidies payable (a)	348,521	636,688
Sundry tax payables	319,490	290,586
Deferred revenue (b)	191,617	191,685
Dividends payable	81,957	82,688
Accrued expenses	84,182	95,106
Lease guarantee fee	1,624,059	2,028,199
Contingent liabilities	12,892	63,458
Lease liabilities	435,445	467,624
Other payables	991,135	687,031
Total	7,655,407	5,776,183

(a) Salaries, bonuses, allowances and subsidies payable

	30 June 2021	31 December 2020
Salaries, bonuses and allowances	228,881	567,310
Social insurance	47,022	13,035
Housing fund	29,238	5,985
Staff benefits	–	829
Labour union expenditure and education costs	7,467	9,592
Early retirement benefits	35,913	39,937
Total	348,521	636,688

(b) Deferred revenue

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

	30 June 2021	31 December 2020
Intermediary services	191,617	191,685

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31. Share capital

	2021		2020	
	Number of shares (thousand)	Nominal value	Number of shares (thousand)	Nominal value
Opening balance	10,995,600	10,995,600	10,995,600	10,995,600
Changes in the current period/year	-	-	-	-
As at 30 June 2021/31 December 2020	10,995,600	10,995,600	10,995,600	10,995,600

32. Capital reserve

	Share premium	Other capital reserve	Total
At 1 January 2020	7,624,993	38,349	7,663,342
Decrease during the year	-	(2,218)	(2,218)
At 31 December 2020, 1 January 2021 and 30 June 2021	7,624,993	36,131	7,661,124

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33. Surplus reserves

	Statutory surplus reserves	Discretionary surplus reserves	Total
At 1 January 2020	3,756,281	26,186	3,782,467
Appropriation during the year	104,442	–	104,442
At 31 December 2020, 1 January 2021 and 30 June 2021	3,860,723	26,186	3,886,909

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

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year determined 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.

34. General and regulatory reserves

	30 June 2021	31 December 2020
Balance as at the beginning of the period/year	7,550,747	7,520,778
Increase during the period/year	19,396	29,969
Balance as at the end of the period/year	7,570,143	7,550,747

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

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35. Undistributed profits

	30 June 2021	31 December 2020
Balance as at the beginning of the period/year	19,056,263	19,544,558
Profit for the period/year attributable to equity holders of the Bank	851,162	745,676
Net of:		
Appropriation to statutory surplus reserves	–	(104,442)
Appropriation to general and regulatory reserves	(19,396)	(29,969)
Dividends	–	(1,099,560)
Balance as at the end of the period/year	19,888,029	19,056,263

36. Components of other comprehensive income

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

	For the six-month period ended 30 June	
	2021	2020
Items that will not be reclassified to profit or loss		
Changes in fair value of equity instruments designated at fair value through other comprehensive income	–	(1,450)
Items that may be reclassified subsequently to profit or loss		
Changes in fair value of debt instruments measured at fair value through other comprehensive income	(4,159)	(78,814)
Allowance for impairment losses on debt instruments measured at fair value through other comprehensive income	2,268	47,465
Transfer to the condensed consolidated statement of profit or loss arising from disposal	(54,192)	(96,848)
Income tax effect	14,021	32,412
Total	(42,062)	(97,235)

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36. Components of other comprehensive income (Continued)

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

	1 January 2021	Changes during the period	30 June 2021
Gains/(losses) on debt instruments at fair value through other comprehensive income	2,104	(42,062)	(39,958)
Gains on equity instruments at fair value through other comprehensive income	94,380	–	94,380
	96,484	(42,062)	54,422

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

37. Other equity instruments

	30 June 2021	31 December 2020
Perpetual bond	8,000,000	–

On 29 June 2021, the Group issued a perpetual debt of RMB8,000 million with no fixed maturity date, resulting in credit to perpetual bond of RMB8,000 million which the coupon rate of the perpetual bond for the first five years is 4.8% and is subject to adjustment every five years. The Group's conditional redemption right can be exercised on the annual interest payment date of the fifth year and the subsequent years. In addition, the payment of interest can be indefinitely deferred at the Group's option.

Therefore, the perpetual bond is classified as an equity instrument due to it does not include any contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

During the six-month period ended 30 June 2021, the Group did not cancel the payment of distribution.

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38. 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:

	30 June 2021	30 June 2020
Cash on hand (note 14)	1,016,350	808,246
Balances with the central bank (note 14)	24,539,373	35,343,493
Due from banks and other financial institutions	4,497,484	5,187,274
Reverse repurchase agreements	2,199,940	–
Total	32,253,147	41,339,013

39. Commitments and contingent liabilities

(a) Capital commitments

The Group had capital commitments as follows:

	30 June 2021	31 December 2020
Contracted, but not provided	88,954	201,771
Approved, but not contracted	3,562	1,408
	92,516	203,179

(b) Credit commitments

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

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

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

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39. Commitments and contingent liabilities (Continued)

(b) Credit commitments (Continued)

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of undrawn credit card limits 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.

	30 June 2021	31 December 2020
Bank bill acceptances	7,130,037	15,514,035
Letters of guarantee issued	1,375,216	1,570,625
Letters of credit	1,370,133	929,584
Undrawn credit card limits	24,957,054	21,837,315
Total	34,832,440	39,851,559

(c) Legal proceedings

As at 30 June 2021 and 31 December 2020, significant legal proceedings exceeding RMB10,000 thousand outstanding against the Group amounted to RMB75,105 thousand and RMB21,305 thousand respectively. Management expects that there will be no loss caused by these litigations and no provisions need to be made.

