

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2018**

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 2018. This results announcement, containing the full text of the 2018 interim report of the Bank, complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcement of interim results. The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 have been reviewed by Ernst & Young in accordance with International Standard on Review Engagements. Such interim results have also been reviewed by the Board and the audit committee of the Bank. Unless otherwise stated, financial data of the Group are presented in Renminbi.

This results announcement is published on the websites of the Bank (www.hrbb.com.cn) and HKExnews (www.hkexnews.hk). The interim report of the Bank for the six months ended 30 June 2018 will be dispatched to shareholders of the Bank and will be available on the above websites in due course.

Contents

Harbin Bank Co., Ltd.
Interim Report 2018

Definitions	2
Company Profile	3
Summary of Accounting Data and Financial Indicators	7
Management Discussion and Analysis	9
Changes in Share Capital and Information on Shareholders	67
Directors, Supervisors, Senior Management and Employees	72
Important Events	77
Organisation Chart	85
Financial Report	86
Documents for Inspection	184

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

Definitions

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

“A Shares”	ordinary shares of a nominal value of RMB1.00 each proposed to be issued pursuant to the A Share Offering by the Company, which will be applied for listing on the Shanghai Stock Exchange and subscribed for and traded in RMB
“A Share Offering”	the Company’s proposed initial public offering of not more than 3,666,000,000 A Shares and application for the listing of such A Shares on the Shanghai Stock Exchange
“Articles of Association”	the articles of association of Harbin Bank Co., Ltd.
“Board” or “Board of Directors”	the board of Directors of the Company
“Board of Supervisors”	the board of Supervisors of the Company
“CBIRC” / “CBRC”	the China Banking and Insurance Regulatory Commission / the China Banking Regulatory Commission (before 17 March 2018)
“Company”	Harbin Bank Co., Ltd. (哈爾濱銀行股份有限公司), a joint stock company incorporated in the PRC on 25 July 1997 with limited liability in accordance with PRC laws
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	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 HKD
“Harbin Economic Development”	Harbin Economic Development and Investment Company
“HB Leasing”	Harbin Bank Financial Leasing Co., Ltd.
“HBCF”	Harbin Bank Consumer Finance Co., Ltd.
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“PBOC” or “Central Bank”	the People’s Bank of China
“PRC”	the People’s Republic of China, for the purpose of the report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Reporting Period”	the six months ended 30 June 2018
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Supervisor(s)”	the supervisor(s) of the Company

Company Profile

Basic Information

Legal Chinese Name:

哈爾濱銀行股份有限公司 (Abbreviation: 哈爾濱銀行)

English Name:

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

Legal Representative:

GUO Zhiwen

Authorised Representatives for the Hong Kong Stock Exchange:

LYU Tianjun and SUN Feixia

Board Secretary:

SUN Feixia

Company Secretary:

SUN Feixia

Registered Address:

No. 160 Shangzhi Street, Daoli District, Harbin, PRC

Principal Place of Business in Hong Kong:

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

Contact Address:

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

Telephone:

86-451-86779933

Facsimile:

86-451-86779829

Email:

ir@hrbb.com.cn

Website for Publishing this Report:

www.hrbb.com.cn

www.hkexnews.hk

Place Where this Report is Available:

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

Place of Listing, Stock Name and Stock Code:

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

Corporate Uniform Social Credit Code:

912301001275921118

Finance Permit Institution Number:

B0306H223010001

Date of Initial Registration:

25 July 1997

Initial Registration Authority:

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

Legal Adviser as to Laws of China:

Beijing Jun He Law Offices

Legal Adviser as to Laws of Hong Kong, China:

Linklaters

Auditors:

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

Domestic auditor: Ernst & Young Hua Ming LLP

Hong Kong H Share Registrar and Transfer Office:

Computershare Hong Kong Investor Services Limited

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 Bank 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 2018, the Bank had total assets of RMB571.9415 billion, total loans and advances to customers of RMB251.1490 billion and total customer deposits of RMB370.6003 billion.

In the first half of 2018, the Bank was ranked 207th in “Top 1,000 World Banks 2018” and 34th among China regional banks published by The Banker of United Kingdom, 217th in the general list of “Brand Finance China 300 for the Year 2018” and 32nd among the 47 banks in the list published by Brand Finance (a famous UK-based branded business valuation consulting firm), 489th in “Top 500 Chinese Companies for 2018” published by the FORTUNE magazine. The Bank also won certain awards such as The Best Corporate Governance Award of the China Financial Market Award 2017, The Excellent Proprietary Institution Award of 2017 Excellent CCDC Member, The 2017 Financial Technology (Inclusive Finance) Award of the “Golden Cicada Award” (金蟬獎), 2017 National Banking Industry Wealth Management Information Registration Outstanding Unit, 2017 Most Trustworthy Featured Financial Bank (2017最值得信任的特色金融銀行), Best Progress Award of the Interbank RMB Market in 2017, The Best City Commercial Bank of Trading and Finance. The two excellent products of “Smart Medical” (智慧醫療) and “Anju Loan” (安居貸) won the “Top Ten Innovative Financial Technology Products Awards” and “Top Ten Innovative Financial Products Awards (Retail Business)”, respectively, of “2018 China Financial Innovation Award” sponsored by The Banker. In addition, the “2017 Harbin International Marathon of Harbin Bank” sponsored by the Bank was promoted to a “Gold-level Competition” of the China Athletics Association.

Major Subsidiaries

The details of major subsidiaries of the Company as of 30 June 2018 are as follows:

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

Company Profile

Company name	Place of incorporation/ registration and operation place in the PRC	Nominal value of issued share/ paid-up capital RMB million	Percentage of ownership/ voting rights directly owned by the Company (%)	Amount invested by the Company RMB million
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	30	100.00	30
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30	100.00	30
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	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	500	59.00	295
Ning'an Rongxing Village and Township Bank Co., Ltd.	Ning'an, Heilongjiang	30	100.00	30
Tianshui Maiji Rongxing Village and Township Bank Co., Ltd.	Tianshui, Gansu	50	98.00	49
Pingliang Kongtong Rongxing Village and Township Bank Co., Ltd.	Pingliang, Gansu	50	90.00	45
Zhongjiang Rongxing Village and Township Bank Co., Ltd.	Deyang, Sichuan	50	70.00	35
Huanan Rongxing Village and Township Bank Co., Ltd.	Huanan, Heilongjiang	30	100.00	30
Nehe Rongxing Village and Township Bank Co., Ltd.	Nehe, Heilongjiang	50	80.00	40
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 in this report is prepared under the International Financial Reporting Standards on a consolidated basis. Unless otherwise stated, such information is the data of the Group and is denominated in RMB.

	For the six months ended 30 June			For the year ended 31 December
	2018	2017	2018 vs. 2017	2017
(In RMB million, except percentages)				
Results of operations			Rate of change	
Net interest income	4,971.1	6,324.2	-21.40%	11,307.5
Net fee and commission income	1,131.5	1,213.0	-6.72%	2,444.6
Operating income	6,537.8	7,472.1	-12.50%	14,133.6
Operating expenses	(1,920.7)	(1,858.6)	3.34%	(4,343.5)
Impairment losses	(1,129.9)	(1,972.2)	-42.71%	(2,662.1)
Profit before tax	3,487.2	3,641.3	-4.23%	7,128.0
Net profit	2,608.0	2,689.2	-3.02%	5,308.9
Net profit attributable to shareholders of the Company	2,605.8	2,659.7	-2.03%	5,249.1
For each share (RMB)			Rate of change	
Net assets per share attributable to shareholders of the Company	3.89	3.54	9.89%	3.75
Earnings per share	0.24	0.24	–	0.48
Profitability indicators			Changes	
Return on average total assets ⁽¹⁾	0.92%	0.99%	decreased by 0.07 percentage point	0.96%
Return on average equity ⁽²⁾	12.40%	14.09%	decreased by 1.69 percentage points	13.50%
Net interest spread ⁽³⁾	1.66%	2.23%	decreased by 0.57 percentage point	1.95%
Net interest margin ⁽⁴⁾	1.88%	2.42%	decreased by 0.54 percentage point	2.15%
Net fee and commission income to operating income ratio	17.31%	16.23%	increased by 1.08 percentage points	17.30%
Cost-to-income ratio ⁽⁵⁾	28.12%	24.02%	increased by 4.10 percentage points	29.71%

Summary of Accounting Data and Financial Indicators

	As of 30 June	As of 31 December	
	2018	2017	The first half of 2018 vs. 2017
(In RMB million, except percentages)			
Capital adequacy indicators			Changes
Core tier-1 capital adequacy ratio	9.61%	9.72%	decreased by 0.11 percentage point
Tier-1 capital adequacy ratio	9.63%	9.74%	decreased by 0.11 percentage point
Capital adequacy ratio	12.19%	12.25%	decreased by 0.06 percentage point
Total equity to total assets	7.68%	7.52%	increased by 0.16 percentage point
Assets quality indicators			Changes
NPL ratio ⁽⁶⁾	1.79%	1.70%	increased by 0.09 percentage point
Impairment coverage ratio ⁽⁷⁾	171.44%	167.24%	increased by 4.20 percentage points
Impairment losses on loans ⁽⁸⁾	3.08%	2.84%	increased by 0.24 percentage point
Other indicators			Changes
Loan-deposit ratio	67.77%	62.76%	increased by 5.01 percentage points
Scale indicators			Rate of change
Total assets	571,941.5	564,255.2	1.36%
Of which: total loans and advances to customers	251,149.0	237,397.8	5.79%
Total liabilities	527,999.2	521,846.2	1.18%
Of which: due to customers	370,600.3	378,258.4	-2.02%
Share capital	10,995.6	10,995.6	–
Equity attributable to shareholders of the Company	42,796.4	41,260.5	3.72%
Non-controlling interests	1,145.9	1,148.4	-0.22%
Total equity	43,942.3	42,408.9	3.62%

Notes:

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

Management Discussion and Analysis

I. Past Economic and Environment and Operation Overview

(I) Past Economic and Environment

Since 2018, China's economic growth has presented strong resilience as domestic restructures deepened and international environmental uncertainty increased. The national economy remained stable development as a whole together with progress being achieved with stability. With the old and new drivers of growth continuing to convert and the quality and efficiency improving steadily, the economy developed at a high quality with a good start. As of the end of June, the gross domestic product (GDP) amounted to RMB41,896.1 billion, representing a year-on-year increase of 6.8%, while the consumer price index (CPI) rose by 2.0% year on year. Macroeconomic and financial policies have maintained its strategic strengthens aimed at seeking to continue to promote structural reforms of long-term systemic risks. The balance of M2 amounted to RMB177.02 trillion, representing a year-on-year increase of 8%; the balance of M1 amounted to RMB54.39 trillion, representing an increase of 6.6%, and the balance of M0 amounted to RMB6.96 trillion, representing an increase of 3.9%. The balance of RMB loans amounted to RMB129.15 trillion, and the balance of RMB deposits amounted to RMB178.34 trillion. New RMB loans made in the first half of the year amounted to RMB9.03 trillion, representing a year-on-year increase of RMB1.06 trillion; and new RMB deposits amounted to RMB9.0 trillion, representing a year-on-year decrease of RMB71.2 billion. Increment of social financing scale in the first half of the year was RMB9.1 trillion, representing a decrease of RMB2.03 trillion as compared to the same period of previous year.

In the first half of 2018, Heilongjiang Province's economic operation was generally stable, some economic indicators showed positive changes, and new drivers of growth were gathering. The main manifestations were continuing stability of agricultural production, improvement of industrial enterprises' efficiency, significant increase in private investment, rapid growth of tax revenues, increase in the income growth rate of urban and rural residents and steady progress of financial market, however, there are still outstanding problems in development that cannot be ignored, and the downward pressure on the economy is still great. As of the end of June, the regional gross domestic product (GDP) of Heilongjiang reached RMB624.06 billion, representing an increase of 5.5% over the previous year, fixed asset investment increased by 0.3%, total retail sales of consumer goods increased by 6.4%, and per capita disposable income of urban and rural residents increased by 6.5% and 7.9% respectively.

(II) Operation Overview

For the first half of 2018, against the backdrop of China's domestic stable economic growth, accelerated market-oriented financial reform and intensified industry competition, under the leadership of the Board and supervision of the Board of Supervisors, the Bank proactively responded to the changes and challenges, accelerated governance improvement and development transformation, insisted on microcredit development strategy, maintained sound operations, strengthened risk management, maintained stable profitability and basically fulfilled its pre-set goals.

Management Discussion and Analysis

Steady growth in business scale

As at 30 June 2018, the Bank's total assets amounted to RMB571,941.5 million, representing an increase of RMB7,686.3 million or 1.4% as compared to the end of last year. The Bank's total loans and advances to customers amounted to RMB251,149.0 million, representing an increase of RMB13,751.2 million or 5.8% as compared to the end of last year. The Bank's deposits from customers amounted to RMB370,600.3 million, representing a decrease of RMB7,658.1 million or 2.0% as compared to the end of last year.

Stable profitability

For the first half of 2018, the Bank recorded net profit attributable to the equity shareholders of RMB2,605.8 million, representing a year-on-year decrease of RMB53.9 million or 2.0%, mainly due to decreases in net interest income as well as net fee and commission income. For the first half of 2018, the Bank recorded net interest income of RMB4,971.1 million, representing a year-on-year decrease of RMB1,353.1 million or 21.4%, and net fee and commission income of RMB1,131.5 million, representing a year-on-year decrease of RMB81.5 million or 6.7%. The return on average total assets decreased slightly to 0.92% as compared to 0.99% for the same period in 2017. The return on average equity was 12.40%, representing a decrease as compared to 14.09% for the same period in 2017.

Slight increase in NPLs

As at 30 June 2018, the Bank had NPLs balance of RMB4,506.2 million, representing an increase of RMB469.2 million from the end of last year. NPL ratio, impairment losses on loans ratio and provision coverage ratio amounted to 1.79%, 3.08% and 171.44%, increased by 0.09 percentage point, 0.24 percentage point and 4.20 percentage points as compared to the end of last year, respectively.

Stable development of subsidiaries

For the first half of 2018, HB Leasing, HBCF and the 32 village and township banks, which were controlled by the Company, overcame difficulties and moved forward. HB Leasing had total assets of RMB18,376.2 million as at 30 June 2018, representing an increase of 1.02% as compared to the end of last year, and net loss amounted to RMB38.0 million for the first half of 2018, mainly attributable to the impairment measurement of finance lease receivables changed from the "incurred loss model" to the "expected credit loss model" according to the requirements of International Financial Reporting Standards 9 – Financial Instruments ("IFRS 9"). As at 30 June 2018, HBCF had total assets of RMB5,132.6 million, representing an increase of 532.87% as compared to the end of last year mainly due to the rapid growth of business, and net profit amounted to RMB18.8 million for the first half of 2018. The village and township banks controlled by the Company recorded total net profit of RMB69.0 million for the first half of 2018, representing a year-on-year decrease of 42.02%, attributable to the increase in provision amid the more cautious loan risk classification of the village and township banks.

Compliance with applicable laws and regulations

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

(III) Analysis of Key Issues

1. *Net interest margin*

For the first half of 2018, net interest spread and net interest margin of the Company were 1.66% and 1.88% respectively. Net interest spread and net interest margin decreased by 0.57 percentage point and 0.54 percentage point respectively as compared to the same period in last year, mainly attributable to (1) the decrease in margin of loans and margin of investment in debt securities due to factors such as slowdown of economic increase and declining asset quality; (2) the increased market interest rate resulting in the increase of the average cost ratios of the customer deposits, due to banks and the newly issued debt securities; (3) the increase in the cost on liquidity interest payment through gradual improvement of its level of liquidity reserve and reduction of maturity mismatch in order to prevent liquidity risks; (4) the impact of reclassification after the implementation of new accounting standards for financial instruments. Looking forward to the second half of 2018, it is expected that the decline of the return on loans will continue, the competition will be intensified, the cost control of debt will be more difficult, and the net interest spread and net interest margin will be subject to relatively great downward pressure following complete deposit rate marketisation. To this end, the Bank will further strengthen its active management of assets and liabilities, proactively adjust its credit structure, adjust its investment portfolios in due course, strengthen its risk control, optimise pricing mechanisms and perform customer-oriented differentiating pricing in order to maintain a relatively steady return on assets. In addition, the Bank will be active in coping with challenges posed by such interest rate marketisation by strengthening its liquidity management, consolidating its customer base, optimising its debt structure and endeavouring to maintain its cost of debt to ensure a generally stable net interest spread and net interest margin.

2. *Quality of key assets*

As at 30 June 2018, the NPL ratio of the Bank amounted to 1.79%, representing an increase of 9 basis points as compared to the end of last year, with the ratio of the special-mentioned loans and the impairment losses on loans amounted to 2.84% and 3.08%, decreased by 1 basis point and increased by 24 basis points respectively as compared to the end of last year. The NPL ratio of the Bank increased since enterprise manufacturing activities maintained low level under the pressure of sluggish economic growth, the slow capital turnover and the relatively higher NPL ratios of customer groups that are more sensitive to capital turnover such as small and micro enterprises customers. But the Bank's ratio of the special-mentioned loans and the ratio of the loans overdue for at least 90 days to the NPLs decreased as compared to the end of last years. On the premise that the Bank adopted a more cautious risk classification for the better illustration of the level of asset quality of the Bank, the performance of the potential non-performing assets risk level declined and the Bank's asset quality was relatively stable, and the risk level was generally controllable.

As at 30 June 2018, the NPLs of the Bank primarily concentrated in the wholesale and services industry and the manufacturing industry, which amounted to RMB734.7 million and RMB547.8 million with NPL ratio of 2.06% and 4.99%, respectively. Loans to the manufacturing sector faced downward pressure on asset quality due to the economic restructuring in the Northeast China. The Bank was active in responding to external macroeconomic changes and took pre-emptive measures against potential risks of industries in over-capacity and high-risk regions. As at 30 June 2018, the Bank's loans to the manufacturing sector amounted to RMB10,980.4 million and the relevant ratio to total loans decreased by 0.50 percentage point, and the Bank's loans to the wholesale and services industry amounted to RMB35,598.5 million and the relevant ratio to total loans decreased by 0.03 percentage point. The loan structure is continuously optimised.

Management Discussion and Analysis

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

3. *Capital management*

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

As at 30 June 2018, the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio of the Company were 9.61%, 9.63% and 12.19%, respectively, representing a decrease of 0.11 percentage point, 0.11 percentage point and 0.06 percentage point, respectively, as compared to the end of last year. The decrease in the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio was mainly because of the increase in risk-weighted assets of the Company, payment of cash dividends and changes in accounting policies. As at the end of the Reporting Period, risk-weighted assets of the Company amounted to RMB449,213.1 million, representing an increase of RMB22,154.8 million, or 5.2% as compared to the end of last year. Meanwhile, IFRS 9 requires that impairment of financial assets is measured based on an "expected credit loss model" instead of "incurred loss model", and the impairment provision of financial assets of the Company as at 1 January 2018 increased by RMB1,055.7 million as compared to that as at 31 December 2017, and the undistributed profit correspondingly decreased by RMB863.5 million. Looking forward into the second half of 2018, the Company will continue to strengthen its capital management by: (1) continuing its differentiated competition strategies of characteristic development path to further enhance internal capital generation ability; (2) actively responding to changes in current situations and strengthening its active capital management, continuously optimizing its business structure and raising awareness of intensive capital use; and (3) establishing multi-layered and multi-channel mechanisms for capital replenishment to ensure that the capital level satisfied the regulatory requirements on an ongoing basis.

4. Investment in debt instruments issued by financial institutions

As at 30 June 2018, total investment in debt instruments issued by financial institutions by the Bank amounted to RMB147,735.5 million, increased by 1.2% as compared to the end of last year. Pursuant to relevant regulations including the Notice on Regulating Interbank Business of Financial Institutions (Yin Jian Fa [2014] No. 127) and the Guiding Opinions on Risk Prevention and Control in the Banking Industry (Yin Jian Fa [2017] No. 6), the Bank consistently performed rigid review on risk and compliance with respect to use of capital. It carried out credit review and approval, accurately measured risks, and set aside capital and made provisions therefore based on the principle of “substance over formality” and the nature of the underlying assets. Following loan provision requirements, it progressively raised the coverage ratio for investment in debt instruments issued by financial institutions to a relatively higher level in a steady, prudent and dynamic manner based on results of evaluation on both portfolios and individual investments. As at 30 June 2018, provision balance of investment in debt instruments issued by financial institutions and the coverage ratio of the Bank amounted to RMB2,626.9 million and 1.78%, and increased by RMB311.8 million and 0.19 percentage point from the end of last year respectively.

5. Impact of new policies for wealth management business

In April 2018, the Guiding Opinions on Regulating Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) was officially released, which became a guiding document in the field of asset management business, establishing strict regulations on the management of product net-value, breaking rigid payments (剛性兌付), eliminating multi-level nesting and channels, limiting non-standard credit asset investment, and independent custody of third parties, which pose challenges to the current mode of the Bank's wealth management business operation. Under the transformation of the asset management industry, the Bank actively prepared for the transformation of the wealth management business and will adjust the operation mode of the wealth management business accordingly. First, based on major changes in regulatory policies in the past two years, the strategic planning objectives will be re-adjusted. Second, closely following the transformation direction of the Guiding Opinions on Regulating Asset Management Business of Financial Institutions, the Bank will explore a rational path for asset management business to shift to a comprehensive net-value model, and innovate and develop open-end and net-value wealth management products. Third, the Bank will gradually expand distribution channels in line with its own investment and product creation needs, study the overall transformation plan of the system, and initially form an assumption for the overall structure of the future asset management system.

Management Discussion and Analysis

II. Analysis on Income Statement

	For the six months ended 30 June			
	2018	2017	Change in amount	Rate of change
(In RMB million, except percentages)				
Interest income	13,695.6	13,618.2	77.4	0.6%
Interest expense	(8,724.5)	(7,294.0)	(1,430.5)	19.6%
Net interest income	4,971.1	6,324.2	(1,353.1)	-21.4%
Fee and commission income	1,298.7	1,269.6	29.1	2.3%
Fee and commission expense	(167.2)	(56.6)	(110.6)	195.4%
Net fee and commission income	1,131.5	1,213.0	(81.5)	-6.7%
Net trading income or loss	408.0	(8.7)	416.7	4,789.7%
Net gain or loss on financial investments	20.9	(41.5)	62.4	150.4%
Other operating income or loss, net	6.3	(14.9)	21.2	142.3%
Operating income	6,537.8	7,472.1	(934.3)	-12.5%
Operating expenses	(1,920.7)	(1,858.6)	(62.1)	3.3%
Impairment losses:				
Loans and advances to customers	(913.6)	(1,439.9)	526.3	-36.6%
Others	(216.3)	(532.3)	316.0	-59.4%
Operating profit	3,487.2	3,641.3	(154.1)	-4.2%
Profit before tax	3,487.2	3,641.3	(154.1)	-4.2%
Income tax expense	(879.2)	(952.1)	72.9	-7.7%
Net profit	2,608.0	2,689.2	(81.2)	-3.0%

For the first half of 2018, the Bank recorded profit before tax of RMB3,487.2 million and net profit of RMB2,608.0 million, representing a decrease of 4.2% and 3.0%, respectively, as compared to the same period of last year.

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

For the first half of 2018, the Bank recorded a net interest income of RMB4,971.1 million, representing a decrease of RMB1,353.1 million or 21.4% as compared to the same period of last year. The following tables set forth, for the periods indicated, the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield ratio of these interest-earning assets and the average cost ratio of these interest-bearing liabilities.

For the six months ended 30 June						
	2018			2017		
	Average balance ⁽⁶⁾	Interest income	Average yield ratio	Average balance ⁽⁶⁾	Interest income	Average yield ratio
(In RMB million, except percentages)						
Interest-earning assets						
Loans and advances to customers	241,135.4	7,414.8	6.20%	213,768.1	6,603.0	6.23%
Investments in debt securities ⁽¹⁾	197,618.4	5,050.3	5.15%	203,295.2	5,549.4	5.50%
Cash and balances with Central Bank	55,936.5	392.7	1.42%	49,950.8	361.9	1.46%
Due from banks and other financial institutions ⁽²⁾	23,002.5	430.9	3.78%	45,623.2	710.2	3.14%
Long-term receivables	15,937.7	406.9	5.15%	16,159.1	393.7	4.91%
Total interest-earning assets	533,630.5	13,695.6	5.18%	528,796.4	13,618.2	5.19%
For the six months ended 30 June						
	2018			2017		
	Average balance ⁽⁶⁾	Interest expense	Average Cost ratio	Average balance ⁽⁶⁾	Interest expense	Average Cost ratio
(In RMB million, except percentages)						
Interest-bearing liabilities						
Due to customers	346,231.7	5,028.8	2.93%	317,393.3	3,952.8	2.51%
Due to banks ⁽³⁾	48,662.4	1,201.6	4.98%	108,834.0	1,903.9	3.53%
Debt securities issued	104,641.5	2,484.4	4.79%	69,003.7	1,426.5	4.17%
Due to Central Bank	754.2	9.7	2.60%	783.7	10.8	2.79%
Total interest-bearing liabilities	500,289.8	8,724.5	3.52%	496,014.7	7,294.0	2.96%
Net interest income		4,971.1			6,324.2	
Net interest spread⁽⁴⁾			1.66%			2.23%
Net interest margin⁽⁵⁾			1.88%			2.42%

Management Discussion and Analysis

Notes:

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

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

	For the six months ended 30 June		
	2018 vs. 2017		
	Increase/(decrease) due to		Net increase/
	Volume ⁽¹⁾	Interest rate ⁽²⁾	(decrease) ⁽³⁾
	(In RMB million)		
Interest-earning assets			
Loans and advances to customers	1,292.0	(480.2)	811.8
Investments in debt securities	(58.8)	(440.3)	(499.1)
Cash and balances with the Central Bank	71.8	(41.0)	30.8
Due from banks and other financial institutions	(568.1)	288.8	(279.3)
Long-term receivables	(17.5)	30.7	13.2
Change in interest income	719.4	(642.0)	77.4
Interest-bearing liabilities			
Due to customers	174.6	901.4	1,076.0
Due to banks	(1,765.8)	1,063.5	(702.3)
Debt securities issued	947.8	110.1	1,057.9
Due to the Central Bank	(0.2)	(0.9)	(1.1)
Change in interest expense	(643.6)	2,074.1	1,430.5

Notes:

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

(II) Interest Income

For the first half of 2018, the Bank's interest income increased by RMB77.4 million or 0.6% to RMB13,695.6 million as compared to the same period of last year. The increase in the Bank's interest income was primarily due to the increase in the Bank's average balance of interest-earning assets by 0.9% from RMB528,796.4 million for the same period of last year to RMB533,630.5 million for the first half of 2018 attributable to increases in the Bank's loans and advances to customers and deposit at the Central Bank. The increase in the Bank's interest income was partially offset by a decrease in the average yield ratio of the interest-earning assets from 5.19% for the same period of last year to 5.18% for the first half of 2018. The decrease in the average yield ratio of the interest-earning assets was primarily due to the decrease of yield ratio of loans and advances to customers, investments in debt securities and deposit at Central Bank for the first half of 2018.

1. Interest income from loans and advances to customers

For the first half of 2018, the Bank's interest income from loans and advances to customers increased by RMB811.8 million or 12.3% to RMB7,414.8 million year-on-year, primarily as a result of a 12.8% increase in the average balance of loans and advances to customers being partially offset by a 0.03 percentage point decrease in the average yield ratio. While the 0.03 percentage point decrease in the average yield ratio of loans and advances to customers was primarily due to the slowdown in economic growth and the deteriorating quality of assets.

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					
	2018			2017		
	Average balance	Interest income	Average yield ratio	Average balance	Interest income	Average yield ratio
(In RMB million, except percentages)						
Corporate loans	122,953.7	3,714.1	6.09%	99,734.1	2,835.2	5.73%
Personal loans	117,059.6	3,667.3	6.32%	113,188.0	3,747.4	6.68%
Discounted bills	1,122.1	33.4	6.00%	846.0	20.4	4.85%
Total loans and advances to customers	241,135.4	7,414.8	6.20%	213,768.1	6,603.0	6.23%

2. Interest income from investments in debt securities

For the first half of 2018, the Bank's interest income from investments in debt securities decreased by RMB499.1 million or 9.0% to RMB5,050.3 million as compared to the same period of last year, principally attributable to a decrease in the average yield ratio by 0.35 percentage point. The decrease in the average yield ratio of investment in debt securities was mainly attributable to the yield ratio of new investment business in debt instruments issued by financial institutions being lower than that of the same period affected by the market factors and the declined quality of some investment assets in debt instruments issued by financial institutions as a result of the economic downturn.

3. Interest income from cash and balances with Central Bank

For the first half of 2018, the Bank's interest income from cash and balances with Central Bank increased by RMB30.8 million or 8.5% to RMB392.7 million as compared to the same period of last year, primarily attributable to the average deposit balance at the Central Bank increased by 12.0%.

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

For the first half of 2018, the Bank's interest income from amounts due from banks and other financial institutions decreased by RMB279.3 million or 39.3% to RMB430.9 million as compared to the same period of last year, primarily attributable to a 49.6% decrease of average balance of relevant assets partially offset by a 0.64 percentage point increase of average yield ratio. The decrease in the average balance of such assets was primarily attributable to the resources allocation to assets with higher yield under the price hike of market capital upon the assets structure adjustment of the Bank, while the increase of average yield ratio was primarily attributable to the price hike of market capital.

5. Interest income from long-term receivables

For the first half of 2018, the Bank's interest income from long-term receivables increased by RMB13.2 million or 3.4% to RMB406.9 million as compared to the same period of last year, primarily attributable to a 0.24 percentage point increase in the average yield ratio of long-term receivables, while the increase in the average yield ratio was attributable to the adjustment of pricing policy and improved bargain power when facing customers.

(III) Interest Expense

For the first half of 2018, the Bank's interest expense increased by RMB1,430.5 million or 19.6% to RMB8,724.5 million as compared to the same period of last year, primarily attributable to an increase in the average cost ratio of the interest-bearing liabilities from 2.96% for the same period of last year to 3.52% for the first half of 2018, and an increase in the average balance of the interest-bearing liabilities from RMB496,014.7 million for the same period of last year to RMB500,289.8 million for the first half of 2018. The increase in the average cost ratio of the interest-bearing liabilities was mainly due to the increases of the average cost ratio in due to customers, amounts due to banks and debt securities issued in the first half of 2018.

1. Interest expense on due to customers

For the first half of 2018, the Bank's interest expense on due to customers increased by RMB1,076.0 million or 27.2% to RMB5,028.8 million as compared to the same period of last year, primarily attributable to a 9.1% increase in the average balance of amount due to customers and a 0.42 percentage point increase in average cost ratio. The increase of average balance of customer deposit was mainly attributable to the Bank's enhancement of pricing management, service and marketing capabilities, while the increase in average cost ratio of customer deposits was mainly attributable to the increasing competition due to further interest rate marketisation.

For the six months ended 30 June						
	2018			2017		
	Average Balance	Interest expense	Average cost ratio	Average balance	Interest expense	Average cost ratio
(In RMB millions, except percentages)						
Corporate deposits						
Demand	82,744.7	316.9	0.77%	85,495.5	278.1	0.66%
Time	138,462.8	3,040.2	4.43%	125,598.1	2,487.8	3.99%
Subtotal	221,207.5	3,357.1	3.06%	211,093.6	2,765.9	2.64%
Personal deposits						
Demand	35,990.4	63.3	0.35%	34,200.6	60.2	0.35%
Time	89,033.8	1,608.4	3.64%	72,099.1	1,126.7	3.15%
Subtotal	125,024.2	1,671.7	2.70%	106,299.7	1,186.9	2.25%
Total deposits from customers	346,231.7	5,028.8	2.93%	317,393.3	3,952.8	2.51%

Management Discussion and Analysis

2. *Interest expense on due to banks*

For the first half of 2018, the Bank's interest expense on due to banks decreased by RMB702.3 million or 36.9% to RMB1,201.6 million as compared to the same period of last year, primarily attributable to a 55.3% decrease in the average balance of relevant liabilities from RMB108,834.0 million for the same period of last year to RMB48,662.4 million for the first half of 2018, while the decrease in the average balance of relevant liabilities was mainly due to the liabilities structure adjustments proactively initiated by the Bank by replacing due to banks with relatively high cost with interbank negotiable certificates of deposit with relatively low cost.

3. *Interest expense on debt securities issued*

For the first half of 2018, the Bank's interest expense on debt securities issued amounted to RMB2,484.4 million, representing an increase of RMB1,057.9 million or 74.2% as compared to the same period of last year, mainly attributable to an increase in the average cost ratio of the underlying liabilities from 4.17% for the same period of last year to 4.79% for the first half of 2018 and a 51.6% increase in the average balance of relevant liabilities from RMB69,003.7 million for the same period of last year to RMB104,641.5 million for the first half of 2018. The increase in the average cost ratio of the underlying liabilities was mainly due to the price hike of market capital while the increase in the average balance of relevant liabilities was mainly attributable to the liabilities structure adjustments proactively initiated by the Bank to preferably match the assets business, and the increase in the average balance of interbank negotiable certificates of deposit in the first half of 2018.

(IV) Net Interest Spread and Net Interest Margin

The Bank's net interest spread decreased from 2.23% for the same period of last year to 1.66% for the first half of 2018 and the net interest margin decreased from 2.42% for the same period of last year to 1.88% for the first half of 2018, mainly attributable to the sluggish economic growth, the deteriorated quality of certain assets and interest rate hike resulting in the narrowing down of interest spread between the Bank's deposit and loan.

(V) Net non-interest Income

1. Net fee and commission income

For the first half of 2018, the Bank's net fee and commission income decreased by RMB81.5 million or 6.7% to RMB1,131.5 million as compared to the same period of last year, primarily due to the income decrease in the Bank's advisory and consultancy fee, agency and custodian fee as well as the increase in the fee and commission expense.

For the six months ended 30 June				
	2018	2017	Change in amount	Rate of change
(In RMB million, except percentages)				
Fee and commission income	1,298.7	1,269.6	29.1	2.3%
Advisory and consultancy fee	365.8	513.1	(147.3)	-28.7%
Settlement fee	79.0	35.4	43.6	123.2%
Agency and custodian fee	478.5	560.4	(81.9)	-14.6%
Of which: non-principal protected wealth management agency fee	281.2	271.2	10.0	3.7%
Bank card fee	356.7	125.5	231.2	184.2%
Others	18.7	35.2	(16.5)	-46.9%
Fee and commission expense	(167.2)	(56.6)	(110.6)	195.4%
Net fee and commission income	1,131.5	1,213.0	(81.5)	-6.7%

For the first half of 2018, the Bank's advisory and consultancy fee income reached RMB365.8 million, decreased by RMB147.3 million or 28.7% as compared to the same period of last year, mainly attributable to the continuous changes in volume of advisory and consultancy business.

The Bank realized an income of RMB79.0 million from settlement fee for the first half of 2018, representing a year-on-year increase of RMB43.6 million or 123.2%, mainly attributable to the expansion of the Bank's settlement business.

For the first half of 2018, the Bank's agency and custodian fee income was RMB478.5 million, decreased by RMB81.9 million or 14.6% as compared to the same period of last year, mainly attributable to the change in volume of the agency and custodian business.

Management Discussion and Analysis

For the first half of 2018, the Bank earned RMB356.7 million from bank card fee, increased by RMB231.2 million or 184.2% as compared to the same period of last year, mainly as a result of the increase in number of customers and business volume thanks to the Bank's great effort in expanding the card related intermediary business.

For the first half of 2018, other charges and commission generated income was RMB18.7 million, decreased by RMB16.5 million or 46.9% as compared to the same period of last year.

2. *Net trading income or loss*

For the first half of 2018, the Bank's net trading income increased by RMB416.7 million or 4,789.7% to RMB408.0 million as compared to the same period of last year, mainly attributable to the increase in net income of financial assets measured at fair value through profit or loss after the implementation of IFRS 9.

3. *Net gains or loss on financial investments*

For the first half of 2018, the Bank's net gains on financial investments increased by RMB62.4 million or 150.4% to RMB20.9 million as compared to the same period of last year, mainly attributable to net gains on disposal of financial assets measured at fair value through other comprehensive income.

4. *Other operating income or loss, net*

For the first half of 2018, the Bank's other operating income, net, increased by RMB21.2 million or 142.3% to RMB6.3 million as compared to the same period of last year, mainly due to the change in foreign exchange.

(VI) Operating Expenses

For the first half of 2018, the Bank's operating expenses increased by RMB62.1 million or 3.3% to RMB1,920.7 million as compared to the same period of last year.

For the six months ended 30 June				
	2018	2017	Change in amount	Rate of change
(In RMB million, except percentages)				
Staff costs	909.0	890.1	18.9	2.1%
Tax and surcharges	82.3	63.6	18.7	29.4%
Depreciation and amortization	266.1	269.3	(3.2)	-1.2%
Others	663.3	635.6	27.7	4.4%
Total operating expenses	1,920.7	1,858.6	62.1	3.3%

Staff costs are the largest component of the Bank's operating expenses, representing 47.3% and 47.9% of the Bank's total operating expenses for the first half of 2018 and 2017, 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				
	2018	2017	Change in amount	Rate of change
(In RMB million, except percentages)				
Staff costs				
Salaries, bonuses and allowances	674.2	680.8	(6.6)	-1.0%
Social insurance	123.6	108.0	15.6	14.4%
Housing fund	49.5	47.6	1.9	4.0%
Staff benefits	43.1	45.6	(2.5)	-5.5%
Labor's union expenditure and education costs	10.5	8.0	2.5	31.3%
Early retirement benefits	8.1	0.1	8.0	8,000.0%
Total	909.0	890.1	18.9	2.1%

For the first half of 2018, the staff costs of the Bank were RMB909.0 million, increased by RMB18.9 million or 2.1% as compared to the same period of last year, primarily attributable to more branches being established by the Bank, the increase in wages and benefits, the improved remuneration structure, and enhanced performance and results linked appraisal.

For the first half of 2018, the Bank had to pay taxes and surcharges of RMB82.3 million, increased by RMB18.7 million or 29.4% as compared to the same period of last year, primarily attributable to the impact of change in taxation policies and the increase in related taxes as a result of the development of the Bank's business in the first half of 2018.

For the first half of 2018, depreciation and amortization of the Bank were RMB266.1 million, decreased by RMB3.2 million or 1.2% as compared to the same period of last year.

For the first half of 2018, the Bank's other operating expenses were RMB663.3 million, increased by RMB27.7 million or 4.4% as compared to the same period of last year, primarily attributable to stepping up business expansion.

Management Discussion and Analysis

(VII) Impairment Losses

For the first half of 2018, the Bank's impairment losses decreased by RMB842.3 million or 42.7% to RMB1,129.9 million as compared to the same period of last year, primarily attributable to continuing impairment provision for assets on a dynamic basis given the comprehensive consideration as to the uncertainties in economic environment, and pursuant to the relevant requirements of the regulatory authorities.

For the six months ended 30 June				
	2018	2017	Change in amount	Rate of change
(In RMB million, except percentages)				
Loans and advances to customers	913.6	1,439.9	(526.3)	-36.6%
Other assets	216.3	532.3	(316.0)	-59.4%
Total impairment losses on assets	1,129.9	1,972.2	(842.3)	-42.7%

(VIII) Income Tax Expenses

For the first half of 2018, the Bank's income tax decreased by RMB72.9 million or 7.7% to RMB879.2 million as compared to the same period of last year.

For the six months ended 30 June				
	2018	2017	Change in amount	Rate of change
(In RMB million, except percentages)				
Current income tax expenses	1,074.0	1,278.0	(204.0)	-16.0%
Deferred income tax expenses	(194.8)	(325.9)	131.1	-40.2%
Effective income tax expenses	879.2	952.1	(72.9)	-7.7%

III. Analysis of Key Items of Financial Position

(I) Assets

As at 30 June 2018, the Bank's total assets increased by RMB7,686.3 million or 1.4% to RMB571,941.5 million as compared to the end of last year. The increase was mainly attributable to the increase in the Bank's loans and advances to customers and investment in securities and other financial assets.

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans and advances to customers, gross	251,149.0	43.9%	237,397.8	42.1%
Allowance for impairment losses	(7,725.5)	-1.3%	(6,751.3)	-1.2%
Loans and advances to customers, net	243,423.5	42.6%	230,646.5	40.9%
Investment in securities and other financial assets, net	213,356.1	37.3%	204,493.9	36.2%
Cash and balances with the Central Bank	61,231.9	10.7%	69,533.2	12.3%
Due from banks and other financial institutions	16,240.6	2.8%	20,626.1	3.7%
Financial assets held under reverse repurchase agreements	1,264.4	0.2%	4,775.7	0.8%
Other assets	36,425.0	6.4%	34,179.8	6.1%
Total assets	571,941.5	100.0%	564,255.2	100.0%

1. Loans and advances to customers

As at 30 June 2018, the Bank's total loans and advances to customers increased by RMB13,751.2 million to RMB251,149.0 million, representing an increase of 5.8% as compared to the end of last year.

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

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate loans	135,240.8	53.8%	118,477.6	49.9%
Personal loans	113,729.7	45.3%	118,375.8	49.9%
Discounted bills	2,178.5	0.9%	544.4	0.2%
Total loans and advances to customers	251,149.0	100.0%	237,397.8	100.0%

Management Discussion and Analysis

(1) Corporate loans

As at 30 June 2018, the Bank's corporate loans increased by RMB16,763.2 million to RMB135,240.8 million, representing an increase of 14.1% as compared to the end of last year, mainly due to the increasing support in the credit to the Bank's loan customers for continuously supporting 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 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans to small enterprises ⁽¹⁾	71,562.8	52.9%	73,049.8	61.7%
Other corporate loans excluding loans to small enterprises	63,678.0	47.1%	45,427.8	38.3%
Total corporate loans	135,240.8	100.0%	118,477.6	100.0%

Note:

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

As at 30 June 2018, the Bank's loans to small enterprises decreased by RMB1,487.0 million or 2.0% as compared to the end of last year to RMB71,562.8 million. As at 30 June 2018 and 31 December 2017, the Bank's loans to small enterprises accounted for 52.9% and 61.7%, respectively, of the Bank's total corporate loans.

(2) Personal loans

As at 30 June 2018, the Bank's personal loans decreased by RMB4,646.1 million to RMB113,729.7 million, representing a decrease of 3.9% as compared to the end of last year. The decrease was mainly attributable to the impact of the macroeconomic downturn, the Central Bank's MPA control and the real estate adjustment and regulation policies.

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 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans to small enterprise owners	32,195.8	28.3%	32,841.5	27.8%
Personal consumption loans	67,956.9	59.8%	75,431.9	63.7%
Loans to farmers	13,577.0	11.9%	10,102.4	8.5%
Total personal loans	113,729.7	100.0%	118,375.8	100.0%

As at 30 June 2018, loans to farmers increased as compared to the end of last year, representing an increase of 34.4%. Loans to small enterprise owners and personal consumption loans both decreased as compared to the end of last year, representing a decrease of 2.0% and 9.9%, respectively.

2. Investment in securities and other financial assets

As at 30 June 2018, the total amount of the Bank's investment in securities and other financial assets was RMB216,032.0 million, representing an increase of RMB9,223.0 million or 4.5% as compared to the end of last year. The increase in such assets of the Bank for the first half of 2018 was mainly due to the Bank's efforts to increase the use of various types of investments, and continuously expand the Bank's capital allocation channels, in order to improve the utilisation efficiency of the Bank's funds.

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 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Financial assets measured at fair value through profit or loss	19,141.8	8.9%	4,540.1	2.2%
Financial investment				
– Financial assets measured at amortised cost	161,197.6	74.6%	–	–
– Financial assets measured at fair value through other comprehensive income	35,692.6	16.5%	–	–
– Debt instruments classified as receivables	–	–	145,366.6	70.3%
– Held-to-maturity investments	–	–	27,279.5	13.2%
– Available-for-sale financial assets	–	–	29,622.8	14.3%
Total investment in securities and other financial assets	216,032.0	100.0%	206,809.0	100.0%

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

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Debt investments:				
Bond investments	68,216.4	31.6%	60,836.0	29.4%
Debt instruments issued by financial institutions ⁽¹⁾	147,735.5	68.4%	145,948.4	70.6%
Subtotal	215,951.9	100.0%	206,784.4	100.0%
Equity investment	80.1	0.0%	24.6	0.0%
Total investment in securities and other financial assets	216,032.0	100.0%	206,809.0	100.0%

Note:

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

As at 30 June 2018, the Bank's investment in debt instruments issued by financial institutions was RMB147,735.5 million, representing an increase of RMB1,787.1 million or 1.2% as compared to the end of last year. As a percentage of total investment in securities and other financial assets, investments of this class decreased from 70.6% as at 31 December 2017 to 68.4% as at 30 June 2018.

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Government bonds	18,686.2	27.4%	14,270.5	23.4%
Bonds issued by financial institutions	11,521.8	16.9%	13,364.9	22.0%
Corporate bonds	10,764.0	15.8%	7,729.0	12.7%
Bonds issued by policy banks	27,244.4	39.9%	25,471.6	41.9%
Total bond investments	68,216.4	100.0%	60,836.0	100.0%

3. Other components of the Bank's assets

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

As at 30 June 2018, the Bank's total cash and balances with Central Bank decreased by RMB8,301.3 million or 11.9% to RMB61,231.9 million as compared to the end of last year.

As at 30 June 2018, the Bank's total due from banks and other financial institutions decreased by RMB4,385.5 million or 21.3% to RMB16,240.6 million as compared to the end of last year. The change of due from banks and other financial institutions is mainly because the Bank adjusted the weight of such non-credit assets based on its capital and changes in liquidity in the market to ensure both liquidity and capital utilisation efficiency.

As at 30 June 2018, the Bank's total financial assets held under reverse repurchase agreements decreased by RMB3,511.3 million or 73.5% to RMB1,264.4 million as compared to the end of last year.

Management Discussion and Analysis

(II) Liabilities

As at 30 June 2018, the Bank's total liabilities were RMB527,999.2 million, representing an increase of RMB6,153.0 million or 1.2% as compared to the end of last year.