(d) Redemption commitments of government bonds

As an underwriting agent of the government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, where 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 2021, the Bank had underwritten and sold bonds with an accumulated amount of RMB2,310 million (31 December 2020: RMB2,517 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.

Notes to the Condensed Consolidated Interim Financial Information

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39. Commitments and contingent liabilities *(Continued)*

(e) Assets pledged as security

Financial assets of the Group including securities and finance lease receivables have been pledged as security for liabilities or contingent liabilities, which mainly arise from repurchase agreements, time deposit agreements, due to the central bank and borrowings from banks and other financial institutions. As at 30 June 2021, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB19,256 million (31 December 2020: approximately RMB7,719 million).

40. Fiduciary activities

	30 June 2021	31 December 2020
Designated funds	1,840,948	1,819,533
Designated loans	1,840,948	1,819,533

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

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

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41. Transfers of financial assets

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

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase. The counterparties are allowed to sell or repledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require the counterparties to pay additional cash collateral or be required to give back part of the cash collateral to the counterparties. For the aforementioned transaction, 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 recognises the cash collateral received as a financial liability.

As at 30 June 2021 and 31 December 2020, none of the above-mentioned financial assets which did not qualify for derecognition was transferred to third parties.

Securitisation of credit assets

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

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. As at 30 June 2021, the Group did not hold such asset-backed securities (31 December 2020: Nil).

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42. 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:

42.1 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 2021, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB52,960 million (31 December 2020: RMB52,986 million). For the six-month period ended 30 June 2021, fee and commission income included commission and custodian fee and management fee income from the wealth management business that amounted to RMB43,384 thousand (for the six-month period ended 30 June 2020: RMB166,215 thousand).

For the purpose of asset-liability management, wealth management products may trigger short-term financing needs for the Group and other banks. However, the Group is not contractually obliged to provide financing. During the six-month period ended 30 June 2021, the Group did not provide any financing to the unconsolidated wealth management products (for the six-month period ended 30 June 2020: Nil).

(2) *Asset securitisation business*

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

For the six-month period ended 30 June 2021, the Group did not transfer credit assets to the special purpose entities (for the six-month period ended 30 June 2020: Nil).

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42. Interests in unconsolidated structured entities *(Continued)*

42.2 Structured entities sponsored by other financial institutions

The Group invested some structured entities which are out of the consolidation scope, established and managed by other institutions, and recognised its investment income. These structured entities mainly include wealth management products, specific asset management plans and investment trust plans, etc. These structured entities' nature and purpose are to earn management fees by managing the investors' assets, and the way of financing is to issue investment products to investors. For the six month period ended 30 June 2021 and the year ended 31 December 2020, the Group has not provided liquidity support for these structured entities.

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

	As at 30 June 2021			
	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total	Maximum exposure to loss
Trust investments and asset management plans	45,498,651	84,477,156	129,975,807	125,550,995
Funds	9,544,057	–	9,544,057	9,544,057
	As at 31 December 2020			
	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total	Maximum exposure to loss
Trust investments and asset management plans	41,731,606	88,057,105	129,788,711	125,395,601
Funds	7,663,828	–	7,663,828	7,663,828

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43. 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 2021	31 December 2020
	%	%
Harbin Economic Development and Investment Company Limited	29.63	29.63
Heilongjiang Financial Holding Group Company Limited	18.51	18.51
Fubon Life Insurance Company Limited	6.82	6.87

(ii) Subsidiaries of the Bank

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

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

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

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43. Related party disclosures *(Continued)*

(b) Related party transactions

1. Transactions between the Group and related parties

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

Interest income

Name	For the six-month period ended 30 June	
	2021	2020
Heilongjiang Financial Holding Group Company Limited	–	35,010

Interest expense

Name	For the six-month period ended 30 June	
	2021	2020
Harbin Economic Development and Investment Company Limited	6	4
Heilongjiang Financial Holding Group Company Limited	15,777	8,035

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

	For the six-month period ended 30 June	
	2021	2020
Interest income	103	325
Interest expense	114	322

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(Amount in thousands of RMB, unless otherwise stated)

43. Related party disclosures *(Continued)*

(b) Related party transactions *(Continued)*

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

(iii) Transactions between the Bank and its subsidiaries

	For the six-month period ended 30 June	
	2021	2020
Interest income	393,779	231,510
Interest expense	154,526	68,168

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

Interest expense

Name	For the six-month period ended 30 June	
	2021	2020
Sino Russian Financial Union (Harbin)	12	12

Operating expenses

Name	For the six-month period ended 30 June	
	2021	2020
Beijing Zhongwen Law Firm	142	N/A

(v) Transactions with other related parties

	For the six-month period ended 30 June	
	2021	2020
Emoluments of key management personnel and their close family members	9,673	12,417

In the 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.