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Due to customers	370,600.3	70.2%	378,258.4	72.4%
Due to banks ⁽¹⁾	30,872.3	5.8%	36,420.2	7.0%
Repurchase agreements	2,178.0	0.4%	4,590.0	0.9%
Debt securities issued	111,630.4	21.2%	91,334.0	17.5%
Due to Central Bank	646.9	0.1%	521.1	0.1%
Other liabilities ⁽²⁾	12,071.3	2.3%	10,722.5	2.1%
Total liabilities	527,999.2	100.0%	521,846.2	100.0%

Notes:

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

1. Due to customers

As at 30 June 2018, the Bank's total due to customers was RMB370,600.3 million, representing a decrease of RMB7,658.1 million or 2.0% as compared to the end of last year. This decrease was primarily attributable to slowdown in the growth of deposits across the country for the first half of 2018, coupled with continuously rising capital costs and increased inter-bank competition in deposits.

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate deposits				
Demand deposits	88,265.9	23.8%	110,714.3	29.3%
Time deposits	151,756.3	41.0%	138,792.6	36.7%
Subtotal	240,022.2	64.8%	249,506.9	66.0%
Personal deposits				
Demand deposits	42,042.7	11.3%	42,580.8	11.2%
Time deposits	88,535.4	23.9%	86,170.7	22.8%
Subtotal	130,578.1	35.2%	128,751.5	34.0%
Total due to customers	370,600.3	100.0%	378,258.4	100.0%

2. Due to banks

As at 30 June 2018, the Bank's balance due to banks was RMB30,872.3 million, representing a decrease of RMB5,547.9 million or 15.2% as compared to the end of last year. The change of due to banks of the Bank reflected the Bank's comprehensive consideration of its needs to match assets and liabilities. Based on market liquidity and the Bank's needs for funds, the Bank adjusted the proportion of due to banks in its liabilities.

3. Repurchase agreement amounts

As at 30 June 2018, the Bank's repurchase agreement amounts were 2,178.0 million, representing a decrease of RMB2,412.0 million or 52.5% as compared to the end of last year. The change in the Bank's repurchase agreement amounts reflected the Bank's comprehensive consideration of its needs to match assets and liabilities. Based on market liquidity and the Bank's capital needs for funds, the Bank decreased the repurchase agreement amount to better match interbank assets business.

4. Debt securities issued

As at 30 June 2018, the Bank's debt securities issued were RMB111,630.4 million, representing an increase of RMB20,296.4 million or 22.2% as compared to the end of last year, mainly due to the increase of the balance of the interbank certificates of deposit of the Bank.

Management Discussion and Analysis

(III) Shareholders' Equity

As at 30 June 2018, the Bank's shareholders' equity was RMB43,942.3 million, representing an increase of RMB1,533.4 million or 3.6% as compared to the end of last year. As at 30 June 2018, the Bank's equity attributable to shareholders of the parent company was RMB42,796.4 million in total, representing an increase of RMB1,535.9 million or 3.7% as compared to the end of last year. The increase in shareholders' equity was mainly due to the net profit realised in the first half of 2018.

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Share capital	10,995.6	25.0%	10,995.6	25.9%
Reserves	17,451.5	39.7%	16,812.9	39.7%
Undistributed profits	14,349.3	32.7%	13,452.0	31.7%
Equity attributable to equity holders				
of the Bank	42,796.4	97.4%	41,260.5	97.3%
Non-controlling interests	1,145.9	2.6%	1,148.4	2.7%
Total equity	43,942.3	100.0%	42,408.9	100.0%

IV. Off-balance Sheet Commitments

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

	As at 30 June 2018	As at 31 December 2017
(In RMB million)		
Credit commitments:		
Bank bills acceptance	49,047.4	58,339.3
Issued letters of guarantee	6,329.9	8,778.8
Issued letters of credit	7,729.5	6,722.1
Credit limit of credit card	12,163.8	9,266.8
Subtotal	75,270.6	83,107.0
Capital expenditure commitments	755.1	771.2
Operating lease commitments	1,116.6	1,128.9
Treasury bond redemption commitments	2,864.0	2,740.0
Relief obligation under risk cooperative fund	—	180.0
Total	80,006.3	87,927.1

In addition, as at 30 June 2018, significant legal proceedings with each disputed transaction exceeding RMB10 million outstanding against the Group (for itself or as a third party) amounted to RMB69 million. It is expected that no loss will be caused by these litigations and no provisions need to be made. As at the date of this report, the Bank had no significant contingent liabilities. Details of off-balance sheet commitments contracts are disclosed in “Commitments and Contingent Liabilities” in the notes to financial statements.

V. Analysis on Loan Quality

During the Reporting Period, the Bank committed itself to building a “professional, independent, balanced and centralized” risk management system, comprehensively improving risk management methods, incorporating the risk management into the entire process before, during and after granting loans, so as to effectively strengthen the whole-process credit management. The overall loan quality remained at a manageable level as a result of our continuously optimization of asset portfolio, steady adjustment of asset structure, increased efforts in the collection as well as disposal of the NPLs, and strengthened performance appraisal on risk management. However, due to changes in the external operational environment, continued slowdown in economic growth, and operation difficulties in the SMEs and other factors, along with more prudent classification criteria the Bank adopted, the Bank's NPL ratio increased slightly, while the deviation of classifications decreased. As at 30 June 2018, the balance of NPLs was RMB4,506.2 million. The NPL ratio was 1.79%, representing an increase of 0.09 percentage point as compared to the end of last year. The ratio of loans overdue for at least 90 days to NPLs was 114.03%, representing a decrease of 1.01 percentage points as compared to the end of last year.

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

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

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Pass	239,502.0	95.4%	226,597.8	95.5%
Special mention	7,140.8	2.8%	6,763.0	2.8%
Substandard	1,185.2	0.5%	832.8	0.3%
Doubtful	1,908.2	0.8%	2,037.1	0.9%
Loss	1,412.8	0.5%	1,167.1	0.5%
Total loans to customers	251,149.0	100.0%	237,397.8	100.0%
NPLs and NPL ratio ⁽¹⁾	4,506.2	1.79%	4,037.0	1.70%

Note:

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

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

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 at the dates indicated.

	As at 30 June 2018			As at 31 December 2017		
	Loan amount	NPL amount	NPL ratio	Loan amount	NPL amount	NPL ratio
(In RMB million, except percentages)						
Corporate loans						
Loans to small enterprises	71,562.8	1,330.0	1.86%	73,049.8	1,392.5	1.91%
Other corporate loans excluding loans to small enterprises	63,678.0	312.8	0.49%	45,427.8	323.5	0.71%
Subtotal	135,240.8	1,642.8	1.21%	118,477.6	1,716.0	1.45%
Personal loans						
Loans to small enterprise owners	32,195.8	1,523.6	4.73%	32,841.5	1,015.2	3.09%
Personal consumption loans	67,956.9	932.4	1.37%	75,431.9	955.1	1.27%
Loans to farmers	13,577.0	407.4	3.00%	10,102.4	350.7	3.47%
Subtotal	113,729.7	2,863.4	2.52%	118,375.8	2,321.0	1.96%
Discounted bills	2,178.5	–	–	544.4	–	–
Total	251,149.0	4,506.2	1.79%	237,397.8	4,037.0	1.70%

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

During the Reporting Period, the NPL ratio of the Bank's corporate loans decreased by 0.24 percentage point as compared to the end of last year to 1.21%, and the asset quality of our corporate business was effectively improved, as the Bank fully implemented the refined customer management on corporate business sector, gradually shifted its resources to strategic customers, formulated corporate customer access standards in line with the Bank's risk appetite, continued to improve and further implemented and applied the internal evaluation system, and focused on the risk investigation of corporate customers with large loans with the list management mechanism as the entry point of its strong management control.

The NPL ratio of personal loans increased by 0.56 percentage point to 2.52% as compared to the end of last year, of which the NPL ratio of owners of SMEs increased to 4.73%. Due to local fluctuation of the macroeconomy, the loan defaults and NPL ratio increased as small and micro enterprise customers belong to the customer groups with strong sensitivity to fund flow, especially for small enterprise owners and individual businesses which have weak ability to resist risks. The NPL ratio of personal consumption loans increased slightly, mainly due to that the Bank adjusted its credit structure and therefore the scale of personal consumption loans decreased. The NPL ratio of loans to farmers decreased by 0.47 percentage point as compared to the end of last year resulting in an effective relief on the pressure of NPL ratio through implementation of certain targeted measures such as changing the mitigation means, optimizing the customer structure and deeply applying the internal evaluation techniques.

The Bank responded positively to the NPL problem of the loans to small enterprise owners and farmers. The Bank continued to strengthen management measures such as loan quotas by industry and product, credit granting to related customers, credit granting to non-local customers, third party mortgage-based or pledge-based credit granting, risk mitigation and credit granting based on business area, strengthened centralized management of approval, and further created the refined, systematic and scientific management mode. On the one hand, with respect to small enterprise customers, the Bank continuously increased its support for the transformation and upgrading of small enterprises by continuously improving its products and optimizing its processes, so as to actively support the development of the real economy; with the “innovative small and micro enterprises” as its business development orientation and focusing on customer groups “with business data and good performance”, the Bank strictly controlled the loan access in virtue of internal evaluation results, by comprehensive utilization of the financial technology, application of the credit rating by the PBOC and third party big data fraud prevention methods and restoration of actual situations of the customers by means of customer portrait; on the other hand, for the loans to farmers, the Bank vigorously supported the green credit business of modern agriculture, strived to optimize the guarantee mode of the agricultural loan business at the same time, gradually exited joint guarantee and mutual insurance in the recent years, preferentially adopted mortgage and pledge guarantee methods, and developed the land operation right mortgage business by closely keeping up with national policy requirements to mitigate the risk of traditional agriculture loan business.

Management Discussion and Analysis

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

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

	As at 30 June 2018				As at 31 December 2017			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
(In RMB million, except percentages)								
Agriculture, forestry, husbandry and fishery	3,069.8	1.2%	135.5	4.41%	3,438.9	1.3%	105.2	3.06%
Mining	230.7	0.1%	43.0	18.64%	324.9	0.1%	3.0	0.92%
Manufacturing	10,980.4	4.4%	547.8	4.99%	11,612.5	4.9%	472.3	4.07%
Production and supply of electricity, gas and water	3,122.2	1.2%	64.9	2.08%	3,588.7	1.5%	61.0	1.70%
Construction	10,328.0	4.1%	16.3	0.16%	6,088.7	2.6%	80.1	1.32%
Transportation, storage and postal services	3,878.4	1.5%	32.2	0.83%	3,712.9	1.6%	20.0	0.54%
Information transmission, computer services and software	1,071.6	0.4%	11.6	1.08%	1,093.0	0.5%	0.7	0.06%
Wholesale and services	35,598.5	14.2%	734.7	2.06%	33,717.2	14.2%	926.9	2.75%
Accommodations and catering	3,163.3	1.3%	19.0	0.60%	3,375.7	1.4%	13.9	0.41%
Finance	200.0	0.1%	–	–	5.0	0.0%	–	–
Real estate	18,133.1	7.2%	28.5	0.16%	13,726.7	5.8%	6.0	0.04%
Leasing and commercial services	30,906.1	12.3%	6.5	0.02%	23,418.9	9.9%	18.8	0.08%
Scientific research, technical services and geological prospecting	391.7	0.2%	2.8	0.71%	329.9	0.1%	2.9	0.88%
Water conservation, environment, public utility management and investment	10,567.1	4.2%	–	–	10,477.6	4.4%	5.2	0.05%
Residential and other services	392.0	0.2%	–	–	490.5	0.2%	–	–
Education	422.9	0.2%	–	–	391.7	0.2%	–	–
Health, social security and social welfare	1,332.0	0.5%	–	–	1,143.4	0.5%	–	–
Culture, sports and entertainment	1,030.6	0.4%	–	–	1,118.0	0.5%	–	–
Public management and social organization	422.5	0.2%	–	–	423.4	0.2%	–	–
Total corporate loans	135,240.8	53.8%	1,642.8	1.21%	118,477.6	49.9%	1,716.0	1.45%
Total personal loans	113,729.7	45.3%	2,863.4	2.52%	118,375.8	49.9%	2,321.0	1.96%
Discounted bills	2,178.5	0.9%	–	–	544.4	0.2%	–	–
Total	251,149.0	100.0%	4,506.2	1.79%	237,397.8	100.0%	4,037.0	1.70%

As at 30 June 2018, the NPLs of the Bank concentrated in the wholesale and service industry and the manufacturing industry, with NPL ratio of 2.06% and 4.99%, respectively. The Bank actively adjusted its industry structure of loans, differentiated risk prevention and control strategies in key areas such as overcapacity industries, real estate, and local government financing platform businesses, and tightened or withdrew loans for risky customers such as overcapacity and third party customers, which resulting in decreases in the ratios of loans to manufacturing, wholesale and services sectors. The Bank optimized its credit resource allocation by vigorously developing the risk-controllable and high-yield personal loans business, green credit business supported by national policies such as credits to environmental protection, education and medical care industries, and other customers within the high-quality industries. The Bank also took various measures to strictly control new NPLs, actively resolve the existing NPLs and improve 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 at the dates indicated.

	As at 30 June 2018				As at 31 December 2017			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
(In RMB million, except percentages)								
Heilongjiang region	101,500.6	40.4%	2,993.9	2.95%	94,177.2	39.7%	2,660.7	2.83%
Other Northeast region	44,139.6	17.6%	461.8	1.05%	44,382.0	18.7%	323.9	0.73%
Southwest region	53,116.6	21.1%	504.7	0.95%	48,349.3	20.4%	584.1	1.21%
Northern China	34,093.8	13.6%	251.8	0.74%	30,702.7	12.9%	206.1	0.67%
Other regions	18,298.4	7.3%	294.0	1.61%	19,786.6	8.3%	262.2	1.33%
Total	251,149.0	100.0%	4,506.2	1.79%	237,397.8	100.0%	4,037.0	1.70%

As at 30 June 2018, the vast majority of the NPLs of the Bank concentrated in Heilongjiang region. The NPL ratio was slightly increased due to factors including the change of external operating environment, the slowdown in economic growth and the operation difficulties of the SMEs. The Bank continued to optimize the regional credit resource allocation and promote the balanced development of credit granting in each region. The Bank enhanced the precise credit granting and risk management with regional characters surrounding the regional advantageous industries, leading industries and the key government support projects, based on the characteristics of Heilongjiang region, as well as the strategy for revitalizing the old industry base in Northeast China and the regional development planning. In addition, the Bank performed targeted asset quality management, enhanced the setup of regional collection institutions, enhanced the regional loan quality assessment, strengthened regional quota control, in order to prevent systematic risks of the region.

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 at the dates indicated.

	As at 30 June 2018				As at 31 December 2017			
	Amount	% of total	NPL amount	NPL ratio	Amount	% of total	NPL amount	NPL ratio
(In RMB million, except percentages)								
Unsecured loans	33,893.9	13.5%	846.0	2.50%	35,684.0	15.1%	739.1	2.07%
Guaranteed loans	73,701.1	29.3%	1,398.0	1.90%	64,445.8	27.1%	1,294.0	2.01%
Collateralized loans	115,530.5	46.0%	2,170.7	1.88%	107,534.8	45.3%	1,928.7	1.79%
Pledged loans	28,023.5	11.2%	91.5	0.33%	29,733.2	12.5%	75.2	0.25%
Total	251,149.0	100.0%	4,506.2	1.79%	237,397.8	100.0%	4,037.0	1.70%

During the Reporting Period, the Bank made active responses to the economic environment changes. It increased the controllability of the ultimate loan risks by increasing new granting of collateralized and pledged loans in order to optimise the guarantee structure which resulted in a relatively high growth rate of collateralized NPLs, but the loss given default was relatively low. Currently, the collateralized and pledged loans accounts for 50% of the NPLs and the ultimate risks of asset quality are under control. During the year, the Bank promoted the application of collateral risk valuation system throughout the Bank. The Bank reinforced the management of mortgage and pledge and prevented risks of false high valuation of the collaterals and pledges and defects in relevant procedures through conducting evaluation of internal collateral risk value for collaterals, and promoting risk management measures such as advanced verification, post re-valuation and adjusting of mitigation strategies. Meanwhile, the Bank innovatively implemented layered management to business property collaterals, granted access of high-quality collaterals and optimised mortgage structure. Moreover, the Bank made active deployment for its retail credit business, which resulted in a decrease in the proportion of unsecured loan. The Bank strengthened cooperation with third-party institutions such as credit agencies. It took full advantage of the credit ratings of the PBOC and carried out dynamic monitoring and adjusting its internal assessment model to prevent credit risk in a timely and accurate manner. Furthermore, it implemented stronger collection of NPLs including those through internal institutions and judicial proceedings to ensure the effective control of credit risk and the relative stability of loan quality.

(VI) Concentration of Borrowers

As at 30 June 2018, the Bank was in compliance with the lending limit of 10% of the Bank's net capital to any single borrower. The following table sets out, as at 30 June 2018, 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 2018		
Industry		Loan balance	% of total loans	% of net capital
(In RMB million, except percentages)				
Borrower A	L- Rental and commercial services	1,572.0	0.63%	2.87%
Borrower B	K- Real estate	1,449.7	0.58%	2.65%
Borrower C	K- Real estate	1,380.0	0.55%	2.52%
Borrower D	L- Rental and commercial services	1,187.2	0.47%	2.17%
Borrower E	K- Real estate	1,086.0	0.43%	1.98%
Borrower F	K- Real estate	1,053.0	0.42%	1.92%
Borrower G	L- Rental and commercial services	1,039.4	0.41%	1.90%
Borrower H	K- Real estate	1,030.0	0.41%	1.88%
Borrower I	N- Water conservation, environment and public utility management	1,000.0	0.40%	1.83%
Borrower J	H- Wholesale and services	1,000.0	0.40%	1.83%
Total		11,797.3	4.70%	21.54%

(VII) Overdue Loans and Advances to Customers

The following table sets out, as at the dates indicated, the distribution of the Bank's loans and advances to customers by maturity.

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Current loans	237,706.8	94.6%	228,069.2	96.1%
Loans past due: ⁽¹⁾				
For 1 to 90 days	8,303.9	3.3%	4,684.4	2.0%
For 91 days to 1 year	2,017.3	0.8%	2,001.9	0.8%
For 1 year and above	3,121.0	1.3%	2,642.3	1.1%
Subtotal	13,442.2	5.4%	9,328.6	3.9%
Total loans to customers	251,149.0	100.0%	237,397.8	100.0%

Note:

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

Management Discussion and Analysis

As at 30 June 2018, the amount of overdue loans totalled RMB13,442.2 million, and increased by RMB4,113.6 million as compared to the end of last year, mainly the loans within 90 days overdue; the overdue loans accounted for 5.4% of the total loans, and increased by 1.5 percentage points as compared to the end of last year, of which the loans within 90 days overdue accounted for 61.8% of the total overdue loans. The overdue loans were mainly temporarily overdue, primarily due to the slower capital turnover and longer repayment period of certain clients affected by the operating environment. The Bank conducts the whole process management of loan granting. According to different stages and different risk levels of the loans being exposed to, it adopted specific preventive measures to prevent overdue loans from increasing and loan quality from declining. The Bank adopted relatively strict classification criteria to ensure that the risk classification reflects the actual asset quality. The ratio of loans overdue for at least 90 days to NPL was 114.03%, representing a decrease of 1.01 percentage points as compared to the end of last year.

(VIII) Movements of Allowance for Impairment Losses on Loans

In accordance with the requirements of IFRS 9, the Bank used the “expected credit loss model” to measure the impairment of relevant financial assets. The Bank takes prudence as its principle and makes provision for impairment in the full amount. As at 30 June 2018, the Bank’s impairment losses on loans amounted to RMB7,725.5 million, and increased by RMB974.2 million as compared to the end of last year. The Bank’s impairment losses on loans ratio was 3.08%, and increased by 0.24 percentage point as compared to the end of last year.

Movements of allowance for impairment losses are as follows:

Items	As at 30 June 2018	As at 31 December 2017
		(In RMB million)
Balance at the beginning of the period ⁽¹⁾	7,173.5	5,139.7
Exchange difference	0.5	(4.0)
Impairment loss:	913.5	2,078.2
Impairment allowances charged	1,089.4	2,194.8
Reversal of impairment allowances	(175.9)	(116.6)
Accreted interest on impaired loans	(63.7)	(79.2)
Write-off and transfer out	(369.7)	(424.4)
Recoveries of loans and advances previously written off	71.4	41.0
Balance at the end of the period	7,725.5	6,751.3

Note:

(1) Among which, the impact of adopting IFRS 9 was RMB422.2 million.

VI. Segment Report

(I) Geographical Segment Report

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

Heilongjiang region:	Head Office, branches in Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqihar, Yichun and Nongken, as well as HB Leasing, HBCF and village and township banks operating within Heilongjiang;
Other regions in Northeast China:	Branches in Dalian and Shenyang, as well as village and township banks operating in Northeastern China excluding the ones in Heilongjiang;
Southwest China:	Branches in Chengdu and Chongqing, as well as village and township banks operating mainly in Sichuan and Chongqing and located in Southwest China;
Northern China:	Branches in Tianjin, as well as village and township banks operating mainly in Beijing and Tianjin and located in Northern China;
Other regions:	Village and township banks operating in regions other than those listed above.

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

	Mainland China					
	Other regions					Total
	Heilongjiang region	in Northeast China	Southwest China	Northern China	Other regions	
(In RMB million)						
For the six months ended						
30 June 2018						
Operating income	4,342.1	662.2	876.9	422.1	234.5	6,537.8
Operating expenses	(1,371.9)	(154.1)	(220.3)	(96.6)	(77.8)	(1,920.7)
Impairment losses	(542.9)	(103.2)	(310.8)	(141.8)	(31.2)	(1,129.9)
Operating profit	2,427.3	404.9	345.9	183.7	125.4	3,487.2
As at 30 June 2018						
Segment assets	424,761.7	45,875.8	56,760.2	34,964.5	9,579.3	571,941.5
Segment liabilities	355,691.4	50,545.7	68,259.3	45,302.7	8,200.1	527,999.2

Management Discussion and Analysis

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

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			
	2018		2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Heilongjiang region	4,342.1	66.4%	5,044.3	67.5%
Other regions in Northeast China	662.2	10.1%	636.0	8.5%
Southwest China	876.9	13.4%	1,115.1	14.9%
Northern China	422.1	6.5%	481.4	6.5%
Other regions	234.5	3.6%	195.3	2.6%
Total operating income	6,537.8	100.0%	7,472.1	100.0%

(II) Business Segment Report

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

	For the six months ended 30 June			
	2018		2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Corporate finance business	1,955.9	29.9%	2,256.4	30.2%
Retail finance business	2,163.8	33.1%	2,284.3	30.6%
Financial institutions business	2,393.6	36.6%	2,879.5	38.5%
Other businesses ⁽¹⁾	24.5	0.4%	51.9	0.7%
Total operating income	6,537.8	100.0%	7,472.1	100.0%

Note:

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

VII. Analysis of Capital Adequacy Ratio

The Group continued to optimize its business structure and strengthen capital management, and as at 30 June 2018, the capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 12.19%, 9.63% and 9.61%, respectively. The core tier 1 capital adequacy ratio, the tier 1 capital adequacy ratio and the capital adequacy ratio decreased by 0.11 percentage point, 0.11 percentage point and 0.06 percentage point respectively as compared to the end of last year, which were in line with the regulatory requirements during the transition period provided in the Measures for Capital Management of Commercial Banks (Provisional) issued by the CBRC. The decrease in the core tier 1 capital adequacy ratio, the tier 1 capital adequacy ratio and the capital adequacy ratio of the Group were mainly due to the increase of risk-weighted assets, payment of cash dividends and changes in accounting policies (the impact of adopting IFRS 9).

Management Discussion and Analysis

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

	As at 30 June 2018	As at 31 December 2017
(In RMB million, except percentages)		
Core capital	43,323.5	41,694.4
Core Tier 1 capital deductibles items:		
Full deductible items	(151.5)	(166.7)
Net core tier 1 capital	43,172.0	41,527.7
Net other tier 1 capital	70.3	57.9
Net tier 1 capital	43,242.3	41,585.6
Net tier 2 capital	11,531.6	10,735.9
Net capital	54,773.9	52,321.5
Credit risk-weighted assets	417,067.0	395,691.1
Market risk-weighted assets	7,042.8	6,263.9
Operational risk-weighted assets	25,103.3	25,103.3
Total risk-weighted assets	449,213.1	427,058.3
Core tier 1 capital adequacy ratio	9.61%	9.72%
Tier 1 capital adequacy ratio	9.63%	9.74%
Capital adequacy ratio	12.19%	12.25%

VIII. Business Operation

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

(I) Retail Finance Business

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

In the first half of 2018, the Bank continued to improve its pricing mechanism and system establishment of retail finance business, and therefore enhancing the risk pricing capability and creating a new profit model. During the Reporting Period, retail finance business of the Bank recorded profit before tax of RMB1,229.8 million (accounting for 35.3% of profit before tax of the Bank) and operating income of RMB2,163.8 million, representing a year-on-year decrease of 5.3% and accounting for 33.1% of the operating income of the Bank.

Retail customers

Facing new trends in economy, the Bank has always been paying attention to the improvement of customer service, customer need on a diversified finance and the establishment of online to offline channels through the Internet in order to comprehensively enhance retail customers' experience and establish a comprehensive new retail finance service system. As at the end of June 2018, the Bank had 11,888,500 retail deposit customers, increased by 1,122,800 as compared to the beginning of the year, representing a growth rate of 10.4%. The number of retail customers with personal financial assets (in RMB and other foreign currencies) over RMB50,000 amounted to 530,200, increased by 10,000 as compared to the beginning of the year, representing a growth rate of 1.9%.

Retail deposits

The Bank provides demand and time deposits service to retail customers based on statutory interest rate and the floating interest rate range. Such deposits are mostly denominated in RMB with only a small portion being denominated in foreign currencies. As at 30 June 2018, the total retail customer deposits of the Bank amounted to RMB130,578.1 million, representing an increase of RMB1,826.6 million or 1.4% from the end of last year. The average balance of retail deposits amounted to RMB125,024.2 million, representing a year-on-year increase of 17.6%. Demand deposits accounted for 32.2% of retail customer deposits. According to the statistics provided by the Harbin branch of the PBOC, during the Reporting Period, the balance of retail deposits of the Harbin branch of the Bank accounted for 14.4% of retail deposits in the local market, ranking the second in this region.

Retail loans

During the Reporting Period, upholding its special development concept of "microcredit", retail loan business, relied on the large retail business scenarized model, focusing on residential scenarios, supplemented by health, education, entertainment, consumption and transportation finance scenarios, and leveraged its advantages in the comprehensive contribution of retail loans to contribute for the Bank's brand and value. By applying the concept of big data and mobile internet, and exploring the existing customers and by connection with third-party platforms, it achieved the operation model of "touch the net" and conducted precision marketing to secure a huge number of customers. The Bank formulated a "full life cycle" product upgrading management mechanism, focused on groups of customers who own house(s), high-credit rating, and/or significant financial assets, built three product systems, namely, "Property Mortgage Loan (房抵貸)", "White-collar Loans (白領貸)", and "Scenario Loans (場景貸)", established an integrated on-line operating system for retail loans, and realised the new experience of "Internet +". The Bank optimised the independent approval mechanism and deepened the application of retail internal assessment results in the whole process. It also established a dynamic optimisation and adjustment mechanism of credit scoring and decision making engine. The mechanism introduced third-party data to strengthen the ability of anti-fraud and risk prevention and control, identification, early warning,

Management Discussion and Analysis

which in turn further improved the risk management and control capabilities of the retail loan business of the Bank. As at 30 June 2018, the balance of the Bank's personal loans reached RMB113,729.7 million, accounting for 45.3% of the Bank's total loans to customers, of which the balance of loans to small enterprise owners, personal consumption loans and loans to farmers amounted to RMB32,195.8 million, RMB67,956.9 million and RMB13,577.0 million, respectively, and accounted for 28.3%, 59.8% and 11.9%, respectively, of the Bank's total personal loans. During the Reporting Period, with its successful practice of introducing Internet and big data thinking, "An Ju Loan (安居貸)" won the "Top Ten Financial Innovative Products Award (十家金融產品創新獎)" in the assessment of 2018 China Financial Innovation Awards, which better established the Bank's brand image.

Bank cards

During the Reporting Period, the Company continued to accelerate the development of credit card business and promote scale growth. As at 30 June 2018, the total number of issued credit cards by the Company reached 601,800, of which 99,400 were newly issued during the Reporting Period, increased by 19.78% as compared to the end of last year. The credit card asset balance amounted to RMB8,880 million, increased by 17.85% as compared to the end of last year. As at 30 June 2018, the number of debit cards issued by the Company recorded a steady increase. The total number of issued debit cards reached 14.9258 million, of which 1,498,100 were newly issued during the Reporting Period.

Wealth management business

The Bank's wealth management business covers four major financial scenarios, namely housing, healthcare, education, and public welfare. Focusing on increasing income generated from intermediary business, the Bank enhances customers' loyalty, retains loyal customers, and strives to promote featured product innovation. The Bank constantly enhances its professionalism in wealth management capability to accelerate the development of the wealth management business. As at 30 June 2018, total personal wealth management products realised by the Bank was RMB93,200 million.

(II) Corporate Finance Business

In the first half of 2018, as for the Bank's corporate finance business, focusing on the theme of "governance enhancement", guided by the returning to its roots, and targeted at obtaining customers, controlling risks and expanding channels, it vigorously developed projects supported by the government and involving people's livelihood, as well as continuously promoted business for capital market, bond market, and equity market to promote strategic transformation of the Bank's business. It carried out in-depth corporate deposit marketing, optimized the deposit structure, built a marketing service system for strategic customers, expanded customer access channels, and strengthened product and service innovation, to create a sustainable business development model.

During the Reporting Period, the Bank constantly strengthened the corporate finance business products development. It developed more complete product lines and steadily improved its professional services capabilities. During the Reporting Period, the corporate finance business of the Bank recorded profit before tax of RMB710.7 million accounting for 20.4% of profit before tax of the Bank and operating income of RMB1,955.9 million representing a decrease of 13.3% as compared to the same period of last year and accounting for 29.9% of operating income of the Bank.

Corporate customers

Leveraging the advantages in its cross-regional outlet laid-outs, and closely following the direction of national strategy, the Bank focused on supporting renovation of rundown areas, mixed reform of state-owned enterprises and park constructions, and implemented active marketing activities towards state-owned enterprises, central enterprises, listed companies, local high-quality private enterprises with high taxation rankings and park-based growth enterprises. In addition, it explored business opportunities with strategic customers in agricultural grains, heating and other key projects for the Thirteenth Five-year Plan. It made business marketing plans based on the needs of its strategic customers, thereby gradually establishing a flexible and refined marketing mechanism for the purposes of optimising customer structure, enhancing customer loyalty and improving customer value. As at the end of June 2018, the Company had 85,000 corporate customers.

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

Corporate deposits

During the Reporting Period, the Bank proactively carried out green deposit marketing to optimise its gearing structure. The Bank made great efforts in extending funding sources for corporate liabilities business through multiple channels, implemented marketing campaigns to attract deposits actively, established deposit marketing mechanism for institutional customers, strengthened the design and marketing of scenarios for non-debtors in multiple dimensions, promoted key system construction and deposit product research and development, facilitated customer development, and improved settlement deposit precipitation. As at 30 June 2018, corporate deposits of the Bank amounted to RMB240,022.2 million with demand deposits accounting for 36.8%. The average daily deposits of the Bank amounted to RMB221,207.5 million, increased by 4.8% as compared to the same period of last year.

According to the statistics provided by the Harbin branch of the PBOC, as at the end of the Reporting Period, the balance of corporate deposits of the Harbin branch of the Bank accounted for 15.6% of corporate deposits in the local market, ranking the first in this region.

Corporate loans

During the Reporting Period, the Bank strengthened the asset business launch by improving the project reserve, asset quality and project income, reasonably managed the loans assignment, utilized the limited credit size, so as to optimise its comprehensive income. Conforming to the policy direction of returning to its roots, the Bank focused on real economy to support regional development, incorporated green credit promotion into the performance appraisal indicators of the branches, encouraged and guided the branches to give priority to green industry projects. It continued to provide financial support for livelihood projects, attached great importance to the design of comprehensive service plans, and allocated limited resources to credit asset projects with high comprehensive income and high development potential. As at 30 June 2018, the total corporate loan of the Bank amounted to RMB135,240.8 million, representing an increase of 14.1% as compared to the beginning of the year and accounting for 53.8% of total loans. Being conscious of observing the risk baseline, the Bank kept the overall quality of its loan assets under control in general with the balance of NPLs at RMB1,642.8 million, and the NPL ratio was 1.21%.

Management Discussion and Analysis

Intermediary services

During the Reporting Period, the Bank continued to strengthen its management on intermediate business by continuously enhancing business products and service innovations, enriching bill business and supply chain business product categories, and smoothing bill business development channels, to create new business growth points.

The Bank adhered to the principle of “customer-oriented” to carry out differentiated marketing, continuously promoted the research and development as well as the ancillary system establishment of products such as bill pools and cash management products, and facilitated the enrichment of corporate business settlement tools, to provide effective support for debt and asset business growth.

(III) Financial Market Business

During the Reporting Period, the Bank adhered to the principles of “governance enhancement, moderate and prudent operation” and conducted business in compliance with new trends in regulations. The Bank made great efforts to serve the real economy mainly by means of bond investment and foreign exchange trading, thus increasing the value contribution of the financial business.

During the Reporting Period, the Bank's operating income of interbank finance business reached RMB2,393.6 million, representing a year-on-year decrease of 16.9%, accounting for 36.6% of the Bank's operating income.

Currency market transactions

During the Reporting Period, the domestic and international macroeconomic environment were highly volatile. Affected by the change of the monetary policy stance of the Central Bank from “reasonable and stable” to “reasonable and adequate”, liquidity in the banking system was relatively loose and the capital cost was low overall. The Bank sought to achieve a reasonable capital maturity structure, proactively participated in the open market operations by the Central Bank and the central treasury cash management through time deposits to commercial banks (中央國庫金管理商業銀行定期存款業務), while strictly fulfilling its all obligations as a primary dealer in the open market operations by the Central Bank and a participating bank in the central treasury cash management through time deposits, proactively provided capital support and financial services to small and medium financial institutions, and transmitted the execution of regulatory macro-monetary policies and liquidity allocation. In addition, the Bank continuously expanded its financing channels in the currency market, safeguarded liquidity security while minimising financing costs, and realized stable growth in profitability.

As at 30 June 2018, the balance of our due from and placement with banks and other financial institutions and balance of financial assets held under reverse repurchase agreements was RMB17,505.0 million, representing a decrease of RMB7,896.8 million or 31.1% from the end of last year. As at the same date, the balance of our due to and placement from banks and balance of financial assets sold under repurchase agreements was RMB33,050.3 million, representing a decrease of RMB7,959.9 million or 19.4% from the end of last year.

Investments in securities and other financial assets

During the Reporting Period, the Bank closely monitored the changes in economic environment and market. Based on the judgment of the market interest rate trend, the Bank adjusted the scale of its bond investments in a flexible manner, properly arranged the timing for making investment, and effectively optimized its investment portfolio, aiming to achieve stable operation and timely investment. Meanwhile, in strict and timely compliance with the regulatory policies, the Bank stayed cautious in risk control and the commencement of businesses in investing securities and other financial assets.

As at 30 June 2018, the balance of investments in securities and other financial assets of the Bank was RMB216,032.0 million, representing an increase of RMB9,223.0 million or 4.5% as compared to the end of last year. As at 30 June 2018, the total amount of the Bank's bond investments was RMB68,216.4 million, representing an increase of RMB7,380.4 million or 12.1% as compared to the end of last year. As at the same date, the total amount of investments in debt instruments issued by financial institutions was RMB147,735.5 million, representing an increase of RMB1,787.1 million or 1.2% as compared to the end of last year. According to China Central Depository & Clearing Co., Ltd., the bonds traded by the Bank in the first half of 2018 amounted to RMB1,667.380 billion.

Wealth management business

During the Reporting Period, the Bank proactively responded to the macro-policy direction of the state, and strictly complied with relevant rules of regulatory authorities. Taking satisfying customers' demand on wealth management and supporting the real economy development as the basic starting point, the Bank maintained robust development of the wealth management business.

For the first half of 2018, the Bank issued 241 tranches of wealth management products to its customers, and raised total proceeds of RMB105,398 million. As at 30 June 2018, the balance of wealth management products of the Bank was RMB139,115 million, representing an increase of 1.73% as compared to the same period of last year, of which non-principal protected wealth management products amounted to RMB66,485 million and principal protected wealth management products amounted to RMB72,630 million.

Management Discussion and Analysis

(IV) Key Featured Businesses

1. Microcredit business

In the first half of 2018, the Bank continued to focus on the innovation and research & development works in respect of technology and business mode for microcredit business. Based on the work theme of “governance enhancement year”, guided by the microcredit strategy and as per the “customer-oriented” principle, the Bank fully enhanced the business transformation, risk prevention and control and management innovation, effectively promoted the business transformation and upgrade of microfinance business, focused on the construction of microfinance core competence, optimized microfinance business management tools, and promoted microfinance marketing and asset quality management via multiple measures. As of 30 June 2018, the balance of the Bank’s microcredit loans reached RMB185,292.5 million, representing a decrease of 3.2% from the end of last year and accounting for 73.8% of the total customer loan of the Bank.

The following table sets out the Bank’s distribution of the microcredit balance by product type as at the dates indicated.

	As at 30 June 2018		As at 31 December 2017	
	Amount	% of total	Amount	% of total
(In RMB million, except percentages)				
Loans to small enterprises	71,562.8	38.6%	73,049.8	38.2%
Personal loans	113,729.7	61.4%	118,375.8	61.8%
Total amount of microcredit loans	185,292.5	100.0%	191,425.6	100.0%

Microfinance business

In the first half of 2018, as for the Bank's microfinance business, focusing on the theme of "governance enhancement year", guided by the microcredit strategy, and adhering to the "customer-oriented" service principle, the Bank comprehensively strengthened business transformation, risk prevention and control and management innovation. It deepened the development orientation of microfinance business and established a business expansion model of "customer groups first"; created a product pool of "microfinance ecological service type"; established the customer acquisition model of "import first" and "development afterwards"; established a full range of finance and non-finance comprehensive service model; created the risk control model of "active management"; built an "efficiency-oriented" operational process; established a "value-oriented" incentive promotion mechanism and other ecological operation modes for the development of microfinance business. Centering on strategic planning and taking the customer's comprehensive service as the entry point, the Bank continued to upgrade the core capacity construction of six major businesses including microfinance products, customer acquisition, risk, post-loan, customer service and team, laying a solid foundation for upgrading "improving customer satisfaction" to "improving customer loyalty". As at 30 June 2018, the Bank's balance of loans to small enterprises amounted to RMB71.5628 billion, representing a decrease of RMB1.4870 billion as compared to the end of last year. The balance of NPLs was RMB1.3300 billion, and the NPL ratio was 1.86%.

Housing loans business

During the Reporting Period, the Bank built a characteristic housing loan product, namely, "Property Mortgage Loan (房抵贷)" based on the residential scene to deepen the transformation of retail business. It focused on the group of customers who own house(s), defined the standards for satisfying customers, and connected customer acquisition channels of the third party, to acquire customers in batches. The Bank optimized the centralized approval mode and created a factory-like centralized operation mode to improve business operation efficiency. It established a dynamic optimization and adjustment mechanism of credit ratings and decision engine, introduced third-party data, and strengthened the ability of anti-fraud and risk prevention and control, identification and early warning. As at 30 June 2018, the Bank's personal housing loans amounted to RMB19.0832 billion, which basically remained flat as compared to the last year.

Farmer loans business

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

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

During the Reporting Period, the Bank continued to claim the Sino-Russia financial services as one of its bank-wide strategies by leveraging the advantages in financial resources of the Sino-Russia finance, and the Bank thus maintained its leading position in Sino-Russia financial services among its domestic peers. For the first half of 2018, the Bank's financial services to Russia generated operating income of RMB72.97 million; and operating profit of RMB46.58 million. The spot trading volume of Rouble amounted to RUB11,358 million, cross-border transport in Rouble cash amounted to RUB60 million, and cross-border transport in RMB cash amounted to RMB20 million. As at 30 June 2018, the Bank's balance of on-balance sheet and off-balance sheet asset businesses to Russia was RMB11,870 million, representing an increase of RMB380 million as compared to the end of last year.

Management Discussion and Analysis

In 2015, the Company, as the Chinese promoter and the presiding company, together with Sberbank of Russia initiated the establishment of the first platform for the cooperation and interaction among financial institutions of China and Russia, namely the Sino-Russia Financial Council. The number of members grew to 68 from the 35 founding members.

During the Reporting Period, the Company organized and took part in two international commercial events. The first one was arranging for Chinese members of the council to participate in the “22nd St. Petersburg International Economic Forum”. In the forum, the council representatives participated in the general meeting of President of Russia, Putin, and leaders of various countries and the commercial meetings held by Sberbank of Russia with the theme of “New Economic Agenda” under the forum, which enhanced the international reputation and influence of the Company and the council. The second one was participating in the “29th China Harbin International Economic and Trade Fair” as an exhibitor. The Company demonstrated in two themed sectors (Harbin Bank and Sino-Russia Financial Council) in aspects including the financial products for Russia, mobile financial services, credit card products and social responsibilities of the Bank, as well as in the achievements and experience of the council in areas including promoting the financial services of China and Russia, cross-border investment and financing, project docking, risk management and talent exchange, receiving extensive attention and recognition from all sectors of the society.

During the Reporting Period, withdrawal was realized in the RMB10 billion syndicate inter-bank loan service developed by the Bank as the leading bank and correspondent bank together with Russian Bank for Development and Foreign Economic Affairs, with the withdrawal amount reaching RMB506 million. The Bank participated in the dual-currency international syndicate inter-bank loan project, where Credit Bank of Moscow, the second largest private bank in Russia, was the borrower, and the maximum line of credit was USD400 million, which deepened the asset business cooperation between the Bank and the banks in core regions in Russia. As of 30 June 2018, the total inter-bank credit granted by the Bank to Russian banks amounted to RMB9.29 billion, and it had 496 overseas correspondent banks, including 140 Russian correspondent banks. As the bank with the largest number of Russian correspondent banks in China, the Company played an important role for the development of Chinese and Russian financial cooperation. The Company actively cooperated and interacted with its correspondent banks in carrying out international businesses, risk prevention (such as anti-money laundering and anti-terrorist financing) and the regional economic exchange.

During the Reporting Period, thanks to its outstanding performance in offering financial services for Russia, the Company was granted the “Best Trade and Finance City Commercial Bank” award by the Trade and Finance Committee of China Banking Association, becoming the only city commercial bank winning this award in the current year. This award has become one of the events featuring industry creditability and authority held by China Banking Association.

Cross-border E-commerce payment and settlement

The cross-border E-commerce financial business of the Bank has maintained its expansion and development. The cross-border payment and settlement platform system continued to develop and operate steadily, further increasing its market share in the national interbank market. As at 30 June 2018, the total number of existing cross-border customers in the platform reached 1,864, representing an increase of 204 as compared to the beginning of the year. In the first half of 2018, the transaction amount was RMB2.19 billion, representing an increase of 36.9% as compared to the same period of last year, and the turnover amounted to RMB25.81 million. Meanwhile, the platform was selected as a major project for Heilongjiang Luhai Silk Road Economic Belt by Heilongjiang Provincial Government and continued to be included under the management of the Major Construction Project Repository of the National Development and Reform Commission compiled as a major construction project of “the Belt and Road Initiative”.

3. *Modern agriculture finance business*

During the Reporting Period, to comprehensively implement the requirements of the national “Rural Revitalization” strategy, the Bank strived to serve the development of various industries relating to “Agriculture, Rural Areas and Farmers” by committing itself to the financial service philosophy of benefiting agriculture, rural areas and farmers with integrity for business relating to “Agriculture, Rural Areas, and Farmers”, and by focusing on aspects including product service optimization, financial technology innovation, organizational improvement, and promotion of the culture of benefiting agriculture, rural areas and farmers. First, it promoted the organic development of the services benefiting agriculture, rural areas and farmers and strived to build a characteristic brand of “Benefiting agriculture, rural areas and farmers with Integrity”. Since 2018, the Bank has officially established the “Benefiting agriculture, rural areas and farmers Credit Department” to vigorously promote activities benefiting agriculture, rural areas and farmers with integrity, namely, to launch the real profit-sharing activities for the “honest and trustworthy” customers. During the Reporting Period, the interest rate for newly increased loans released by the Bank decreased significantly by nearly 1 percentage point. Second, the Bank enriched the credit product systems for benefiting agriculture, rural areas and farmers to fully meet the financing needs of “Agriculture, Rural Areas and Farmers”. Adhering to the “customer-oriented” research & development concept, the Bank built a comprehensive agricultural loan product system covering “new agricultural business entities – characteristic customers from farming and breeding industry – rural farmers applying for microcredit loans”, and launched the “Harvest E-Loan” series agricultural loan products, among which the Bank fully expanded mortgage loans backed by rural contracted land management rights and farmer’s housing property rights (the two-rights) and effectively revitalized rural stock assets through “Golden Autumn Loan (金秋貸)”. The Bank continuously performed research & development of “Agricultural Revitalization Loan (農興貸)”, a large-scale and high-end product, to effectively support new agricultural entities and help modern agriculture achieve scale and intensive development. Based on the “Rainbow Loan (彩虹貸)”, it launched online new credit loans to customers in the “white list” to solve the problem of farmers’ guarantees. Third, it made innovation on the operation mode of agricultural loan business by introducing high-quality third-party cooperation institutions. Through fully promoting the new agricultural loan business models including the model of “farmers + agricultural guarantee + banks, farmers + insurance + banks, and agriculture-related industrial chain +”, the Bank effectively enhanced the farmers’ ability to resist risks and ensured the income of farmers. Fourth, the Bank devoted more efforts to the innovation of “FinTech + special services”, to help improve the quality and efficiency of the services benefiting agriculture, rural areas and farmers, and to actively embrace the “experience economy”. It explored and launched the mobile acceptance mode of agricultural credit loans, and built a “three-in-one” financial service channel of the pad, mobile banking and WeChat banking, realizing outdoor “Handheld Mobile Office”. This channel helped the whole process to be completed on the spot, covering information collection, business acceptance, speed approval, contract signing and automatic lending, and enabled the customer home address positioning, real-time uploading of post-loan images and post-loan and overdue collection in the post-loan management work, truly realizing online and automatic traditional agricultural loan business, and thereby providing agriculture customers with a new model of agricultural loan service featuring “zero distance, excellent experience, and mobilization”.