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43. Related party disclosures (Continued)

(b) Related party transactions (Continued)

2. Balances with related parties

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

Due to customers

Name	30 June 2021	31 December 2020
Harbin Economic Development and Investment Company Limited	1,971	1,076
Heilongjiang Financial Holding Group Company Limited	1,280,975	1,183,645

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

	30 June 2021	31 December 2020
Loans and advances to customers	4,864	5,539
Due to customers	8,860	11,381

(iii) Balances between the Group and its subsidiaries

	30 June 2021	31 December 2020
Due from banks and other financial institutions	17,545,000	18,268,578
Due to banks	9,806,796	8,801,447
Due to customers	5,276	332,502

(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

Due to customers

Name	30 June 2021	31 December 2020
Sino Russian Financial Union (Harbin)	5,848	5,842

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44. 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 businesses other than the 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.

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44. Segment information (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
<u>Six-month period ended</u>					
<u>30 June 2021</u>					
External net interest income/ (expense)	3,461,846	(784,695)	2,389,177	(10,541)	5,055,787
Internal net interest income/ (expense)	(1,011,514)	2,335,632	(1,324,118)	–	–
Net fee and commission income	115,201	107,829	77,304	–	300,334
Other income, net (i)	–	–	610,645	167,669	778,314
Operating income	2,565,533	1,658,766	1,753,008	157,128	6,134,435
Operating expenses	(717,701)	(577,710)	(652,635)	(23,661)	(1,971,707)
Impairment losses on:					
Loans and advances to customers	(1,702,889)	(1,143,169)	–	–	(2,846,058)
Others	284,452	–	(396,739)	50,545	(61,742)
Operating profit	429,395	(62,113)	703,634	184,012	1,254,928
Profit before tax	429,395	(62,113)	703,634	184,012	1,254,928
Income tax expense					(314,654)
Profit for the period					940,274
Other segment information:					
Depreciation and amortisation	136,275	109,694	123,921	4,493	374,383
Capital expenditure	93,072	74,918	84,635	3,068	255,693
<u>As at 30 June 2021</u>					
Segment assets	192,996,870	129,615,848	305,862,425	3,838,645	632,313,788
Segment liabilities	172,006,322	301,295,785	96,008,599	2,995,738	572,306,444
Other segment information:					
Credit commitments	9,875,386	24,957,054	–	–	34,832,440

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

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44. Segment information (Continued)

(a) Operating segments (Continued)

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
<u>Six-month period ended</u>					
<u>30 June 2020</u>					
External net interest income/ (expense)	2,861,485	(551,869)	3,534,788	(11,621)	5,832,783
Internal net interest income/ (expense)	417,732	1,908,556	(2,326,288)	–	–
Net fee and commission income	176,996	743,726	137,094	–	1,057,816
Other income, net (i)	–	–	905,899	44,421	950,320
Operating income	3,456,213	2,100,413	2,251,493	32,800	7,840,919
Operating expenses	(644,731)	(513,054)	(641,403)	(34,826)	(1,834,014)
Impairment losses on:					
Loans and advances to customers	(1,668,538)	(1,233,457)	–	–	(2,901,995)
Others	(90,312)	–	(593,316)	(1,184)	(684,812)
Operating profit	1,052,632	353,902	1,016,774	(3,210)	2,420,098
Profit before tax	1,052,632	353,902	1,016,774	(3,210)	2,420,098
Income tax expense					(566,762)
Profit for the period					<u>1,853,336</u>
Other segment information:					
Depreciation and amortisation	136,201	108,384	145,069	1,076	390,730
Capital expenditure	131,153	104,368	139,693	1,036	376,250
<u>As at 30 June 2020</u>					
Segment assets	226,327,842	164,649,822	245,727,400	1,641,421	638,346,485
Segment liabilities	236,567,964	270,618,559	77,032,635	1,829,622	586,048,780
Other segment information:					
Credit commitments	30,078,186	20,210,272	–	–	50,288,458

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

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44. Segment information *(Continued)*

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows:

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

During the six-month ended 30 June 2021, the management of the Group has re-organised its internal reporting structure after considering the volume of the business. The geographical areas of Northern China has combined with other regions. The Group is currently re-organised into four geographical areas - Heilongjian region, Northeastern China, Southwestern China and other regions. Accordingly, the comparative segment information has been re-presented to conform to current period's presentation.

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44. Segment information *(Continued)*

(b) Geographical information *(Continued)*

	Mainland China				Total
	Heilongjiang region	Northeastern China	Southwestern China	Other regions	
<u>Six-month period ended 30 June 2021</u>					
External net interest income/(expense)	3,184,776	680,883	1,256,982	(66,854)	5,055,787
Internal net interest income/(expense)	(110,769)	12,886	17,838	80,045	–
Net fee and commission income/(expense)	234,720	9,565	53,219	2,830	300,334
Other income, net (i)	765,212	658	11,107	1,337	778,314
Operating income	4,073,939	703,992	1,339,146	17,358	6,134,435
Operating expenses	(1,411,035)	(152,421)	(221,095)	(187,156)	(1,971,707)
Impairment losses on:					
Loans and advances to customers	(2,283,638)	(358,208)	(111,079)	(93,133)	(2,846,058)
Others	(60,377)	(21)	–	(1,344)	(61,742)
Operating profit/(loss)	318,889	193,342	1,006,972	(264,275)	1,254,928
(Loss)/profit before tax	318,889	193,342	1,006,972	(264,275)	1,254,928
Income tax expense					(314,654)
Profit for the period					940,274
Other segment information:					
Depreciation and amortisation	264,880	30,469	58,453	20,581	374,383
Capital expenditure	180,906	20,809	39,922	14,056	255,693
<u>As at 30 June 2021</u>					
Segment assets	481,001,317	41,183,332	61,562,643	48,566,496	632,313,788
Segment liabilities	449,767,659	26,906,694	52,284,779	43,347,312	572,306,444
Other segment information:					
Credit commitments	29,242,754	1,050,744	2,607,615	1,931,327	34,832,440