As at 30 June 2018, the balance of the Bank’s loans related to agriculture amounted to RMB47,173.9 million, representing an increase of 2.67% as compared to the end of previous year, including the balance of loans to farmers amounted to RMB13.5770 billion, representing an increase of 34.4% as compared to the end of previous year, covering the majority of rural and reclaimable areas of 12 cities of Heilongjiang and Shenyang, Liaoning. The Bank greatly promoted the county economic development and the prosperity of rural financial markets in Northeast China, and supported the rural areas to achieve comprehensive revitalization.

Management Discussion and Analysis

(V) Information on Controlling Subsidiaries

1. *Village and township banks*

As at 30 June 2018, the Company had a controlling interest in 32 village and township banks, 35 village and township sub-branches, which were mainly located in the eastern, central and western regions of China. As at 30 June 2018, the total assets of the 32 village and township banks amounted to RMB21,746 million, of which the total amount of loans amounted to RMB13,887.2 million, representing an increase of 5.12% as compared to the end of last year. The balance of deposit amounted to RMB14,458 million, representing a decrease of 27.78% as compared to the end of last year. For the first half of 2018, net profit amounted to RMB69 million, representing a year-on-year decrease of 42.02%, mainly attributable to the increase in provision in view of the more stringent loan risk classification of each village and township bank.

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

2. *HB Leasing*

During the Reporting Period, HB Leasing made some achievements in respect of asset scale, accumulated investments and business innovation mode and initially maintained leading position in domestic leasing market to farmers. As at 30 June 2018, the total assets of HB Leasing amounted to RMB18,376 million. The accumulated investments of its leasing business for the Reporting Period amounted to RMB4,539 million, with net loss recognised for the Reporting Period of RMB38 million.

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

3. *HBCF*

HBCF was established by the Company as the major founder and commenced operation on 11 April 2017, with Harbin of Heilongjiang as its place of registration and registered capital of RMB500 million. The Bank invested RMB295 million in HBCF, representing its 59% equity interest. As of the end of June 2018, HBCF had total assets of RMB5,133 million, with a net profit of RMB18.8 million.

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

(VI) Distribution Channels

1. *Physical network*

As at 30 June 2018, the Company had a total of 298 branch outlets, including 1 headquarters, 17 branches, 279 sub-branches and 1 branch-level financial service centre for small enterprises. Besides, the Company has controlling 32 village and township banks, 35 village and township sub-branches, one consumption financial company and one financial leasing company.

2. *Electronic banking*

The Bank has gradually built up an electronic service system combining online means such as mobile phone banking, online banking, WeChat banking, phone banking, direct banking and offline self-service terminals. As of 30 June 2018, the Bank’s online customer scale has achieved a rapid growth, with the number of electronic members exceeding 2 million. The replacement rate of business transactions through the Bank’s electronic banking reached 91%, and that of mobile banking reached 50%, representing an increase of 4 percentage points and 5 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. As at 30 June 2018, the Bank had 876 self-service terminals, including 304 ATMs, 456 BCDMs, 103 multi-media inquiry machines and 13 card issuance machines.

(2) Online banking

The Bank continued to expand the functions of online banking. It provided customers with account services, transfer and remittance, membership management, loan management, investment and wealth management, credit card, payment services and other functions via personal online banking; and provided customers with account management, transfer and remittance, issuing and paying for others, investment and wealth management, cash management, electronic commercial drafts, loan management, user management services and other functions via corporate online banking. As at 30 June 2018, a total of 2,044,800 customers maintained their online banking accounts with the Bank, representing an increase of 12.24% as compared to the end of last year, among which corporate online banking customers amounted to 86,000 (increased by 4.88% as compared to the end of last year), while personal online banking customers amounted to 1,958,900 (increased by 12.59% as compared to the end of last year).

(3) Phone banking

The Bank provides 24-hour telephone banking services to customers through the unified national customer service hotline 95537. Such services include account inquiries, bill payment, credit card business, verbal report of card loss, operator inquiry and outgoing calls. In the first half of 2018, the telephone banking customer service centre recorded a total of 1,683,300 business calls.

(4) Mobile phone banking

The Bank accelerated the business development of mobile phone banking and tailored its online mobile financial service platform for customers of smartphones and mobile terminals. Via “Home”, “Wealth Management”, and “My Special Area”, the Bank provided customers with intimate, intelligent and convenient banking services, mainly including assets, liabilities, transfer inquiry, living payment and social security cards. In the first half of 2018, multiple special services were added, covering structural deposit products, monthly analysis report of personal assets, star wealth management manager area, fingerprint identification, and face recognition for transfer. As at 30 June 2018, the number of the Bank’s mobile phone banking customers reached 926,500, representing an increase of 22.36% as compared to the end of last year.

(5) WeChat banking

The WeChat banking has stretched banking services from traditional offline channels to finger tips of customers. Featured functions of the WeChat account include account change notifications, palm wealth management, credit card inquiry, loan application, branch inquiry, client pass (贵宾通), social security inquiry and supplementary payment and diverse value-added daily-life services such as charging and bill payment services. As at 30 June 2018, WeChat banking reached 2,104,000 followers, increased by 30.72% as compared to the end of last year.

(6) Direct banking

Based on the Class II accounts, the Bank’s direct banking actively explored account classification application scenarios and developed a new model for online service operations. At this stage, it has built two platform products for mobile phone clients and WeChat clients, to provide customers with businesses including smart deposits, online wealth management, daily-life services and bill payment and mobile recharge services. At the same time, the Bank explored consumption scenarios to develop applications such as credit card repayment, property payment, and online marathon.

(VII) Information Technology

In the first half of 2018, the Bank continued its work on information technology establishment and made great achievements in aspects including key protection of the construction of new core systems, comprehensive promotion of the infrastructure construction, great enhancement in information technology management, and promotion of big data technology and improving information security effectively, thus providing comprehensive and effective IT support for the business development of the Bank.

The key information systems of the Bank ran stably, and there was no major information security incident. The stable operation rate of important systems reached over 99%.

1. *Emphatically protecting construction of new core systems*

The Bank cooperated with internationally renowned technology solution providers such as India Tata, IBM and Huawei regarding the new-generation of core system construction and created a comprehensive new-generation of core banking system platform integrating businesses including the retail, corporation, inter-bank, trade finance, e-commerce and electronic channels. The new core system is the largest system construction in the history of the Bank. After nearly 20 months of continuous work, the construction has involved more than 700 members. In addition to the newly constructed core business system, five new systems have also been completed including the graphic counter terminal, collaborative platform, city commercial bank clearing, online verification and paperless. Combined with 76 interface transformation systems, the new core system covered all aspects of the business of the whole Bank, better highlighting the advancement, practicability and risk controllability. It is a heavyweight system engineering covering business transformation, technology transformation and implementation transformation and it can provide the Bank with 24 hours of uninterrupted full service.

Based on the “new core” construction achievements, the Bank will target at active innovation, continuous improvement, optimisation of governance system and sound innovation mechanism in the future, to comprehensively enhance the product innovation capability, information technology level and risk control standards, and promote continuous improvement of customer services, thereby achieving a “customer-oriented” comprehensive banking service.

2. *Accelerating the construction of infrastructure*

The Bank accelerated the construction of infrastructures for three centers in new two places. The launch of the new data center provided the support of basic physical facilities for the further development of the Bank’s businesses, and met the needs of a new-generation green data center with high availability, high reliability and flexibility. The corresponding supporting projects will provide the data center equipment room with operating environments including energy, environment, safety, monitoring, disaster prevention and automation. The critical infrastructures adopted the fault-tolerant redundant operation mode, completely eliminating a single point of failure. In addition, the use of advanced intelligent monitoring and management platform enabled efficient and real-time management of the data center infrastructures, providing sustainable development space from aspects such as reliability, safety and uninterrupted. The construction and electromechanical installation of the disaster recovery equipment room of the Bank have been completed, and they have passed the fire control acceptance inspection.

3. *Enhancing the work of technology management*

The Bank has always adhered to the organizational culture of science and technology leading innovation, continuously strengthened the construction of information technology governance system and supported the Bank-wide business innovation, transformation and upgrading. It scientifically and rationally planned IT strategic projects, strengthened post-project evaluation management, and performed rational arrangement and dynamic management of technology input in combination of business development and strategic needs, hence improving the resource allocation efficiency and benefits. The Bank tried to build a technological integrated management system suitable for grouping, cooperation and high efficiency, and featured with unified planning, design and standards, as well as hierarchical management, to enhance the Group's informatization level. With collaboration with the mid-term evaluation work of the Bank's strategic planning, it re-examined the five-year IT plan for the 2016-2020 period, and established the IT strategic vision of "in-depth integration with business to establish core technology capabilities such as big data analysis and cloud computing; the main business system of the whole Bank being independent, controllable and with leading structure; building a domestic leading technology system based on safe operations and cost optimization". Focusing on the work theme of "governance enhancement" and adhering to the people-oriented principle, the Bank built a team culture featuring focus, refinement, cooperation and innovation within the technology line to enhance team cohesion. It strengthened independent research & development of talents cultivation with focus on the reserve of compound business technology talents, and continuously enriched the talents team in system development, architecture planning, data analysis and information security. By expanding the career channel of technology talents, the Bank promoted the construction of refined and professional technology teams.

4. *Carrying out data management in depth*

The Bank continued to promote big data management work, explored the establishment of a data sharing mechanism within the Group, and gradually built a data management system targeting at data sharing. Since the first half of 2018, the Bank, focusing on and aiming at improving data quality, focusing on EAST regulatory submissions, and starting with aspects such as special planning, data standards and data quality, has comprehensively promoted data governance through effective joint efforts driven by multipoints. While improving the data quality, the Bank continued to improve the organization and various data management systems and further consolidated the data governance system taking data quality as the basis, data concentration and integration as the hub, and data value realization as the objective. At the same time, it gradually carried out data full-life-cycle management and control demonstration and construction work, covering metadata, data generation, data application, data archiving, etc. The Bank actively explored and studied the integration of big data platform and traditional data warehouse and effectively integrated internal data of the Group and external data resources, thereby further promoting data applications and realizing data values.

5. *Enhancing the construction of information security system*

The Bank attached great importance to the implementation of information security work, actively implemented regulatory policies, strived to improve the information security management system, strengthened information security technology protection, improved the security level of key information infrastructure, and ensured risks to be controllable. These efforts is mainly reflected in the following aspects: First, to promote the construction of information security management system, the Bank completed the annual audit and the re-certification of the ISO27001 system at the beginning of the year. By combining the ISO27001 standard with the information security management needs of the Bank, it established a security management system applicable to the whole Bank, operating efficiently and covering eight areas including information security, risk management, business continuity, outsourcing management, research & development and project management, and technology operations. Second, by complying with the principles of moderate security, hierarchical protection, situational awareness and emergency response, the Bank enriched technology means for security protection and established an emergency response mechanism for network security to ensure timely detection and handling of potential security hazards. Third, by establishing and improving the life cycle security management mechanism of the information system, the Bank realized the security management of the information system in the stages of demand, development, testing, commissioning, operation and exit, and ensured the simultaneous planning, construction and use of security technology measures. Fourth, the Bank carried out supervision and commissioning reporting, code scanning, vulnerability scanning, security baseline configuration, permeability testing and security architecture review for the new core and related systems, hence providing effective protection for the safe commissioning of the new core system of the Bank. Fifth, by referring to supervision and industry trends, the Bank carried out special self-examinations on the network, mail system, important production and trading systems, big data and personal information protection, and checked with regulatory requirements to actively improve the Bank's security management and protection system.

IX. Risk Exposure and Management

During the first half of 2018, faced with uncertainties of the external economic situation and the strong financial regulatory environment, the Bank controlled all kinds of risks by adhering to the core concepts of "create value from risk management" and guarding against excessive risks. Continuing to adhere to the "customer-oriented" risk management strategy, it enhanced customer value contribution by further promoting precise management of risks while deepening the application of customer segmentation and adaptive management for collaterals. The Bank implemented various tasks themed with "improvement by governance", continuously improved risk management methods and tools, and comprehensively refined the level of management of various risks, to ensure steady development of businesses and the controllability of overall risks under the controllable risks.

(I) Credit Risk

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

Management Discussion and Analysis

During the Reporting Period, the Bank formulated an annual risk management policy by firmly adhering to the core concepts of “create value from risk management”, fully considering the characteristics and main risk points of the Bank’s business development, and combining with the analysis of full-scale asset quality. During the Reporting Period, the risk policies helped to strengthen risk pricing, attaching importance to customer segmentation and adaptive management for collaterals, and matching differentiated risk management strategies while adhering to the principle of “customer-oriented”. The Bank proposed risk control measures in high-risk areas to set forward-looking risk control points based on effective risk prediction, to effectively control credit risks. The Bank also proposed timely exit rules for the first time to strengthen the adjustment of existing customer structure. The policy helped to maximize the risk-adjusted capital return by enhancing risk pricing management. Under the Bank’s risk policy, an annual credit management policy was formulated. Such policy closely combined the macroeconomic and regional economic development priorities, strictly followed regulatory policy requirements and guidance, adhered to the general principles of compliance, stability, and sustainable development, firmly stick to the compliance bottom line, and strengthened risk management, to promote stable growth of business scale. In addition, the policy provided guidelines for the whole Bank to strengthen credit management. Focusing on the customer’s actual ability to pay for the debts and risk level, it classified and managed customers and assets, and rationally matched management methods, to achieve a relative balance between asset quality and return on capital by reducing the substantial risks of credit business and achieving continuous optimization of customer structure and asset structure.

The Bank continued to optimize and improve its internal assessment system, deepened the application of retail and non-retail internal assessment results, strengthened system construction, conducted internal assessment system monitoring, and organised model optimization in a timely manner. During the Reporting Period, in terms of retail, the Bank completed the verification works on individual consumption and post-mortgaged behavior rating cards regarding standard mortgage, and development of behavior rating cards regarding individual operation, and implemented optimization works on the pooling model for retail business. In terms of non-retail, the Bank carried out the development of rating model of government-affiliated customers and small-to-micro enterprise customers, and has completed the development of other non-financial institution models such as banks, trusts, securities, insurance, overseas banks, etc., and organized and promoted the annual rating update of non-retail customers. It strengthened the application of retail and non-retail third-party data and included the indicators for better risk identification in the retail approval rules strategy and non-retail special adjustments, accurately identifying risks and enhancing risk identification. Based on the operation of RWA system, the Bank continued to perfect the system and promote the governance of bank-wide data. During the Reporting Period, by applying management tools such as internal fund transfer pricing, management operation cost sharing, and internal rating and measurement of credit risks, the Bank coordinated its long-term development strategies and short-term business objectives for establishing a risk pricing mechanism to deal with interest rate marketisation.

During the Reporting Period, the Bank continued to strengthen the establishment of collateral risk valuation system and completed the rigid control of the internal collateral valuation system. The Bank strengthened the precision management and monitoring of the evaluation institution, to avoid external valuation deviations and business intervention. It completed the optimization of housing model so as to realise automatic online valuation of residential buildings within the main scope of the Bank. It completed the update of the standardized database and data on properties by enhancing data collection capabilities and the update speed, integrating market transactions and listing data through multiple channels, and performing basic data processing, cleaning and classification for the full-scale real estate database. Relying on mass residential and commercial sales data collection in the market, combined with technical means such as geographic information capture, remote positioning and other methods, the Bank completed the core residential and commercial subdivision rules and multi-layered maps by figuring commercial and residential assets and locking the core value location, thereby starting the online reassessment of commercial housing. According to the “Guidelines for Collateral Management of Commercial bank”, given the volatile nature of the value of the Bank’s collaterals, the Bank updated the list of trial mitigation tools and reasonably determined the revaluation frequency and valuation method of various collaterals, thus achieving synergy between business marketing and risk management.

During the Reporting Period, the Bank continued to optimize and constantly enriched the credit approval mechanism, comprehensive reviewing on approvers’ adhering to the unified and standardized credit review template and credit approval criteria across the Bank, focusing on whether credit information of credit customers was good, solvency was sufficient, risk mitigation was reliable, and whether the business review was compliant. At the same time, the Bank reviewed the comprehensive contribution of the comprehensive credit scheme and the realisability of the credit and withdrawal plan and so on, and fully revealed and comprehensively analyzed and assessed the special characteristics of the credit business, to ensure the comprehensiveness and pertinence of credit review, thereby effectively supporting and guiding the development of branch business.

During the Reporting Period, the Bank continued to monitor and control the risk factors and constantly strengthened the risk collaborative management. By implementing risk management strategies such as dynamic authorization, quasi-provisioning, and trading suspension and resumption, the Bank promoted full-caliber management of quasi-provisioning and timely and accurate trading suspension and resumption. The Bank maintained association information and supplemented the risk information document library through introducing valid data of regulatory agencies into the system. The Bank further optimized and improved the functions of the early warning system by gradual studies on the introduction and application of third-party data.

(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, fulfill other payment obligations and meet other capital requirements for normal operation. The Bank attaches great importance to the management of liquidity risk. It strives to maintain a balance between safety and efficiency by adopting prudential, diversified and coordinated strategies. The Assets and Liabilities Management Committee of the Bank is responsible for formulating liquidity risk management policies and strategies, reviewing the major problems arising from liquidity management activities, and conducting comprehensive management on liquidity risk.

Management Discussion and Analysis

During the Reporting Period, in response to the changes in external market condition, the Bank adopted prudential, effective liquidity risk management measures, thus effectively identifying and accurately measuring liquidity risk with appropriate monitor and proper control. It paid close attention to market liquidity fluctuations, and optimized the Company's risk monitoring system and control model for daily liquidity. Based on the new rules for supervision, the Bank improved the liquidity risk limit standards and measurement plans, and clarified control objectives and management requirements, to cope with the new situation of liquidity control. By comprehensively carrying out and continuously optimizing the test plan and measurement requirements for the liquidity risk stress, the Company improved the accuracy of the shortest life cycle measurement, with focus on the 90-day liquidity gap of the Company. It performed the solvency sensitivity stress test, solvency macro stress test, liquidity risk stress test, real estate risk stress test, and infectious risk stress test, thus ensuring the liquidity security of the Bank in cases of emergencies.

(III) Market Risk

Market risk refers to the risk of loss on the Bank's on- and off-balance sheet businesses as a result of adverse changes in market prices (interest rates, exchange rates, stock and commodity prices). The market risks currently faced by the Bank are interest rate risk and exchange rate risk. The Bank limited the potential losses arising from market risk within a reasonably acceptable level based on the Bank-wide risk preference. The Bank actively and properly responded to the changes in market trends, continued to put greater efforts on market risk control, kept a close eye on the market interest rate trend, and strictly controlled the profit and loss limit indicators. The Bank prevented risks in advance by intensifying the risk analysis and screening efforts for debentures. It also gradually promoted the refined measurement on market risk, and continuously improved its market risk management and control level.

Interest rate risk refers to the risk of loss on the Bank's on-and-off balance sheet businesses as a result of adverse changes in interest rates. The Bank further defined the classification standards for trading accounts and bank accounts, thereby enhancing its control over trading accounts and bank accounts. During the Reporting Period, the Bank revaluated the market value of assets under the Bank's trading accounts on a daily basis and conducted sensitivity analysis, gap analysis, and duration analysis to market risk and position with reference to actual situation. The Bank applied OPICS, RISK system to re-examine and perfect, among others, models of established estimations and calculations, effectively keeping the market risks of the Bank and its overall interest rate level within the acceptable scopes.

Exchange rate risk refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in exchange rates. Our exchange rate risk exists mainly in our foreign currency related trading and non-trading businesses, including foreign currency loans, foreign currency deposits, proprietary foreign exchange trading and foreign exchange settlement and sale on behalf of customers. The Bank adopted the exchange rate of the open market for estimations. The Bank sets transaction caps, stop-loss limits and exposure limits to manage exchange rate risk arising from our foreign exchange business. The Bank closely monitors and timely assesses the impacts of the changes in foreign and domestic market environment on the exchange rate business of the Bank. It adopted foreign exchange gap analysis and VaR analysis, among others, for foreign currencies, set up thresholds accordingly and conducted daily monitoring, management and control. The Bank proactively responded to new trends in foreign exchange market in a market-oriented approach. The Bank also continues to optimize the structure of monetary assets, strengthens the establishment of foreign exchange transaction capabilities, enhances risk management means, effectively maintains the risk-benefit balance of the overall foreign exchange assets, improves the effectiveness and pertinence of risk management and actively prevents and responds to exchange rate risk.

During the Reporting Period, the Bank introduced the market risk stress testing step by step, included the whole stress testing procedures and alternatives into the system to conduct stress testing for market risk quarterly, and set up scientific stress scenarios and stress communication models to particularly assess the risk exposure and risk tolerance capability of the Bank under accidental or extremely unfavorable circumstances, thus enabling the Bank to adopt practical and effective measures to mitigate risks in response to possible extreme market changes so as to secure treasury operations.

(IV) Operational Risk

Operational risk refers to the risk of loss arising from flawed or problematic internal procedures, and loss caused by staff, IT systems, and external events. Operational risk includes legal risk, but excludes strategic risk and reputational risk. The Bank's three defensive lines to manage operational risk are separate and independent. Under a unified operational risk appetite, the Bank established a full set of operational risk management system, covering relevant corporate governance structures, policies and systems, management tools, measurement methods and IT system, which would effectively prevent occurrence of events of operational risk in high-risk areas.

During the Reporting Period, the Bank further promoted the substantive application of the three major management tools of operational risk. Through updating the process management matrix, the Bank laid the foundation for RCSA for the Reporting Period. The Bank prevented design flaws of internal control measures by organizing RCSA assessment on new products, new businesses, and processes undergoing significant changes, and carrying out triggering assessment for critical focus areas, thereby guaranteeing effective mitigation of operational risks. Through implementing the re-examination of key risk indicators (KRI) and expanding the monitoring scope of KRI indicators, the Bank improved the risk sensitivity of KRI indicators. It continued to promote the loss data collection (LDC) and expanded the source of loss data through multiple channels, so as to strengthen the ability to identify operational risk loss events.

(V) Information Technology Risk

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

The Bank has included management of information technology risk into its general risk management system and formed reasonably mature management strategies for information technology risks. Subject to needs of the internal management, the Bank further subdivided the management process of information technology into eight primary processes, namely general-purpose computer control, development and change management, outsourcing management, information security management, information technology risk management, business continuity management, operation management and information technology planning and governance, so as to more comprehensively identify the corresponding points of risk and control. During the Reporting Period, the Bank's construction projects on its new core system were steadily advanced in accordance with the seven procedures, namely difference analysis, functional specifications, customized development, integration testing, acceptance testing, operation drills, and production and launching, and several rounds of drills were implemented before the operation of the new core system. At the same time, the Bank organized business continuity drills after carrying out a risk assessment on information technology security management, and a comprehensive impact analysis on the Bank's business, thereby further improving the emergency response ability for business suspension. Meanwhile, the Bank set up an information technology outsource management team to further enhance the access and exit management of outsourcing contractors, perform follow-up monitoring of outsource service quality as well as service quality assessment so as to improve the Bank's outsource risk management ability.

Management Discussion and Analysis

(VI) Anti-money Laundering Management

The Bank upheld the “risk-based” management philosophy and laid emphasis on the direction of regulatory policy. By enhancing customer identification and customer risk rating management, continuously optimizing its anti-money laundering management system construction and improving the suspicious transaction monitoring model, and strengthening the suspicious transaction screening mechanism, the Bank has enhanced the ability to identify and analyze suspicious transactions and improved the quality of reports on large and suspicious transactions. Through continuously enriching and innovating anti-money laundering management means, exploring the establishment of a new model for monitoring the terrorism-related list, and facilitating the anti-money laundering monitoring gradually trending to “accurate positioning, quick pinpointing and precise measuring”, it has comprehensively improved the levels of its anti-money laundering and anti-terrorist financing management in effective fulfillment of its corporate social responsibilities. The Bank has actively assisted in anti-money laundering investigations initiated by the regulatory authorities, organized anti-money laundering special topic trainings and promotion campaigns and set up well internal and external anti-money laundering environments, thereby effectively contributing to the safety of the financial system.

(VII) Compliance Risk Management

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

During the Reporting Period, the Bank formulated and executed a risk-based compliance management plan. The Bank strived to realize the foundation of its compliance management, actively optimized the compliance system and mechanism construction, improved the compliance management policy standard, and enhanced the compliance awareness of the Bank to strictly prevent and effectively mitigate compliance risk. By leveraging its professional advantages, and emphasizing on the substance of risks, and through pre-involved business research and development, it strongly supported and promoted business innovation and sound development of the Bank. By participating in various external supervision examinations, such as the “rectification of market anomalies” and comprehensive law enforcements, and by firmly rectifying problems identified during such examinations, it strengthened the implementation of accountability and improved its compliance risk management system. By enhancing the studies of regulatory policies and laws and regulations, it provided high-quality comprehensive legal compliance services. The Bank continued to strengthen incident prevention and control works, actively promoted consumer rights protection, and enhanced the compliance risk prevention capability. The Bank improved the construction of internal control mechanism for anti-money laundering system by enhancing anti-money laundering management and expanding channels for monitoring money laundering. By implementing regular compliance education and training, it served to enhance the Bank’s compliance professional standards.

X. Internal Control and Internal Audit

(I) Internal Control

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

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

Management Discussion and Analysis

(II) Internal Audit

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

During the Reporting Period, based on the external supervision situation and the requirements of Board of Directors and Audit Committee for internal audit work, the Internal Audit Department complied with the current regulatory situation and new requirements for the Bank's business development while comprehensively considering the most prominent operational risks of the current banking industry and the current development status of various institutions and subsidiaries. Based on the group and oriented by risks and problems, the Bank actively fulfilled internal audit duties and carried out various audit projects by focusing on the supervision of "further rectifying the banking market anomalies" and aiming at strengthening governance and improvement. In addition, it assessed the effectiveness of internal control and risk management on the Bank and its village and township banks through comprehensive and continuous supervision on its IT-supported business via an off-site auditing system. The Board and the senior management put great importance on audit findings and transformation of audit results, actively promoted system optimisation and improvement of work process, as well as effective duty performance of the units under audit, thereby improving the Bank's risk prevention and control ability.

XI. Prospects

For the meantime, China economy is in the bottom of the new production cycle and the top of the finance cycle. The pro-cyclical economic policy adjustment of USA has caused aggravation of global macroeconomic financial risks and the intensifying of global trade disputes. China economy is under increasing pressure. To provide further support to the real economy, steadily promote economic structure adjustment, expand domestic demand, improve weak links, gather more momentum and benefit the public, the active fiscal policies should be more active, and the robust monetary policies should be appropriately tight. While sticking to the prudent macro policy framework, we shall pay more attention to the timing, rhythm and flexibility of the structure adjustment policies, focus on the structural problems of the financing for small and medium-sized enterprises, and practically improve the quality and sustainability of the economic growth.

In 20 years since its incorporation, the Bank has been actively practicing the operation concept of "inclusive finance, harmonious co-enrichment", sticking unwaveringly to the micro-finance strategy and bravely shouldered the task of serving the real economy, with an aim to realize the coordinated development of the economic benefit and social benefit. Faced with new economic cycle and regulatory framework, the Bank will stay focus, concentrate on strategy, return to origin, adhere to customer-oriented principle, and apply finance technology, so as to accelerate the improvement of comprehensive financial service capabilities for strategic customers such as SMEs and micro enterprises, accelerate the improvement of the group governance, and realize the Bank's own strategic transformation and improvement in the structural adjustment of China economy.

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. After completion of the issuance, the total share capital of the Company increased to 10,995,599,553 shares. As at the end of the Reporting Period, the Company has a registered capital of RMB10,995,599,553 in total.

II. Statement of Changes in Shares

								Unit: Shares	
	1 January 2018		Increase/decrease during the Reporting Period (+/-)					30 June 2018	
	Number	Percentage	Private placement	New Shares issued	Bonus issue	Others	Subtotal	Number	Percentage
Domestic Shares									
1. Non-listed shares held by									
corporations	7,908,539,178	71.92%	–	–	–	–	–	7,908,539,178	71.92%
Including: (1) Shares held by									
state-owned enterprises	2,194,789,800	19.96%	–	–	–	–	–	2,194,789,800	19.96%
(2) Shares held by									
private enterprises	5,713,749,378	51.96%	–	–	–	–	–	5,713,749,378	51.96%
2. Non-listed shares held by natural									
persons	63,490,375	0.58%	–	–	–	–	–	63,490,375	0.58%
H Shares									
3. Overseas listed foreign shares	3,023,570,000	27.50%	–	–	–	–	–	3,023,570,000	27.50%
Total number of shares	10,995,599,553	100%	–	–	–	–	–	10,995,599,553	100%

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

Changes in 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 Non Overseas-listed Shares

	Name of Shareholder	Nature of Shareholder	Number of Shares Held (Shares)	Shareholding Percentage (%)	Number of Shares Pledged	Type of Shares
1	Harbin Economic Development and Investment Company	State-owned	2,160,507,748	19.65%	–	Non-overseas listed shares
2	Harbin Kechuang Xingye Investment Company Limited	Private enterprise	720,262,554	6.55%	–	Non-overseas listed shares
3	Heilongjiang Keruan Software Technologies Company Limited	Private enterprise	719,816,019	6.55%	–	Non-overseas listed shares
4	Heilongjiang Xinyongsheng Trading Company Limited	Private enterprise	639,804,806	5.82%	–	Non-overseas listed shares
5	Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	Private enterprise	572,253,048	5.20%	54,817,278	Non-overseas listed shares
6	Heilongjiang Tuokai Economic and Trading Company Limited	Private enterprise	522,447,109	4.75%	–	Non-overseas listed shares
7	Heilongjiang Tongda Investment Co., Ltd.	Private enterprise	377,620,219	3.43%	–	Non-overseas listed shares
8	Harbin Jubang Investment Co., Ltd.	Private enterprise	301,170,095	2.74%	97,674,423	Non-overseas listed shares
9	Beijing Xinrun Investment Co., Ltd.	Private enterprise	255,418,587	2.32%	–	Non-overseas listed shares
10	Dongning Lizhi Architecture and Decoration Engineering Company Limited	Private enterprise	199,010,054	1.81%	194,994,174	Non-overseas listed shares

Note: The above shareholding percentage of non-overseas listed shares is calculated based on the total share capital of the Company of 10,995,599,553 shares as at 30 June 2018. In addition, the above pledged or frozen shares held by the shareholders are subject to pledge only and not judicial moratorium.

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

As at 30 June 2018, to the knowledge of the Directors, the interests and short positions of the following persons (excluding the Directors, Supervisors and the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Hong Kong SFO were as follows:

Changes in Share Capital and Information on Shareholders

Domestic Shares

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

Notes:

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

Changes in Share Capital and Information on Shareholders

H Shares

Name of Shareholder	Capacity	Number of H Shares held (long position)	Percentage of issued H Share capital of the Company	Percentage of total issued share capital of the Company
Fubon Financial Holding Co., Ltd.	Interest of controlled corporation ¹	773,124,000	25.57%	7.03%
Huaxia Life Insurance Co., Ltd.	Beneficial owner	486,702,000	16.10%	4.43%
CITIC Capital Holdings Limited	Interest of controlled corporation ²	401,275,000	13.27%	3.65%

Notes:

1. Fubon Financial Holding Co., Ltd. held the interests in 773,124,000 H Shares of the Company through its controlled corporation, Fubon Life Insurance Company Limited. The qualification of Fubon Life Insurance Company Limited as a shareholder of the Company has been submitted to the CBIRC for approval in accordance with the Interim Measures for the Administration of Equity Management of Commercial Banks, and is still under review.
2. CITIC Capital Holdings Limited held the interests in the relevant number of H Shares of the Company through a series of its controlled corporations.

Save as disclosed above, to the knowledge of the Directors, none of other persons (excluding the Directors, Supervisors and the chief executive of the 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 Hong Kong SFO as at 30 June 2018.

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

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

As at 30 June 2018, Harbin Economic Development, the largest shareholder of the Company, held 19.65% of the total issued shares of the Company. According to the Business License (Uniform Social Credit Code: 91230100424004064C (1-1)) issued by Market Supervision and Administration Bureau of Harbin on 30 May 2012, and the Amendments to the Articles of Association of Harbin Economic Development and Investment Company made on 19 September 2011, Harbin Economic Development is a validly subsisting economic entity under the ownership by the whole people with the Harbin Municipal Finance Bureau as its sole shareholder.

Changes in Share Capital and Information on Shareholders

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

As at 30 June 2018, 54,817,278 shares of a shareholder holding 5% or more of the shares of the Company were pledged.

VI. Controlling Shareholders and Actual Controllers

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

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

Please see “III. Shareholdings of Shareholders” above for the particulars of shareholders with shareholding of 5% or more of the Company as at 30 June 2018.

VIII. Performance of Undertakings by the Company and Its 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 shares in issue of the Company gave any undertakings.

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

The Company or any of its subsidiaries did not purchase, sell or redeem any shares of the Company from 1 January 2018 to the publication date of this Report.

Directors, Supervisors, Senior Management and Employees

Directors of the Company

The Company has completed the re-election and appointment of Directors of the Seventh Session of the Board of Directors at the 2017 annual general meeting held on 18 May 2018. During the Reporting Period and as at the date of publication of this report, the Directors of the Company were / are as follows:

Directors

Name	Gender	Age	Position	Term of office
Guo Zhiwen (re-elected on 18 May 2018)	Male	51	Executive Director and Chairman of the Board	2018.5.18-the conclusion of the 2020 annual general meeting
Liu Zhuo (retired on 18 May 2018)	Male	54	Executive Director and Vice Chairman of the Board	2015.6-2018.5
Lyu Tianjun (newly appointed on 6 July 2018)	Male	51	Executive Director and President	2018.7.6 - the conclusion of the 2020 annual general meeting
Sun Feixia (newly appointed on 6 July 2018)	Female	48	Executive Director and Vice Chairman of the Board	2018.7.6- the conclusion of the 2020 annual general meeting
Zhang Taoxuan (re-elected on 18 May 2018)	Male	56	Non-Executive Director	2018.5.18 - the conclusion of the 2020 annual general meeting
Ma Pao-Lin (re-elected on 18 May 2018)	Male	56	Non-Executive Director	2018.5.18 - the conclusion of the 2020 annual general meeting
Peng Xiaodong (re-elected on 18 May 2018)	Male	47	Non-Executive Director	2018.5.18 - the conclusion of the 2020 annual general meeting
Cui Luanyi (retired on 18 May 2018)	Male	38	Non-Executive Director	2015.6-2018.5
Chen Danyang (re-elected on 18 May 2018)	Male	45	Non-Executive Director	2018.5.18- the conclusion of the 2020 annual general meeting
Zhang Shengping (retired on 18 May 2018)	Male	53	Independent Non-Executive Director	2015.6-2018.5
He Ping (retired on 18 May 2018)	Male	53	Independent Non-Executive Director	2015.6-2018.5
Du Qingchun (retired on 18 May 2018)	Male	47	Independent Non-Executive Director	2015.6-2018.5
Wan Kam To (re-elected on 18 May 2018)	Male	65	Independent Non-Executive Director	2018.5.18 - the conclusion of the 2020 annual general meeting
Kong Siu Chee (re-elected on 18 May 2018)	Male	71	Independent Non-Executive Director	2018.5.18 - the conclusion of the 2020 annual general meeting
Ma Yongqiang (newly appointed on 6 July 2018)	Male	42	Independent Non-Executive Director	2018.7.6 - the conclusion of the 2020 annual general meeting
Zhang Zheng (newly appointed on 6 July 2018)	Male	46	Independent Non-Executive Director	2018.7.6 - the conclusion of the 2020 annual general meeting
Sun Yan (newly appointed on 6 July 2018)	Male	49	Independent Non-Executive Director	2018.7.6 - the conclusion of the 2020 annual general meeting

Note: On 18 May 2018, the appointment of Ms. Liu Mingkun as a non-executive Director of the Company was considered and approved at the 2017 annual general meeting of the Company. As at the date of publication of this report, her qualification as a Director is still subject to the approval of the banking regulatory authority under the State Council.

Directors, Supervisors, Senior Management and Employees

Supervisors

The Company has completed the re-election and appointment of the external Supervisors, shareholder representative Supervisor and employee representative Supervisors of the Seventh Session of the Board of Supervisors at the 2017 annual general meeting and the employee representatives' general meeting held on 18 May 2018. During the Reporting Period and as at the date of publication of this report, the Supervisors of the Company were / are as follows:

Name	Gender	Age	Position	Term of office
Gao Shuzhen (retired on 18 May 2018)	Female	54	Employee Representative Supervisor and Chairman of the Board of Supervisors	2015.6-2018.5
Deng Xinquan (newly appointed on 18 May 2018)	Male	53	Employee Representative Supervisor and Chairman of the Board of Supervisors	2018.5.18 - the conclusion of the 2020 annual general meeting
Luo Zhonglin (newly appointed on 18 May 2018)	Male	53	Employee Representative Supervisor	2018.5.18 - the conclusion of the 2020 annual general meeting
Fang Shang (newly appointed on 18 May 2018)	Male	47	Employee Representative Supervisor	2018.5.18- the conclusion of the 2020 annual general meeting
Wang Ying (retired on 18 May 2018)	Female	47	Employee Representative Supervisor	2015.6-2018.5
Yang Dazhi (retired on 18 May 2018)	Male	41	Employee Representative Supervisor	2015.6-2018.5
Lu Yujuan (retired on 18 May 2018)	Female	34	Shareholder Representative Supervisor	2015.6-2018.5
Liu Mo (newly appointed on 18 May 2018)	Male	39	Shareholder Representative Supervisor	2018.5.18 - the conclusion of the 2020 annual general meeting
Wang Jiheng (retired on 18 May 2018)	Male	54	External Supervisor	2015.6-2018.5
Li Dong (newly appointed on 18 May 2018)	Male	59	External Supervisor	2018.5.18 - the conclusion of the 2020 annual general meeting
Bai Fan (re-elected on 18 May 2018)	Female	44	External Supervisor	2018.5.18 - the conclusion of the 2020 annual general meeting
Meng Rongfang (re-elected on 18 May 2018)	Female	52	External Supervisor	2018.5.18 - the conclusion of the 2020 annual general meeting

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 is comprised of:

Name	Gender	Age	Position	Term of office
Lyu Tianjun	Male	51	Executive Director and President	2018.7- the conclusion of the 2020 annual general meeting
Sun Feixia	Female	48	Executive Director, Vice Chairman, Secretary of the Board and Company Secretary	2018.7- the conclusion of the 2020 annual general meeting
Wang Haibin	Male	48	Executive Vice President	2018.5- the conclusion of the 2020 annual general meeting
Lu Weidong (retired on 18 May 2018)	Male	47	Vice President and Chief Information Officer	2015.6-2018.5
Xu Shaoguang (retired on 18 May 2018)	Male	57	Chief Credit Approval Officer	2015.6-2018.5
Sun Jiawei (retired on 18 May 2018)	Female	48	Vice President	2015.8-2018.5
Liu Yang (retired on 18 May 2018)	Male	49	Assistant to the President	2015.9-2018.5
Wang Tao	Male	42	Assistant to the President	2018.7- the conclusion of the 2020 annual general meeting
Yang Dazhi	Male	41	Assistant to the President	2018.7- the conclusion of the 2020 annual general meeting
Zhou Jie	Female	43	Assistant to the President	2018.7- the conclusion of the 2020 annual general meeting
He Dongbo	Male	39	Assistant to the President	2018.7- the conclusion of the 2020 annual general meeting
Wang Ying	Female	47	Chief Audit Officer	2018.7- the conclusion of the 2020 annual general meeting
Gong Tiemin	Male	42	Chief Risk Officer	2018.8- the conclusion of the 2020 annual general meeting
Qi Yilei	Male	46	Chief Credit Approval Officer	2018.7- the conclusion of the 2020 annual general meeting

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, as at 30 June 2018, none of the Directors, Supervisors or the chief executive of the Company or their respective associates had 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 Hong Kong SFO) which were registered in the register as required to be kept pursuant to section 352 of the Hong Kong SFO or to be disclosed to the Company and the Hong Kong Stock Exchange as provided by the Model Code.

Name	Position	Nature of interest	Class of shares	Numbers of shares held (shares)	Percentage of the total share capital of the Company (%)
Chen Danyang	Non-Executive Director	Interest of controlled corporation ¹	Domestic Shares	522,447,109	4.75
Deng Xinquan	Supervisor	Beneficial owner	Domestic Shares	1,205	0.00001

Note:

1. Chen Danyang, the non-executive Director, held the interests in the relevant number of Domestic Shares through a series of its controlled corporations. Please refer to Note 6 on Page 69 of this report for details of such interest.

Employees

I. Personnel Composition

As at 30 June 2018, the Bank (excluding subsidiaries) had 6,548 employees, among which 907 were headquarters staff, accounting for 13.85% of the total, and 2,301 were staff of Harbin branches, accounting for 35.14% of the total. Regarding the age composition, the average age of employees of the Bank is 34.76, among which 2,066 employees are between 25 and 30 years old, accounting for 31.55%. Regarding the educational background, there are 5,654 employees with bachelor degree or above, accounting for 86.34%. Regarding the working experience, the Bank had 1,584 employees with 10 years of banking experiences, accounting for 24.19% of the total. Staff turnover rate of the Bank (excluding subsidiaries) was 2.77%. The subsidiaries of the Bank had a total of 1,232 employees.

II. Staff Training Programs

During the Reporting Period, the Bank, in accordance with the general policy of “seeking progress in a steady way, returning to its original source, improving governance, strictly controlling risks, and developing the group” and focusing on the work theme of “improving governance”, made good use of the two kinds of resources inside and outside the Bank. Through both online and offline channels, the Bank strengthened the comprehensive analysis of personnel training needs, the overall planning and design of training, the implementation of supervision of training projects, the feedback evaluation of training effectiveness and other work. Through classification and stratification, focusing on demands, targeted and precision teaching, the Bank paid attention to the transformation of training results and emphasized the creation of training value, constantly stimulating the endogenous motivation of human resources training and development.

Directors, Supervisors, Senior Management and Employees

During the Reporting Period, the Bank formulated training programs according to the 2018 Training Plan, which were implemented among different levels of employees. Both sequential training completion rate and coverage rate were 100%. The trainings covered all employees across the Bank, and primarily focused on leadership upgrading, new manager training camp, party spirit training, skill training, risk management and general management skills. As at 30 June 2018, departments at the headquarters of the Bank (excluding subsidiaries) implemented 100 trainings in total, including 60 internal trainings, and 40 external trainings for selected staff. The total attendance of the staff training sessions amounted to 2,615, and the total training hours amounted to 377.

III. Staff Incentive Policy

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

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

IV. Remuneration Policy for Employees

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

V. Retirement and Benefits

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

I. Corporate Governance

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

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

II. Issuance of Debt Securities

(I) Bond Issuance during the Reporting Period

On 8 April 2018, the 13th Meeting of the Second Session of the board of directors of HB Leasing considered and approved the Proposal on the Issuance of the Second Tranche of Financial Bonds, to agree to issue the second tranche of financial bonds, and submit the proposal to the Shareholders' general meeting for consideration. On 23 April 2018, the Company, Dongning Lizhi and Wintop, all being the shareholders of HB Leasing, reviewed and approved the Proposal on the Issuance of the Second Tranche of Financial Bonds unanimously on the 2018 first extraordinary general meeting of shareholders.

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

Important Events

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

1. *Financial bonds in 2015*

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

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

The 2015 first tranche of financial bonds of Harbin Bank Co., Ltd. amounted to RMB4.0 billion with the term of three years. The coupon rate was 4.20% and the interest was calculated annually at a fixed rate. The short name of the bonds is "15 Harbin Bank 01" (bond code: 1520022), and its principal and interests were due for payment by 28 May 2018.

2. *2016 credit loan asset-backed securities*

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

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

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

3. 2016 tier-2 capital bonds

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

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

4. 2016 HB Leasing financial bonds

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

Important Events

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

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

5. 2017 green financial bonds

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

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

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

(III) Proposed Issuance of Financial Bonds

1. According to the resolutions of the 15th Meeting of the Sixth Session of the Board held on 29 March 2017 and the 2016 annual general meeting of the Company held on 19 May 2017, the Board and the general meeting of the Company approved the Proposal on the Issuance of Non-capital Financial Bonds, pursuant to which the public issuance of non-capital financial bonds of not more than RMB10.0 billion by the Company was approved. The bond types include but not limited to non-capital financial bonds such as ordinary financial bonds and/or special financial bonds for small and micro enterprises, special financial bonds for “agriculture, rural area and farmer” and green financial bonds. Each bond will have a term of no longer than 10 years. In the planning of issue scale and before the planning of issuance, the actual proportion and size of various types of bonds would be finalised according to the Company's actual demand, market conditions or investors' subscription. Relevant matters in respect of the proposed issuance of non-capital financial bonds by the Company were disclosed in the circular dated 30 March 2017 and the announcement dated 19 May 2017 by the Company.
2. According to the resolutions of the 22nd Meeting of the Sixth Session of the Board held on 28 March 2018 and the 2017 annual general meeting of the Company held on 18 May 2018, the Board and the general meeting of the Company approved the Proposal on the Issuance of not more than RMB10 Billion Non-capital Financial Bonds, pursuant to which the public issuance of non-capital financial bonds of not more than RMB10.0 billion by the Company was approved. The bond types include but not limited to non-capital financial bonds such as ordinary financial bonds, special financial bonds for small and micro enterprises, special financial bonds for “agriculture, rural area and farmer” and green financial bonds. Each bond will have a term of no longer than 10 years. In the planning of issue scale and before the planning of issuance, the actual proportion and size of various types of bonds would be finalised according to the Company's actual demand, market conditions or investors' subscription. Relevant matters in respect of the proposed issuance of non-capital financial bonds by the Company were disclosed in the circular dated 6 April 2018 by the Company.
3. According to the resolutions of the 22nd Meeting of the Sixth Session of the Board held on 28 March 2018 and the 2017 annual general meeting of the Company held on 18 May 2018, the Board and the general meeting of the Company approved the Proposal on the Issuance of not more than RMB15 Billion Capital Supplemental Bonds, pursuant to which the Company was approved to issue capital supplemental bonds by way of public or non-public issuance to onshore or offshore investors, and the capital supplemental bonds not exceeding RMB15.0 billion (inclusive) shall, after being approved by regulatory authorities, be issued in a single or multiple series in accordance with the relevant procedures. The actual issue size of the capital supplemental bonds is to be determined by the Board or its delegates within the above-mentioned scope, in accordance with the capital needs of the Company and the market condition at the time of the issuance. The capital supplemental bonds are to be issued at the par value. All target investors shall subscribe the capital supplemental bonds in cash. The basic term of the capital supplemental bonds shall not be less than 5 years. There will be no fixed expiry date prior to the exercise of redemption right by the Company. Interests on the capital supplemental bonds shall be payable in cash. The interest bearing principal amount of the capital supplemental bonds shall be the aggregate value of the relevant series of the capital bonds without a fixed term then issued and outstanding. After receiving the interests at the prescribed interest rate, the holders of the capital supplemental bonds shall not be entitled to any distribution of residual profits of the Company together with the ordinary shareholders. Relevant matters in respect of the proposed issuance of the capital supplemental bonds by the Company were disclosed in the circular dated 6 April 2018 by the Company.