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

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44. Segment information (Continued)

(b) Geographical information (Continued)

	Mainland China				Total
	Heilongjiang region	Northeastern China	Southwestern China	Other regions	
				(re-presented)	
<u>Six-month period ended 30 June 2020</u>					
External net interest income	3,189,298	820,712	1,089,384	733,389	5,832,783
Internal net interest income/(expense)	(479,166)	124,665	183,051	171,450	–
Net fee and commission income	945,645	11,177	76,617	24,377	1,057,816
Other income, net (i)	949,760	80	237	243	950,320
Operating income	4,605,537	956,634	1,349,289	929,459	7,840,919
Operating expenses	(1,328,097)	(135,286)	(212,588)	(158,043)	(1,834,014)
Impairment losses on:					
Loans and advances to customers	(1,565,842)	(317,617)	(177,818)	(840,718)	(2,901,995)
Others	(684,975)	114	334	(285)	(684,812)
Operating profit	1,026,623	503,845	959,217	(69,587)	2,420,098
Profit before tax	1,026,623	503,845	959,217	(69,587)	2,420,098
Income tax expense					(566,762)
Profit for the period					1,853,336
Other segment information:					
Depreciation and amortisation	385,508	1,234	3,174	814	390,730
Capital expenditure	220,906	45,901	64,870	44,573	376,250
<u>As at 30 June 2020</u>					
Segment assets	476,688,892	45,502,935	59,273,898	56,880,760	638,346,485
Segment liabilities	437,787,285	35,256,294	55,934,085	57,071,116	586,048,780
Other segment information:					
Credit commitments	24,704,949	4,841,619	14,188,027	6,553,863	50,288,458

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

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45. Financial instrument risk management

(a) Credit risk

(i) *Credit risk measurement*

Measurement of ECL

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

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

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting period are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of current reporting period, if the financial instrument is no longer under the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance for the financial instrument at the end of the current reporting period according to the ECL in the next 12 months.

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

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

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45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

(i) **Credit risk measurement** *(Continued)*

Measurement of ECL *(Continued)*

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

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

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

Criteria for judging significant increases in credit risk

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

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

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45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

(i) Credit risk measurement *(Continued)*

Criteria for judging significant increases in credit risk *(Continued)*

Quantitative criteria

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

Qualitative criteria

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

Upper limit criteria

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

Definition of credit-impaired financial assets

When determining whether a credit impairment occurs under IFRS 9, The Group adopts the method that is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether a credit impairment of a debtor occurs, the following main factors are considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, has granted to the debtor a concession that the creditor would not otherwise consider;

It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;

- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.
- Any principal, advances, interest and corporate bond investments held by debtors are overdue for more than 90 days.

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

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FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

(i) **Credit risk measurement** *(Continued)*

Parameters of ECL measurement

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

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

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(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

(i) **Credit risk measurement** *(Continued)*

Forward-looking information

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

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

In addition to providing a baseline economic scenario, internal experts of the Group determine the weight of other possible scenarios based on the baseline economic scenario. The Group measures the weighted average ECL of 12 months (stage 1) or life time (stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Modification of contractual cash flows

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

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(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(ii) 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:

	30 June 2021	31 December 2020
Balances with the central bank	71,251,629	61,988,382
Due from banks and other financial institutions	6,914,122	6,206,118
Reverse repurchase agreements	2,200,074	–
Loans and advances to customers	284,757,015	272,350,602
Derivative financial assets	–	16,395
Financial investments		
– Financial assets at fair value through profit or loss	59,050,851	53,296,007
– Financial assets at fair value through other comprehensive income	23,509,630	19,901,669
– Financial assets at amortised cost	141,288,881	143,123,445
Financial lease receivables	22,672,106	23,089,177
Others	4,780,491	3,410,364
Subtotal	616,424,799	583,382,159
Credit commitments	34,832,440	39,788,101
Total maximum credit risk exposure	651,257,239	623,170,260

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(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

(iii) Risk concentrations

By industry distribution

The credit risk exposures of the Group mainly arise from loans and advances to customers, financial lease receivables and investments in debt securities. Details of the composition of the Group's investments in debt securities are set out in note 45(a)(vi) to the interim financial information. The composition of the Group's gross loans and advances to customers by industry is analysed as follows:

	30 June 2021	31 December 2020
Corporate loans and advances		
Agriculture, forestry, animal husbandry and fishing	1,672,236	1,624,309
Mining	129,820	124,225
Manufacturing	6,513,710	6,277,753
Production and supply of electricity, gas and water	5,405,169	4,920,067
Construction	10,474,707	10,919,784
Commercial trade	29,579,201	30,656,796
Transportation, storage and postal services	3,341,663	3,389,690
Lodging and catering	3,566,536	3,639,735
Information transmission, computer services and software	340,104	406,836
Finance	–	60,000
Real estate	32,507,569	35,201,566
Leasing and commercial services	60,106,362	49,221,834
Scientific research, technological services and geological prospecting	583,736	327,099
Water, environment and public utility management and investment industry	9,565,738	10,454,268
Resident services and other services	151,920	172,061
Education	163,273	195,413
Health and social affair	433,227	636,989
Culture, sports and entertainment	294,440	323,362
Subtotal	164,829,411	158,551,787

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45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

(iii) Risk concentrations *(Continued)*

By industry distribution *(Continued)*

	30 June 2021	31 December 2020
Discounted bills	1,580,288	1,841,061
Personal loans		
Personal business	33,558,346	36,890,084
Mortgages	18,305,134	15,081,309
Personal consumption	58,831,784	53,064,995
Loans to farmers	17,293,723	15,137,940
Subtotal	127,988,987	120,174,328
Total	294,398,686	280,567,176

By geographical distribution

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

	30 June 2021	31 December 2020
Heilongjiang region	145,532,189	124,181,453
Northeastern China excluding Heilongjiang	40,075,237	38,928,038
Southwestern China	65,282,981	57,043,279
Other regions	43,508,279	60,414,406
Total	294,398,686	280,567,176

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FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

(iii) Risk concentrations *(Continued)*

By type of guarantees

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

	30 June 2021	31 December 2020
Unsecured loans	68,773,807	52,491,070
Guaranteed loans	83,363,893	78,765,213
Loans secured by mortgages	125,761,041	131,004,937
Pledged loans	16,499,945	18,305,956
Total	294,398,686	280,567,176

(iv) Loans and advances to customers

The total credit risk exposure of loans and advances to customers is summarised as follows:

	30 June 2021	31 December 2020
Corporate loans and advances		
– Neither past due nor impaired	146,211,038	141,520,933
– Past due but not impaired	11,205,634	9,151,739
– Impaired	8,993,027	9,720,176
Subtotal	166,409,699	160,392,848
Personal loans		
– Neither past due nor impaired	119,220,059	113,016,709
– Past due but not impaired	3,561,762	2,774,287
– Impaired	5,207,166	4,383,332
Subtotal	127,988,987	120,174,328
Total	294,398,686	280,567,176

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(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

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

Neither past due nor impaired

The loans and advances to customers of the Group that are neither past due nor impaired are classified as “Pass” or “Special mention” under the five-tier loan classification system maintained by the Group. The management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the reporting period.

	As at 30 June 2021		
	Pass	Special Mention	Total
Corporate loans and advances	140,007,152	6,203,886	146,211,038
Personal loans	118,361,672	858,387	119,220,059
Total	258,368,824	7,062,273	265,431,097

	As at 31 December 2020		
	Pass	Special Mention	Total
Corporate loans and advances	138,868,727	2,652,206	141,520,933
Personal loans	112,877,348	139,361	113,016,709
Total	251,746,075	2,791,567	254,537,642

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(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

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

Past due but not impaired

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

Overdue days	As at 30 June 2021			Total
	Within 1 month	1 to 3 months	Over 3 months	
Corporate loans and advances	7,650,793	3,554,841	–	11,205,634
Personal loans	1,829,126	1,732,636	–	3,561,762
Total	9,479,919	5,287,477	–	14,767,396

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

As at 30 June 2021, the fair values of collateral that the Group holds relating to corporate loans which are past due but not impaired amounted to RMB12,483 million (31 December 2020: RMB10,258 million), and the fair values of collateral that the Group holds relating to personal loans which are past due but not impaired amounted to RMB3,415 million (31 December 2020: RMB3,080 million).

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45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

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

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 those events have an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

	30 June 2021	31 December 2020
Corporate loans and advances	8,993,027	9,720,176
Personal loans	5,207,166	4,383,332
Total	14,200,193	14,103,508

As at 30 June 2021, the fair values of collateral that the Group holds relating to loans individually determined to be impaired amounted to RMB8,816 million (31 December 2020: RMB8,376 million). The collateral mainly consists of land, buildings, equipment and others.

Loans and advances rescheduled

Loans and advances rescheduled represent the loans and advances whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans and advances according to contractual terms. Forms of loans and advances rescheduled include deferral of payments, borrowings for repayment, deduction of interest or part of the principal, modification of the repayment method, improvement of collateral, changing the type of guarantee, etc. As at 30 June 2021, the gross value of the loans and advances rescheduled held by the Group amounted to RMB14,068 million (31 December 2020: RMB13,429 million).