Important Events

III. Proposed Non-Public Issuance of Offshore Preference Shares

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

The Company received the Approval Concerning the Issuance of Offshore Preference Shares and Amendments to the Articles of Association by Harbin Bank (Hei Yin Jian Fu [2017] No. 57) and the Letter of Regulatory Opinion Relating to Harbin Bank (Hei Yin Jian Han [2017] No. 13) from Heilongjiang Regulatory Bureau of the CBRC on 21 April 2017. On 21 April 2017, the Company issued the announcement on the approval from Heilongjiang Regulatory Bureau of the CBRC concerning the issuance of offshore preference shares and amendments to the articles of association. On 25 April 2017, the Company applied for offshore non-public issuance of preference shares to the CSRC.

The Proposal on the Extension of the Validity Period of the Authorisation to the Board and the Person Authorised by the Board to Deal With All Matters Relating to the Issuance of Offshore Preference Shares was considered and approved at the 2017 annual general meeting, the 2018 first domestic shareholders' class meeting and the 2018 first H shareholders' class meeting held on 18 May 2018 to extend the validity period of the authorisation by the general meeting to the Board and the person authorised by the Board to deal with all matters relating to the issuance of offshore preference shares. The extended validity period will be 12 months from the date when it is considered and passed by the 2017 annual general meeting, the 2018 first domestic shareholders' class meeting and the 2018 first H shareholders' class meeting (i.e. 18 May 2018). For details of relevant matters regarding the extension of the validity period of the authorisation to the Board and the person authorised by the Board to deal with all matters relating to the issuance of offshore preference shares, please refer to the relevant circular issued by the Company on 6 April 2018.

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

IV. Initial Public Offering of A Shares

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

The Company submitted application materials in respect of the A Share Offering and listing to the CSRC on 31 August 2015, and the CSRC accepted the application. The Company also issued the announcement of the progress of A Shares on 16 November 2015. On 25 March 2016, the Company submitted application materials, including the Supplementary A Shares Prospectus covering the financial information for the 12 months ended 31 December 2015, to the CSRC. On 9 September 2016, the Company submitted application materials, including the Supplementary A Share Prospectus covering the financial information for the 6 months ended 30 June 2016, to the CSRC. On 29 March 2017, the Company submitted the application materials including the Supplementary A Shares Prospectus setting out the financial data for the 12 months ended 31 December 2016 to the CSRC. On 9 September 2017, the Company submitted application materials, including the Supplementary A Share Prospectus covering the financial information for the 6 months ended 30 June 2017, to the CSRC. On 10 January 2018, the Initial Public Offering of Shares Prospectus of Harbin Bank Co., Ltd. (application submission delivered on 21 December 2017) was pre-disclosed on the website of the CSRC. In light of possible changes in the shareholding structure of the Domestic Shares of the Company, after careful studies with the sponsors and considered and approved by the Board, the Company decided to withdraw the application for the listing of the A Shares and will resume the application for the listing of the A Shares after the completion of changes in the shareholding structure of the Domestic Shares. The Company has published the Announcement on Withdrawal of A Shares Listing Application on 16 March 2018, and will disclose further information and progress of the A Share Offering in due course (if any).

V. Material Connected Transaction

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

VI. Material Legal Proceedings and Arbitrations

As at the end of the Reporting Period, the value of the subject matters of the material pending legal proceedings in which the Bank was involved as a defendant or a third party amounted to RMB69 million. In the opinion of the Bank, such legal proceedings would not have any material impact on the Bank's operating activities. Save for the above, during the Reporting Period, there were no other material legal proceedings or arbitrations which had substantial impact on the operating activities of the Bank.

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

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

Important Events

VIII. Material Contracts and Their Performance

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

IX. Audit Review

The Company's unaudited consolidated interim financial statements for 2018 prepared in accordance with International Financial Reporting Standards had been reviewed by Ernst & Young, who had issued an unqualified review report.

The Company's 2018 interim report and 2018 unaudited interim consolidated financial statement had been reviewed by the Audit Committee of the Board and the Board of Directors.

X. Implementation of Share Incentive Plan during the Reporting Period

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

XI. Appointment and Dismissal of Auditors

The re-appointment of Ernst & Young and Ernst & Young Hua Ming LLP as the respective overseas and domestic auditors of the Company for the year 2018 was considered and approved at the 2017 annual general meeting of the Company held on 18 May 2018.

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

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

XIII. Profit Distribution during the Reporting Period

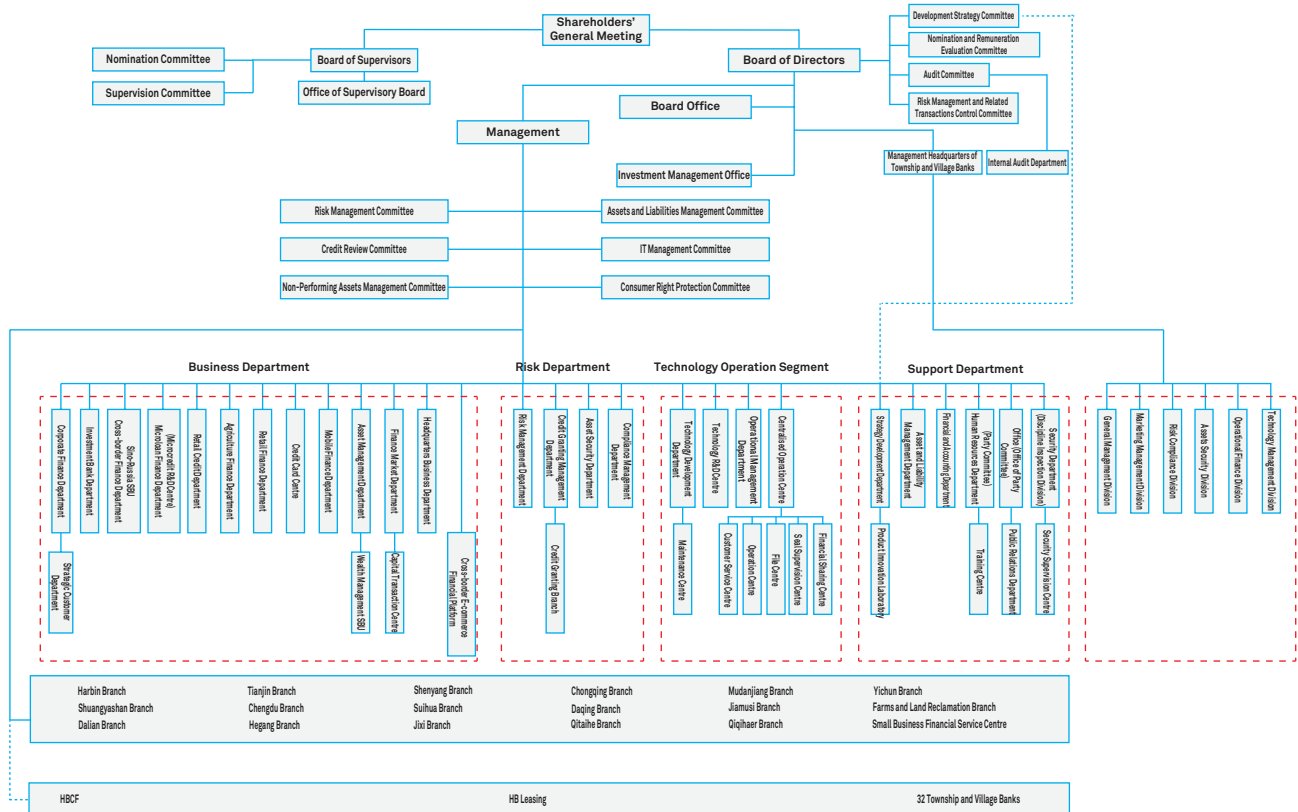
The 2017 profit distribution plan of the Company was considered and approved at the 2017 annual general meeting held on 18 May 2018, which is to distribute to all shareholders a final dividend of RMB0.05 (inclusive of tax) for each share for the year 2017. The Company did not and does not propose to distribute any interim dividend for the six months ended 30 June 2018.

XIV. Subsequent Material Events

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

Organisation Chart

The Bank's Organisational Chart



Financial Report

- I. Report on Review of Interim Financial Information
- II. Unaudited Condensed Consolidated Interim Financial Statements (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 Shareholder's Equity, Condensed Consolidated Statement of Cash Flows)
- III. Notes to Condensed Consolidated Interim Financial Information
- IV. Unaudited Supplementary Financial Information

Report on Review of Interim Financial Information



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

To the shareholders of Harbin Bank Co., Ltd.

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

Introduction

We have reviewed the accompanying interim financial information set out on pages 88 to 180, which comprises the condensed consolidated statement of financial position of Harbin Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related condensed consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

Scope of review

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

Conclusion

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

Ernst&Young

Certified Public Accountants

Hong Kong
28 August 2018

Condensed Consolidated Statement of Income

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

		For the six-month period ended 30 June	
	Note	2018	2017
		Unaudited	Unaudited
Interest income	4	13,695,595	13,618,201
Interest expense	4	(8,724,538)	(7,294,027)
NET INTEREST INCOME	4	4,971,057	6,324,174
Fee and commission income	5	1,298,734	1,269,623
Fee and commission expense	5	(167,208)	(56,631)
NET FEE AND COMMISSION INCOME	5	1,131,526	1,212,992
Net trading income/(loss)	6	408,026	(8,684)
Net gain/(loss) on financial investments	7	20,901	(41,480)
Other operating income/(loss), net	8	6,253	(14,917)
OPERATING INCOME		6,537,763	7,472,085
Operating expenses	9	(1,920,709)	(1,858,589)
Impairment losses on:	10	(1,129,829)	(1,972,164)
Loans and advances to customers		(913,556)	(1,439,841)
Other		(216,273)	(532,323)
OPERATING PROFIT		3,487,225	3,641,332
PROFIT BEFORE TAX		3,487,225	3,641,332
Income tax expense	11	(879,197)	(952,096)
PROFIT FOR THE PERIOD		2,608,028	2,689,236
Attributable to:			
Owners of the parent		2,605,826	2,659,693
Non-controlling interests		2,202	29,543
		2,608,028	2,689,236
EARNINGS PER SHARE (RMB yuan)			
Basic and diluted	13	0.24	0.24

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 2018

(Amount in thousands of RMB, unless otherwise stated)

		For the six-month period ended 30 June	
	Note	2018	2017
		Unaudited	Unaudited
Profit for the period		2,608,028	2,689,236
Other comprehensive income (after tax, net):			
Net Other comprehensive income after tax attributable to owners of the parent	36	318,493	(196,809)
Items that will not be reclassified to profit or loss			
— Net gains on investments in equity instruments designated at fair value through other comprehensive income	36	9,479	—
Items that may be reclassified subsequently to profit or loss			
— Net gains on investments in debt instruments measured at fair value through other comprehensive income	36	309,014	—
— Net fair value losses on available-for-sale financial assets	36	—	(196,809)
Subtotal of other comprehensive income for the period		318,493	(196,809)
Total comprehensive income for the period		2,926,521	2,492,427
Total comprehensive income attributable to:			
Owners of the parent		2,924,319	2,462,884
Non-controlling interests		2,202	29,543
Total		2,926,521	2,492,427

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

Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

	Note	As at 30 June 2018	As at 31 December 2017
		Unaudited	Audited
ASSETS			
Cash and balances with the central bank	14	61,231,883	69,533,161
Due from banks and other financial institutions	15	16,240,620	20,626,087
Financial assets at fair value through profit or loss	16	19,141,845	4,540,089
Reverse repurchase agreements	17	1,264,390	4,775,700
Loans and advances to customers	18	243,423,508	230,646,535
Derivative financial assets	19	4,193	22,841
Financial investments	20	194,214,296	199,953,798
— financial assets at amortised cost		158,521,658	—
— financial assets at fair value through other comprehensive income		35,692,638	—
— debt instruments classified as receivables		—	143,051,479
— held-to-maturity investments		—	27,279,545
— available-for-sale financial assets		—	29,622,774
Finance lease receivables	21	16,754,719	15,759,176
Property and equipment	22	8,786,409	8,752,106
Deferred income tax assets	23	2,365,982	1,996,184
Other assets	24	8,513,631	7,649,474
TOTAL ASSETS		571,941,476	564,255,151
LIABILITIES			
Due to the central bank		646,920	521,110
Borrowings from banks and other financial institutions	25	9,156,345	12,798,091
Due to banks	26	21,715,905	23,622,063
Derivative financial liabilities	19	12,659	33,116
Repurchase agreements	27	2,178,000	4,590,000
Due to customers	28	370,600,272	378,258,398
Income tax payable		553,539	727,873
Debt securities issued	29	111,630,433	91,333,990
Other liabilities	30	11,505,075	9,961,592
TOTAL LIABILITIES		527,999,148	521,846,233
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	10,995,600	10,995,600
Capital reserve	32	7,636,867	7,636,867
Other comprehensive income	36	(182,625)	(526,018)
Surplus reserves	33	2,896,183	2,896,183
General and regulatory reserves	34	7,101,080	6,805,820
Undistributed profits	35	14,349,277	13,452,019
		42,796,382	41,260,471
Non-controlling interests		1,145,946	1,148,447
TOTAL EQUITY		43,942,328	42,408,918
TOTAL EQUITY AND LIABILITIES		571,941,476	564,255,151

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

Guo Zhiwen

Chairman

Lyu Tianjun

President

Wang Haibin

Executive Vice President
of Finance

Chen Liyang

General Manager of Finance
and Accounting Department

Condensed Consolidated Statement of Changes in Shareholder's Equity

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

	Note	Unaudited							
		Equity attributable to owners of the parent							
		Share capital	Capital reserve	Other comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Non-controlling interests	Total
Balance as at 31 December 2017		10,995,600	7,636,867	(526,018)	2,896,183	6,805,820	13,452,019	1,148,447	42,408,918
Changes in accounting policies									
– Impact of adopting IFRS 9	2.1.1	–	–	24,900	–	–	(863,528)	(4,703)	(843,331)
As at 1 January 2018		10,995,600	7,636,867	(501,118)	2,896,183	6,805,820	12,588,491	1,143,744	41,565,587
Movements in this period		–	–	318,493	–	295,260	1,760,786	2,202	2,376,741
Total comprehensive income	36	–	–	318,493	–	–	2,605,826	2,202	2,926,521
Profit distribution		–	–	–	–	295,260	(845,040)	–	(549,780)
1. Appropriation to general and regulatory reserves (i)		–	–	–	–	295,260	(295,260)	–	–
2. Dividends	35	–	–	–	–	–	(549,780)	–	(549,780)
Balance as at 30 June 2018		10,995,600	7,636,867	(182,625)	2,896,183	7,101,080	14,349,277	1,145,946	43,942,328

(i) Includes the appropriation made by subsidiaries in the amount of RMB76,667 thousand.

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

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

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

Condensed Consolidated Statement of Changes in Shareholder's Equity

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

	Audited							
	Equity attributable to owners of the parent							Total
	Share capital	Capital reserve	Other comprehensive income	Surplus reserves	General and regulatory reserves	Undistributed profits	Non-controlling interests	
Balance as at 1 January 2017	10,995,600	7,635,709	(28,417)	2,409,731	5,481,049	10,014,136	827,226	37,335,034
Movements in this year	–	1,158	(497,601)	486,452	1,324,771	3,437,883	321,221	5,073,884
Total comprehensive income	–	–	(497,601)	–	–	5,249,106	59,779	4,811,284
Capital contributed by owners	–	–	–	–	–	–	262,600	262,600
Profit distribution	–	–	–	486,452	1,324,771	(1,811,223)	–	–
1. Appropriation to surplus reserves	–	–	–	486,452	–	(486,452)	–	–
2. Appropriation to general and regulatory reserves (i)	–	–	–	–	1,324,771	(1,324,771)	–	–
Other	–	1,158	–	–	–	–	(1,158)	–
Balance as at 31 December 2017	10,995,600	7,636,867	(526,018)	2,896,183	6,805,820	13,452,019	1,148,447	42,408,918

(i) Includes the appropriation made by subsidiaries in the amount of RMB197,355 thousand.

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

Condensed Consolidated Statement of Cash Flows

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six-month period ended 30 June	
		2018	2017
		Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,487,225	3,641,332
Adjustments for:			
Depreciation and amortisation	9	266,052	269,255
Net trading (gain)/loss	6	(408,026)	8,684
Dividend income	7	(1,594)	–
Interest income on financial investments		(5,050,303)	(5,549,438)
Impairment losses on loans and advances to customers	10	913,556	1,439,841
Impairment losses on other assets	10	216,273	532,323
Unrealised foreign exchange loss		36,972	44,491
Interest expense on issuance of bonds	4	2,484,429	1,426,461
Accreted interest on impaired loans	4	(63,720)	(46,930)
Net (gain)/loss on disposal of financial investments	7	(19,307)	41,480
Net gain on disposal of property and equipment		(382)	(48)
		1,861,175	1,807,451
Net decrease/(increase) in operating assets:			
Due from the central bank		8,689,636	(2,664,678)
Due from banks and other financial institutions		(2,716,219)	10,006,567
Loans and advances to customers		(14,204,050)	(23,868,651)
Finance lease receivables		(1,234,326)	(523,434)
Other assets		(843,878)	(313,630)
		(10,308,837)	(17,363,826)
Net increase/(decrease) in operating liabilities:			
Due to the central bank		125,810	3,729
Borrowings from banks and other financial institutions		(3,641,746)	106,646
Due to banks		(1,906,158)	(19,647,623)
Repurchase agreements		(2,412,000)	(13,694,050)
Due to customers		(7,658,126)	1,750,194
Other liabilities		1,255,609	621,279
		(14,236,611)	(30,859,825)
Net cash flows used in operating activities before tax		(22,684,273)	(46,416,200)
Income tax paid		(1,248,382)	(1,419,831)
Net cash flows used in operating activities		(23,932,655)	(47,836,031)

Condensed Consolidated Statement of Cash Flows

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six-month period ended 30 June	
		2018	2017
		Unaudited	Unaudited
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment, intangible assets and other long term assets		(296,742)	(187,528)
Proceeds from disposal of property and equipment		2,722	563
Cash paid for investments		(90,568,082)	(108,222,575)
Proceeds from sale and redemption of investments		81,573,960	93,476,930
Return on investments		5,519,143	5,329,468
Net cash flows used in investing activities		(3,768,999)	(9,603,142)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		–	227,600
Proceeds from issue of other debt securities		86,382,042	54,206,125
Payment for redemption of debt securities		(66,806,987)	(18,368,816)
Interest and issue expenses paid on debt securities		(2,117,749)	(988,011)
Dividends paid on ordinary shares		–	(3,395)
Net cash flows from financing activities		17,457,306	35,073,503
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,244,348)	(22,365,670)
Cash and cash equivalents at the beginning of the period		39,671,469	59,678,068
Effect of exchange rate changes on cash and cash equivalents		20,308	(22,317)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	37	29,447,429	37,290,081
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		8,567,843	8,189,324
Interest paid		(6,048,552)	(5,141,997)

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 2018

(Amount in thousands of RMB, unless otherwise stated)

1. Corporate information and group structure

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

The Bank obtained its finance permit No. B0306H223010001 from the China Banking Regulatory Commission (“former CBRC”/“CBIRC” after 17 March 2018). The Bank obtained its business licence No. 912301001275921118 from the Market Supervision Administration of Harbin. The legal representative is Guo Zhiwen and the registered office is located at No. 160 Shangzhi Avenue, Daoli District, Harbin, Heilongjiang Province.

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

The subsidiaries of the Bank as at 30 June 2018 are as follows:

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

1. Corporate information and group structure (Continued)

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(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
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 Maji Rongxing Village and Township Bank Co., Ltd.	Tianshui, Gansu	50,000	98.00	49,000	Village and township bank
Zhongjiang Rongxing Village and Township Bank Co., Ltd.	Deyang, 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	500,000	59.00	295,000	Consumer finance company

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

2. Basis of presentation and principal accounting policies

The unaudited condensed consolidated interim financial information for the six-month period ended 30 June 2018 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 2017.

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 2017.

2.1 Standards, amendments and interpretations effective in 2018

On 1 January 2018, the Group adopted the following new standards, amendments and interpretations.

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

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

2.1 Standards, amendments and interpretations effective in 2018 *(Continued)*

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains on financial investments which are covered under IFRS 9.

IFRIC Interpretation 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

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

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

2.1.1 IFRS 9— *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project to replace IAS 39 Financial Instruments. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

Classification and measurement

In IFRS 9, financial assets are classified into three categories: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the financial assets and their contractual cash flow characteristics. In addition, investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

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

2.1 Standards, amendments and interpretations effective in 2018 *(Continued)*

2.1.1 IFRS 9— *Financial Instruments* *(Continued)*

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of "other" business model. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

Classification of the Group's financial assets

The Group classifies the financial assets according to the business model for managing the financial assets and characteristics of the contractual cash flows. The categories of the financial assets are as follows:

- Amortised cost
- Fair value through other comprehensive income
- Equity instruments at fair value through other comprehensive income (no recycling)
- Fair value through profit or loss

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from the "incurred loss model" to the "expected credit loss model" ("ECL model") and this way of measurement applies to financial assets measured at amortised cost, measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts. Further information can be found in note 44(a) and note 2.3.1 of the annual financial statements for the year ended 31 December 2017.