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45. Financial instrument risk management *(Continued)*

(a) Credit risk *(Continued)*

(v) *Financial lease receivables*

	30 June 2021	31 December 2020
Financial lease receivables, net		
Neither past due nor impaired	22,941,135	23,239,279
Past due but not impaired	120,411	1,033
Impaired	584,577	747,740
Subtotal	23,646,123	23,988,052
Accrued interest	198,614	299,699
Less: Allowance for impairment losses	(1,172,631)	(1,198,574)
Net amount	22,672,106	23,089,177

(vi) *Debt securities*

The following tables present an analysis of the carrying values of debt securities by credit or issuer rating and credit risk characteristics:

Financial assets at amortised cost

	As at 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
AAA	15,016,207	–	–	15,016,207
AA- to AA+	8,864,607	–	–	8,864,607
A+ or below	1,098,217	–	59,700	1,157,917
Unrated	104,408,108	5,435,796	8,798,214	118,642,118
Total	129,387,139	5,435,796	8,857,914	143,680,849
Allowance for impairment losses	(658,148)	(217,367)	(3,750,618)	(4,626,133)
Net balance	128,728,991	5,218,429	5,107,296	139,054,716

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45. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(vi) Debt securities (Continued)

Financial assets at amortised cost (Continued)

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

Financial assets at fair value through other comprehensive income

	As at 30 June 2021			
	Stage 1	Stage 2	Stage 3	Total
AAA	5,018,127	–	–	5,018,127
AA- to AA+	5,236,802	–	–	5,236,802
A+ or below	–	–	68,557	68,557
Unrated	12,888,019	–	–	12,888,019
Total	23,142,948	–	68,557	23,211,505

	As at 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
AAA	4,718,213	–	–	4,718,213
AA- to AA+	3,815,742	–	–	3,815,742
A+ or below	–	–	68,557	68,557
Unrated	10,915,144	–	–	10,915,144
Total	19,449,099	–	68,557	19,517,656

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45. 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.

30 June 2021	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	25,678,093	-	-	-	-	-	46,589,886	72,267,979
Due from banks and other financial institutions*	3,845,037	2,780,147	504,079	-	2,185,861	-	-	9,315,124
Loans and advances to customers	-	19,484,774	23,445,086	103,438,266	105,592,265	69,506,741	21,349,248	342,816,380
Financial investments	7,179,875	1,829,630	17,035,209	40,390,202	115,310,925	68,268,239	10,572,328	260,586,408
Financial lease receivables	-	698,027	89,397	1,533,138	22,043,448	367,148	266,017	24,997,175
Other financial assets	420,245	449,117	82,498	3,286,013	107,664	4,339	-	4,349,876
Total financial assets	37,123,250	25,241,695	41,156,269	148,647,619	245,240,163	138,146,467	78,777,479	714,332,942

* Includes reverse repurchase agreements

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45. Financial instrument risk management (Continued)

(b) Liquidity risk (Continued)

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

30 June 2021	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows (Continued)								
Financial liabilities:								
Due to the central bank	-	95,734	420,557	2,448,047	-	-	-	2,964,338
Borrowings from banks and other financial institutions	-	2,484,332	3,960,661	5,173,928	434,610	-	-	12,053,531
Due to banks*	-	16,815,041	7,109,451	13,467,163	813,801	-	-	38,205,456
Due to customers	154,084,785	27,197,352	54,477,086	121,751,976	150,523,370	618	-	508,035,187
Debt securities issued	-	4,117,562	5,020,759	8,426,950	-	-	-	17,565,271
Other financial liabilities	2,018,604	516,247	250,458	1,902,881	2,006,756	147,363	-	6,842,309
Total financial liabilities	156,103,389	51,226,268	71,238,972	153,170,945	153,778,537	147,981	-	585,666,092
Net position	(118,980,139)	(25,984,573)	(30,082,703)	(4,523,326)	91,461,626	137,998,486	78,777,479	128,666,850
Derivative cash flows								
Derivative financial instruments settled on a gross basis	-	-	-	-	-	-	-	-
Total inflow	-	-	-	-	-	-	-	-
Total outflow	-	-	-	-	-	-	-	-
Credit commitments	26,271,309	281,121	2,059,238	5,465,318	191,748	563,706	-	34,832,440

* Includes repurchase agreements

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45. Financial instrument risk management (Continued)

(b) Liquidity risk (Continued)

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

31 December 2020	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows								
Financial assets:								
Cash and balances with the central bank	15,208,465	-	-	-	-	-	47,562,631	62,771,096
Due from banks and other financial institutions	3,986,817	1,356,158	17,781	509,353	348,303	309	-	6,218,721
Loans and advances to customers	-	24,711,203	17,770,347	74,371,673	103,527,888	105,558,721	19,948,823	345,888,655
Financial investments	7,663,828	6,077,684	5,401,424	62,944,760	110,336,735	49,535,087	7,174,784	249,134,302
Financial lease receivables	-	1,267,318	2,060,052	7,685,404	14,337,452	52,770	169,353	25,572,349
Other financial assets	228,271	243,955	44,812	1,784,922	58,482	2,357	-	2,362,799
Total financial assets	27,087,381	33,656,318	25,294,416	147,296,112	228,608,860	155,149,244	74,855,591	691,947,922

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45. Financial instrument risk management (Continued)

(b) Liquidity risk (Continued)

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

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

* Includes repurchase agreements

Notes to the Condensed Consolidated Interim Financial Information

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45. 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 comprises 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 exposures 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 period 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.

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45. Financial instrument risk management *(Continued)*

(c) Market risk *(Continued)*

(i) Currency risk *(Continued)*

Currency	Change in rate	Effect on profit before tax	
		30 June 2021	31 December 2020
USD	-1%	(18,219)	(14,668)
HKD	-1%	189	187
RUB	-1%	372	(264)

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

45. 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:

30 June 2021	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	72,205,124	42,574	792	18,113	1,376	72,267,979
Due from banks and other financial institutions	5,941,228	534,435	15,286	26,002	397,171	6,914,122
Loans and advances to customers	284,566,126	179,225	–	–	11,664	284,757,015
Reverse repurchase agreements	2,200,074	–	–	–	–	2,200,074
Financial investments	222,726,658	1,122,704	–	–	–	223,849,362
Financial lease receivables	22,672,106	–	–	–	–	22,672,106
Other financial assets	4,779,815	676	–	–	–	4,780,491
Total financial assets	615,091,131	1,879,614	16,078	44,115	410,211	617,441,149
Financial liabilities:						
Due to the central bank	2,927,081	–	–	–	–	2,927,081
Borrowings from banks and other financial institutions	12,021,303	–	–	–	–	12,021,303
Due to banks	22,335,247	328	–	43,317	–	22,378,892
Repurchase agreements	15,633,842	–	–	–	–	15,633,842
Due to customers	493,468,470	57,361	1,103	37,980	662,193	494,227,107
Debt securities issued	16,815,423	–	–	–	–	16,815,423
Other financial liabilities	6,749,162	–	33,904	–	–	6,783,066
Total financial liabilities	569,950,528	57,689	35,007	81,297	662,193	570,786,714
Net position	45,140,603	1,821,925	(18,929)	(37,182)	(251,982)	46,654,435
Credit commitments	34,021,458	793,729	–	–	17,253	34,832,440

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

45. 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:

30 June 2021	Less than three months	Three months to one year	One to five years	More than five years	Overdue/ Non-interest- bearing	Total
Financial assets:						
Cash and balances with the central bank	71,230,506	–	–	–	1,037,473	72,267,979
Due from banks and other financial institutions	4,883,755	12,500	2,000,000	–	17,867	6,914,122
Loans and advances to customers	27,696,583	131,720,180	71,710,835	29,588,017	24,041,400	284,757,015
Reverse repurchase agreements	2,199,940	–	–	–	134	2,200,074
Financial investments	25,173,837	38,953,662	98,706,727	43,515,286	17,499,850	223,849,362
Financial lease receivables	20,656,344	598,660	660,543	291,929	464,630	22,672,106
Other financial assets	–	–	–	–	4,780,491	4,780,491
Total financial assets	151,840,965	171,285,002	173,078,105	73,395,232	47,841,845	617,441,149
Financial liabilities:						
Due to the central bank	514,974	2,410,788	–	–	1,319	2,927,081
Borrowings from banks and other financial institutions	6,399,331	5,038,823	434,610	–	148,539	12,021,303
Due to banks	8,245,162	13,182,999	781,470	–	169,261	22,378,892
Repurchase agreements	15,614,927	–	–	–	18,915	15,633,842
Due to customers	235,308,721	121,574,680	132,328,238	543	5,014,925	494,227,107
Debt securities issued	16,808,655	–	–	–	6,768	16,815,423
Other financial liabilities	–	334,269	245,792	–	6,203,005	6,783,066
Total financial liabilities	282,891,770	142,541,559	133,790,110	543	11,562,732	570,786,714
Total interest sensitivity gap	(131,050,805)	28,743,443	39,287,995	73,394,689	N/A	N/A

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management *(Continued)*

(d) Capital management

The Group's objectives for 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 its 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 CBIRC. The required information is filed with the former 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 compared 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 enhance the content of this disclosure. According to the requirements of the CBIRC, commercial banks should fulfil the regulatory requirements of the capital adequacy ratios 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

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

45. Financial instrument risk management *(Continued)*

(d) Capital management *(Continued)*

	30 June 2021	31 December 2020
Core capital		
Qualified part of share capital	10,995,600	10,995,600
Qualified part of capital reserves	7,661,124	7,661,124
Surplus reserve and general reserves	11,457,052	11,437,656
Undistributed profits	19,888,029	19,056,263
Qualified part of non-controlling interests	891,350	826,252
Other comprehensive income	54,422	96,484
Core tier 1 capital deductible items:		
Fully deductible items	(536,893)	(397,844)
Net core tier 1 capital	50,410,684	49,675,535
Net other tier 1 capital	8,118,847	110,167
Net tier 1 capital	58,529,531	49,785,702
Net tier 2 capital	4,403,614	11,676,143
Net capital	62,933,145	61,461,845
Total risk-weighted assets	508,979,941	488,192,700
Core tier 1 capital adequacy ratio	9.90%	10.18%
Tier 1 capital adequacy ratio	11.50%	10.20%
Capital adequacy ratio	12.36%	12.59%

46. 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.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

46. 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:

30 June 2021	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets at fair value through profit or loss				
– Debt securities	–	3,835,636	–	3,835,636
– Funds	–	9,544,057	–	9,544,057
– Trust investments and asset management plans	–	45,498,651	–	45,498,651
– Equity instruments	–	277,626	–	277,626
Subtotal	–	59,155,970	–	59,155,970
Financial assets at fair value through other comprehensive income				
– Debt securities	–	23,211,505	–	23,211,505
– Equity instruments	–	350,561	–	350,561
Subtotal	–	23,562,066	–	23,562,066
Total	–	82,718,036	–	82,718,036
<u>Financial assets disclosed at fair value</u>				
Financial assets at amortised cost				
Debt securities	–	58,683,195	–	58,683,195
Trust investments and asset management plans	–	80,052,344	–	80,052,344
Certificate treasury bonds	–	84,625	–	84,625
Total	–	138,820,164	–	138,820,164
<u>Financial liabilities disclosed at fair value</u>				
Financial bonds issued				
Tier 2 capital bonds issued	–	–	–	–
Negotiable certificates of deposit issued	–	15,697,274	–	15,697,274
Total	–	16,703,823	–	16,703,823

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(Amount in thousands of RMB, unless otherwise stated)

46. Fair value of financial instruments (Continued)

Determination of fair value and fair value hierarchy (Continued)

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

(Amount in thousands of RMB, unless otherwise stated)

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

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

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

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

- (i) A portion of the debt instruments classified as financial assets at amortised cost are not quoted in an active market. In the absence of any other relevant observable market, the fair values of these debt instruments classified as financial assets at amortised cost are estimated on the basis of pricing models or discounted cash flows.
- (ii) The fair values of Tier 2 capital bonds, financial bonds, negotiable certificates of deposit and a portion of financial assets at amortised cost 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.

The financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, 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 measured at amortised cost	Repurchase agreements
Financial 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 2021
(Amount in thousands of RMB, unless otherwise stated)

47. Subsequent events

On 11 June 2021, the Group and Dongning Lizhi Building Decoration Engineering Co., Ltd. (東寧麗致建築裝飾工程有限公司) (“Dongning Lizhi”) entered into an equity transfer agreement that Dongning Lizhi agreed to dispose and the Group agreed to purchase 15% equity shares of HB Leasing. After completion of the equity transfer transaction, the Group will own 95% shareholding of HB Leasing.

The transaction is not yet completed as at 30 June 2021.

48. Approval of the condensed consolidated interim financial information

The financial statements were approved and authorised for issue by the Board of Directors on 30 August 2021.

Appendix I – 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 2021	31 December 2020
RMB current assets to RMB current liabilities	53.52%	57.56%
Foreign currency current assets to foreign currency current liabilities	137.35%	372.83%

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

(b) Currency concentrations

	USD	HKD	RUB	Others	Total
30 June 2021					
Spot assets	1,879,614	16,078	44,115	410,211	2,350,018
Spot liabilities	(57,689)	(35,007)	(81,297)	(662,193)	(836,186)
Net long/(short) position	1,821,925	(18,929)	(37,182)	(251,982)	1,513,832
31 December 2020					
Spot assets	1,500,802	16,544	32,818	370,443	1,920,607
Spot liabilities	(34,014)	(35,221)	(6,428)	(334,261)	(409,924)
Net long/(short) position	1,466,788	(18,677)	26,390	36,182	1,510,683

Appendix I – Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

(c) International claims

The Group discloses international claims according to Banking (Disclosure) Rules (L.N. 160 of 2014). International claims are risk exposures generated from the countries or geographical areas where the counterparties take the ultimate risk while considering the transfer of the risk, exclude local claims on local residents in local currency. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a counterparty whose head office is located in another country.

International claims include “Balances with the central bank”, “Due from banks and other financial institutions”, “Loans and advances to customers” and “Financial investments”.

International claims have been disclosed by major countries or geographical areas. A country or geographical area constitutes 10% or more of the aggregate amount of international claims should be reported, after taking into account any risk transfers.

	Banks	Others	Total
30 June 2021			
Asia Pacific excluding Mainland China	58,760	–	58,760
– of which attributed to Hong Kong	1,992	–	1,992
Europe	2,328,575	–	2,328,575
North America	471,631	–	471,631
Total	2,858,966	–	2,858,966
31 December 2020			
Asia Pacific excluding Mainland China	147,461	–	147,461
– of which attributed to Hong Kong	79,053	–	79,053
Europe	640,880	–	640,880
North America	793,696	–	793,696
Total	1,582,037	–	1,582,037

Appendix I – Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

(d) Loans and advances to customers

(i) Overdue loans and advances to customers

	30 June 2021				
	Within 90 days	91 days to 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	1,441,527	981,366	398,372	99,595	2,920,860
Guaranteed loans	931,184	3,830,997	2,178,697	9,429	6,950,307
Loans secured by mortgages	8,207,283	5,177,759	4,237,735	68,000	17,690,777
Pledged loans	959,003	850	52,315	310	1,012,478
Total	11,538,997	9,990,972	6,867,119	177,334	28,574,422

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

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

	30 June 2021	31 December 2020
Heilongjiang	12,802,967	6,931,319
Northeastern China excluding Heilongjiang	5,844,295	4,084,608
Southwestern China	4,255,955	4,433,295
Other regions	5,671,205	10,079,094
	28,574,422	25,528,316

Appendix I – Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

(e) Overdue accounts from banks and other financial institutions

As at 30 June 2021, there were no overdue accounts from banks and other financial institutions in respect of principal or interest (31 December 2020: Nil).

(f) Overdue placements with banks and other financial institutions

As at 30 June 2021, there were no overdue placements with banks and other financial institutions in respect of principal or interest (31 December 2020: Nil).

(g) Exposures to mainland China non-bank entities

	30 June 2021	31 December 2020
On-balance sheet exposure	295,366,226	295,367,756
Off-balance sheet exposure	34,832,440	39,851,559

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. Text of Interim Report Autographed by Directors of the Company
- IV. Articles of Association of the Company

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

Harbin, the PRC, 30 August 2021

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

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