Impact of adopting IFRS 9

Considering the impact of this standard on the consolidated financial statements, the Group has recorded an adjustment to 1 January 2018 shareholders' equity at the adoption date, but did not restate comparative periods. The impact of the Group's adoption of IFRS 9 is disclosed as follows:

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

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

2.1 Standards, amendments and interpretations effective in 2018 (Continued)

2.1.1 IFRS 9— Financial Instruments (Continued)

Impact of adopting IFRS 9 (Continued)

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

		IAS 39 measurement		Re-	Re-measurement		IFRS 9	
	Note	Category	Amount	classification	ECL	Other	Amount	Category
Financial assets								
Cash and balances with the central bank		L&R	69,533,161	–	–	–	69,533,161	AC
Due from banks and other financial institutions		L&R	20,626,087	–	(588)	–	20,625,499	AC
Financial assets at FVPL– Trading financial assets and other financial assets at FVPL		FVPL	4,540,089	10,236,057		(101,946)	14,674,200	FVPL
From: Financial investments – HTM	A			150,000		(5,058)		
From: Financial investments – AFS	B			669,360		(5,793)		
From: Financial investments – L&R	C			9,416,697		(91,095)		
Reverse repurchase agreements		L&R	4,775,700	–	(10)	–	4,775,690	AC
Loans and advances to customers, net		L&R	230,646,535	–	(422,248)	42	230,224,329	AC+ FVOCI
To: Loans and advances to customers at FVOCI	D	L&R		(535,826)				AC
From: Loans and advances to customers at AC	D	L&R		535,826				FVOCI
Derivative financial assets		FVPL	22,841	–	–	–	22,841	FVPL
Financial investments– L&R		L&R	143,051,479	(143,051,479)			N/A	
To: Financial assets at AC	E			(133,634,782)				
To: Financial assets at FVPL	C			(9,416,697)				
Financial investments – HTM		HTM	27,279,545	(27,279,545)			N/A	
To: Financial assets at AC	E			(27,129,545)				
To: Financial assets at FVPL	A			(150,000)				
Financial investments – AFS		AFS	29,622,774	(29,622,774)			N/A	
To: Debt instruments at FVOCI	G			(28,900,694)				
To: Equity instruments at FVOCI	F			(52,720)				
To: Financial assets at FVPL	B			(669,360)				

Note:

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

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

2.1 Standards, amendments and interpretations effective in 2018 (Continued)

2.1.1 IFRS 9— Financial Instruments (Continued)

Impact of adopting IFRS 9 (Continued)

	Note	IAS 39 measurement		Re-classification	Re-measurement		IFRS 9	
		Category	Carrying Amount		ECL	Other	Carrying Amount	Category
Financial assets at AC			N/A	160,764,327	(475,686)	–	160,288,641	AC
From: Financial investments – HTM	E			27,129,545	(49,050)			
From: Financial investments – L&R	E			133,634,782	(426,636)			
Financial assets at FVOCI Debt Instruments			N/A	28,900,694	–	–	28,900,694	FVOCI
From: Financial investments – AFS								
– Debt instruments	G			28,900,694				
Financial assets at FVOCI – Equity instruments			N/A	52,720	–	24,422	77,142	FVOCI
From: Financial investments – AFS								
– Equity instruments	F			52,720		24,422		
Finance lease receivables		L&R	15,759,176	–	(66,932)	–	15,692,244	AC
Other financial assets		L&R	7,649,474	–	–	–	7,649,474	AC
Non-financial assets		N/A	10,748,290	–	261,739	19,371	11,029,400	N/A
Including: Deferred tax assets			1,996,184	–	261,739	19,371	2,277,294	
Total assets			564,255,151	–	(703,725)	(58,111)	563,493,315	
Financial liabilities								
Due to the central bank		AC	521,110	–	–	–	521,110	AC
Borrowings from banks and other financial institutions		AC	12,798,091	–	–	–	12,798,091	AC
Due to banks		AC	23,622,063	–	–	–	23,622,063	AC
Derivative financial liabilities		FVPL	33,116	–	–	–	33,116	FVPL
Repurchase agreements		AC	4,590,000	–	–	–	4,590,000	AC
Due to customers		AC	378,258,398	–	–	–	378,258,398	AC
Debt securities issued		AC	91,333,990	–	–	–	91,333,990	AC
Other financial liabilities		AC	8,700,714	–	–	–	8,700,714	AC
Non-financial liabilities		N/A	1,988,751	–	81,495	–	2,070,246	N/A
Including: contingent liabilities	H		–	–	81,495	–	81,495	
Total liabilities			521,846,233	–	81,495	–	521,927,728	

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

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

2.1 Standards, amendments and interpretations effective in 2018 *(Continued)*

2.1.1 IFRS 9— *Financial Instruments (Continued)*

Impact of adopting IFRS 9 *(Continued)*

- A. As of 1 January 2018, the Group has reclassified a portion of its HTM as financial assets measured at FVPL as the payments did not meet the SPPI criterion.
- B. As of 1 January 2018, the Group has reclassified a portion of its AFS as financial assets measured at FVPL as the payments did not meet the SPPI criterion.
- C. As of 1 January 2018, the Group has reclassified a portion of its L&R as financial assets measured at FVPL as the payments did not meet the SPPI criterion.
- D. As of 1 January 2018, the Group has reclassified its discounted bills from loans and advances to customers measured at AC to loans and advances to customers measured at FVOCI. The Group concluded that these discounted bills are managed with a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Group has classified these discounted bills as loans and advances to customers measured at FVOCI.
- E. As of 1 January 2018, the Group has reclassified its HTM and L&R which met the SPPI criterion with the intention to collect cash flows as debt instruments at AC.
- F. As of 1 January 2018, the Group has elected the option to irrevocably designate some of its previous AFS equity instruments as equity instruments at FVOCI.
- G. As of 1 January 2018, the Group has reassessed its liquidity portfolio which had previously been classified as AFS debt instruments. The Group concluded that, apart from a small portion, as described in Section B and F above, these debt instruments are managed with a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Group has classified these investments as financial assets measured at FVOCI.
- H. The Group presents the impairment provision for credit commitments in “other liabilities – contingent liabilities”. The cumulative effect of the re-measurement of impairment losses related to credit commitments is included in the undistributed profit at the beginning of the period.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

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

2.1 Standards, amendments and interpretations effective in 2018 *(Continued)*

2.1.1 IFRS 9— *Financial Instruments* *(Continued)*

2.1.1.2 The impact of transition from IAS 39 to IFRS 9 on equity is as follows:

Other comprehensive income	
Closing balance under IAS 39 at 31 December 2017	(526,018)
Reclassification of AFS to financial assets measured at FVOCI	24,422
Reclassification of loans and advances to customers measured at AC to loans and advances to customers measured at FVOCI	42
Recognition of ECLs under IFRS 9 for debt instruments measured at FVOCI	8,736
Effect on deferred tax in relation to the above	(8,300)
Opening balance under IFRS 9 at 1 January 2018	(501,118)
Retained profit	
Closing balance under IAS 39 at 31 December 2017	13,452,019
Reclassification of AFS to financial assets measured at FVPL	(5,793)
Reclassification of HTM and L&R to financial assets measured at FVPL	(96,153)
Recognition of ECLs under IFRS 9	(1,049,424)
Effect on deferred tax in relation to the above	287,842
Opening balance under IFRS 9 at 1 January 2018	12,588,491
Non-controlling interests	
Closing balance under IAS 39 at 31 December 2017	1,148,447
Recognition of ECLs under IFRS 9	(6,271)
Effect on deferred tax in relation to the above	1,568
Opening balance under IFRS 9 at 1 January 2018	1,143,744
Total change in equity due to adopting IFRS 9	(843,331)

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

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

2.1 Standards, amendments and interpretations effective in 2018 (Continued)

2.1.1 IFRS 9— Financial Instruments (Continued)

2.1.1.3 Reconciliation statement that changed the measurement basis for balance of provision for impairment from IAS 39 to IFRS 9

The following table reconciles the provision for impairment measured at incurred loss model under IAS 39 as at 31 December 2017 to the provision for impairment measured at expected credit loss model under IFRS 9 as at 1 January 2018.

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

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

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018

		Effective for annual periods beginning on or after
IFRS 16	<i>Leases</i>	1 January 2019
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019
IAS 19 Amendments	<i>Employee Benefits</i>	1 January 2019
IAS 28 Amendments	<i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
IFRS 9 Amendments	<i>Prepayment Features with Negative Compensation</i>	1 January 2019
IFRS 17	<i>Insurance Contracts</i>	1 January 2021
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)		1 January 2019

The Group is considering the impact of these standards, amendments and interpretations on the consolidated financial statements.

3. Significant accounting judgements and estimates

The implementation of IFRS 9 has resulted in a change to the assessment of the critical accounting estimates and judgements related to impairment of financial instruments. Except for this, the nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2017.

The measurement of allowance for impairment losses under IFRS 9 across all categories of financial assets requires significant judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions. Elements of the ECL models that are considered accounting judgements, assumption and estimates include:

- The Bank's internal credit grading model, which assigns probability of default (PD) to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk
- Measurement parameters of ECL models
- Consideration of forward-looking adjustment information when determining ECL, including the use of macroeconomic information, judgments of adjustments, etc., as well as the impact on PD, exposure at default (EAD) and loss given default (LGD).

The Group will regularly review the expected credit loss model in the context of actual loss experience and adjust when necessary.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

4. Net interest income

	For the six-month period ended 30 June	
	2018	2017
Interest income on:		
Loans and advances to customers	7,414,800	6,602,988
including: – Corporate loans and advances	3,714,115	2,835,252
– Personal loans	3,667,304	3,747,379
– Discounted bills	33,381	20,357
Reverse repurchase agreements	94,306	303,620
Available-for-sale financial assets	–	428,903
Held-to-maturity financial investments	–	604,382
Debt instruments classified as receivables	–	4,516,153
Financial assets at fair value through other comprehensive income	804,667	–
Financial assets at amortised cost	4,245,636	–
Due from the central bank	392,662	361,883
Due from banks and other financial institutions	336,631	406,540
Finance lease receivables	406,893	393,732
Subtotal	13,695,595	13,618,201
Interest expense on:		
Due to customers	(5,028,829)	(3,952,828)
Repurchase agreements	(168,133)	(144,397)
Due to banks	(716,576)	(1,494,185)
Debt securities issued	(2,484,429)	(1,426,461)
Due to the central bank	(9,706)	(10,844)
Borrowings from banks and other financial institutions	(316,865)	(265,312)
Subtotal	(8,724,538)	(7,294,027)
Net interest income	4,971,057	6,324,174
Including: interest income on impaired loans	63,720	46,930

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

5. Net fee and commission income

	For the six-month period ended 30 June	
	2018	2017
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	365,850	513,156
Settlement and clearing fees	78,971	35,377
Agency and custodian fees	478,521	560,416
Including: non-guaranteed wealth management products	281,159	271,152
Bank card fees	356,704	125,465
Others	18,688	35,209
Subtotal	1,298,734	1,269,623
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	(14,269)	(6,568)
Agency fees	(63,915)	(4,619)
Bank card fees	(75,498)	(22,884)
Others	(13,526)	(22,560)
Subtotal	(167,208)	(56,631)
NET FEE AND COMMISSION INCOME	1,131,526	1,212,992

6. Net trading income/(loss)

	For the six-month period ended 30 June	
	2018	2017
Financial assets at fair value through profit or loss	406,217	(18,018)
Derivative financial instruments	1,809	9,334
Total	408,026	(8,684)

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 and derivative financial instruments.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

7. Net gain/(loss) on financial investments

	For the six-month period ended 30 June	
	2018	2017
Dividends from equity instruments at fair value through other comprehensive income	1,594	–
Gain on disposal of financial assets at fair value through other comprehensive income, net	19,307	–
Loss on disposal of available-for-sale financial assets, net	–	(41,480)
Total	20,901	(41,480)

8. Other operating income/(loss), net

	For the six-month period ended 30 June	
	2018	2017
Net gain on sale of property and equipment	382	88
Loss from foreign exchange, net	(16,664)	(66,808)
Leasing income	18,328	18,261
Government grants and subsidies	2,985	29,656
Penalties and compensation	182	11
Others	1,040	3,875
Total	6,253	(14,917)

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

9. Operating expenses

	For the six-month period ended 30 June	
	2018	2017
Staff costs:		
Salaries, bonuses and allowances	674,229	680,742
Social insurance	123,583	107,973
Housing fund	49,505	47,563
Staff benefits	43,080	45,635
Labour union expenditure and education costs	10,543	8,049
Early retirement benefits	8,099	138
Subtotal	909,039	890,100
General and administrative expenses	313,095	277,831
Tax and surcharges	82,325	63,563
Depreciation and amortisation	266,052	269,255
Leasing expense	148,900	159,912
Auditors' remuneration	1,400	2,100
Others	199,898	195,828
Total	1,920,709	1,858,589

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

10. Impairment losses on assets

	For the six-month period ended 30 June
	2018
Loans and advances to customers	
— Stage I	76,885
— Stage II	476,757
— Stage III	359,914
Subtotal	913,556
Financial investments	
— financial assets at amortised cost	33,115
Financial lease receivables	171,851
Credit commitments	11,307
Total	1,129,829

	For the six-month period ended 30 June
	2017
Loans and advances to customers	
— Individually assessed	287,439
— Collectively assessed	1,152,402
Subtotal	1,439,841
Financial investments	
— Debt instruments classified as receivables	461,000
Financial lease receivables	71,323
Total	1,972,164

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

11. Income tax expense

(a) Income tax

	For the six-month period ended 30 June	
	2018	2017
Current income tax	1,074,048	1,278,038
Deferred income tax	(194,851)	(325,942)
	879,197	952,096

(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	
	2018	2017
Profit before tax	3,487,225	3,641,332
Tax at the PRC statutory income tax rate	871,807	910,333
Items not deductible for tax purposes (i)	23,901	19,888
Non-taxable income (ii)	(64,528)	(37,564)
Adjustment for income tax from prior years	44,787	67,928
Effect of different tax rates for certain subsidiaries	3,230	(3,108)
Others	–	(5,381)
Tax expense at the Group's effective income tax rate	879,197	952,096

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, which is exempted from income tax under Chinese tax regulations.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

12. Dividends

	For the six-month period ended 30 June	
	2018	2017
Dividends on ordinary shares declared and paid or proposed:		
Final dividend for 2017: RMB0.05 per share**		
(2016: did not declare any dividend *)	549,780	—

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

** : Based on the total number of shares as at 31 December 2017 at RMB0.05 per share, distributed in cash.

13. Earnings per share

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

	For the six-month period ended 30 June	
	2018	2017
Earnings:		
Profit attributable to owners of the parent	2,605,826	2,659,693
Shares:		
Weighted average number of ordinary shares in issue (in thousands)	10,995,600	10,995,600
Basic and diluted earnings per share (in RMB yuan)	0.24	0.24

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 2018 (For the six-month period ended 30 June 2017: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

14. Cash and balances with the central bank

	Group	
	30 June 2018	31 December 2017
Cash and unrestricted balances with the central bank:		
Cash on hand	810,084	1,009,852
Mandatory reserves with the central bank (i)	39,076,176	47,779,822
Surplus reserves with the central bank (ii)	21,276,710	20,688,584
Fiscal deposits with the central bank	68,913	54,903
Total	61,231,883	69,533,161

- (i) The Group is required to place mandatory reserve deposits with the PBOC. Mandatory reserve deposits with the central bank are not available for use in the Group's daily operations. As at 30 June 2018 and 31 December 2017, the mandatory deposit reserve ratios of the branches and subsidiaries of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the 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.

15. Due from banks and other financial institutions

	Group	
	30 June 2018	31 December 2017
Nostro accounts:		
Banks operating in Mainland China	10,525,726	16,579,304
Banks operating outside Mainland China	2,581,597	2,434,268
	13,107,323	19,013,572
Less: Allowance for impairment losses	(545)	–
	13,106,778	19,013,572
Placements with banks and other financial institutions:		
Banks operating in Mainland China	99,249	1,427,660
Other financial institutions operating in Mainland China	2,630,000	–
Banks operating outside Mainland China	404,636	184,855
	3,133,885	1,612,515
Less: Allowance for impairment losses	(43)	–
	3,133,842	1,612,515
	16,240,620	20,626,087

As at 30 June 2018, all the amounts due from banks and other financial institutions of the Group were in Stage 1.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

16. Financial assets at fair value through profit or loss

Trading financial assets and other financial assets at fair value through profit or loss are as follows:

	Group	
	30 June 2018	31 December 2017
Debt securities	2,897,672	4,540,089
Trust fund plans	3,367,447	–
Asset management plans	12,276,630	–
Funds	500,000	–
Wealth management products	100,096	–
Total	19,141,845	4,540,089
Debt securities analysed into: Listed in Mainland China	2,897,672	4,540,089

17. Reverse repurchase agreements

	Group	
	30 June 2018	31 December 2017
Reverse repurchase agreements analysed by counterparty:		
Banks	1,264,400	4,096,700
Other financial institutions	–	679,000
Less: Allowance for impairment losses	(10)	–
	1,264,390	4,775,700
Reverse repurchase agreements analysed by collateral:		
Securities	1,264,400	4,775,700
Less: Allowance for impairment losses	(10)	–
	1,264,390	4,775,700

As at 30 June 2018, all the reverse repurchase agreements of the Group were in Stage I.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

18. Loans and advances to customers

18.1 Analysis of loans and advances to customers by measurement category is as follows:

	Group	
	30 June 2018	31 December 2017
Loans and advances measured at amortised cost		
— Corporate loans and advances	135,240,839	118,477,580
— Personal loans	113,729,707	118,375,788
— Discounted bills	—	544,417
Subtotal	248,970,546	237,397,785
Loans and advances measured at fair value through other comprehensive income		
— Discounted bills	2,178,434	—
Total loans and advances to customers	251,148,980	237,397,785
Less: allowance for impairment losses	(7,725,472)	(6,751,250)
Carrying amount of loans and advances to customers	243,423,508	230,646,535

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

18. Loans and advances to customers (Continued)

18.2 Analysis of loans and advances to customers by industry, collateral type and analysis of overdue loans and advances to customers are presented in Note 44 (a).

18.3 Analysis of loans and advances to customers is as follows:

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL– impaired)		Total
As at 30 June 2018					
Total loans and advances	238,664,945	7,977,861	4,506,174		251,148,980
Allowance for impairment losses on loans	(2,547,635)	(2,059,567)	(3,118,270)		(7,725,472)
Loans and advances to customers, net carrying amount	236,117,310	5,918,294	1,387,904		243,423,508
	Identified impaired loans and advances				
	Loans and advances for which allowance for impairment losses is collectively assessed	for which allowance for impairment losses is collectively assessed	for which allowance for impairment losses is individually assessed	Subtotal	Identified impaired loans and advances as % of total loans and advances
				Total	
As at 31 December 2017					
Total loans and advances	233,360,774	2,321,035	1,715,976	4,037,011	237,397,785
Allowance for impairment losses on loans	(4,258,328)	(1,346,290)	(1,146,632)	(2,492,922)	(6,751,250)
Loans and advances to customers, net carrying amount	229,102,446	974,745	569,344	1,544,089	230,646,535

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

18. Loans and advances to customers (Continued)

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

	For the six-month period ended 30 June 2018			
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL - impaired)	Total
As at 31 December 2017				6,751,250
Impact of adopting IFRS 9				422,249
As at 1 January 2018	2,450,427	1,682,875	3,040,196	7,173,498
Exchange differences	59	–	411	470
Impairment losses:	76,885	476,757	359,914	913,556
Impairment allowances charged	76,885	476,757	535,801	1,089,443
Reversal of impairment allowances	–	–	(175,887)	(175,887)
Stage conversion	20,264	(100,065)	79,801	–
Transfers to Stage I	124,107	(106,848)	(17,259)	–
Transfers to Stage II	(78,618)	176,394	(97,776)	–
Transfers to Stage III	(25,225)	(169,611)	194,836	–
Write-off and transfer out	–	–	(369,759)	(369,759)
Recoveries of loans and advances previously written off	–	–	71,427	71,427
Accreted interest on impaired loans	–	–	(63,720)	(63,720)
As at 30 June 2018	2,547,635	2,059,567	3,118,270	7,725,472

	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
As at 1 January 2017	773,220	4,366,467	5,139,687
Exchange differences	(2,020)	(1,959)	(3,979)
Impairment losses:	481,290	1,596,832	2,078,122
Impairment allowances charged	597,952	1,596,832	2,194,784
Reversal of impairment allowances	(116,662)	–	(116,662)
Write-off and transfer out	(79,042)	(345,364)	(424,406)
Recoveries of loans and advances previously written off	–	41,024	41,024
Accreted interest on impaired loans	(26,816)	(52,382)	(79,198)
As at 31 December 2017	1,146,632	5,604,618	6,751,250

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

19. Derivative financial instruments

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

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

	Group					
	30 June 2018			31 December 2017		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange forwards	633,755	3,849	(3,837)	999,648	22,841	(33,116)
Foreign exchange swap	1,079,806	344	(8,822)	–	–	–
	1,713,561	4,193	(12,659)	999,648	22,841	(33,116)

20. Financial investments

	Group	
	30 June 2018	31 December 2017
Financial assets at amortised cost	161,197,568	–
Financial assets at fair value through other comprehensive income	35,692,638	–
Debt instruments classified as receivables	–	145,366,598
Held-to-maturity investments	–	27,279,545
Available-for-sale financial assets	–	29,622,774
Subtotal	196,890,206	202,268,917
Less: Allowance for impairment losses	(2,675,910)	(2,315,119)
Net balance	194,214,296	199,953,798

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

20. Financial investments (Continued)

	Group	
	30 June 2018	31 December 2017
Financial assets at amortised cost		
Debt securities		
issuers in Mainland China		
— Government	9,500,483	—
— Policy banks	12,730,523	—
— Financial institutions	2,136,129	—
— Corporate	5,339,047	—
	29,706,182	—
Asset management plans and trust fund plans		
— Asset management plans (i)	83,473,393	—
— Trust fund plans (ii)	48,017,993	—
	131,491,386	—
Allowance for impairment losses	(2,675,910)	—
Total financial assets at amortised cost	158,521,658	—
Financial assets at fair value through other comprehensive income (iii)		
Debt securities		
issuers in Mainland China		
— Government	8,344,162	—
— Policy banks	13,656,434	—
— Financial institutions	8,254,837	—
— Corporate	5,357,126	—
	35,612,559	—
Equity instrument	80,079	—
Total financial assets at fair value through other comprehensive income	35,692,638	—

- (i) The asset management plans are purchased from security companies and other financial institutions, with definite period length, and the interest rate is fixed or determinable. These include investments in trust loans, trust beneficial rights, and designated loans, etc.
- (ii) The trust fund plans are purchased from trust companies, with no active market quotes, definite period length and the interest rate is fixed or determinable. These include investments in trust loans and trust beneficial rights, etc.
- (iii) As at 30 June 2018, all the securities investments at fair value through other comprehensive income of the Group were in Stage 1. The Group's accumulated allowance for impairment losses on the financial assets at fair value through other comprehensive income amounted to RMB8,736 thousand.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

20. Financial investments (Continued)

Debt instruments classified as receivables

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

	Group	
	30 June 2018	31 December 2017
Certificate treasury bonds	–	100,109
Asset management plans	–	90,335,114
Trust fund plans	–	54,931,375
Subtotal	–	145,366,598
Less: Allowance for impairment losses	–	(2,315,119)
Net balance	–	143,051,479

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

	Group	
	30 June 2018	31 December 2017
Debt securities analysed into:		
Listed in Mainland China	–	27,279,545

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

20. Financial investments (Continued)

Available-for-sale financial assets comprise the following:

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

21. Finance lease receivables

	Group	
	30 June 2018	31 December 2017
Finance lease receivables	19,042,454	17,564,751
Less: unearned finance lease income	(1,755,657)	(1,512,276)
Present value of minimum finance lease receivables	17,286,797	16,052,475
Less: allowance for impairment losses	(532,078)	(293,299)
Net balance	16,754,719	15,759,176

As of 30 June 2018, the Group divided finance lease receivables into Stage 1, 2 and 3. The carrying amounts were RMB16,464,464 thousand, RMB462,702 thousand and RMB359,631 thousand respectively, and allowances for impairment losses in Stage 1, 2 and 3 were RMB199,365 thousand, RMB86,040 thousand and RMB246,673 thousand respectively.

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

	Group					
	30 June 2018			31 December 2017		
	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	7,461,457	(901,422)	6,560,035	7,267,697	(727,278)	6,540,419
1 year to 2 years	5,750,845	(476,876)	5,273,969	4,947,242	(406,676)	4,540,566
2 years to 3 years	3,599,509	(240,079)	3,359,430	3,053,072	(198,669)	2,854,403
3 years to 5 years	2,029,621	(121,281)	1,908,340	2,136,911	(167,074)	1,969,837
More than 5 years	201,022	(15,999)	185,023	159,829	(12,579)	147,250
	19,042,454	(1,755,657)	17,286,797	17,564,751	(1,512,276)	16,052,475

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

22. Property and equipment

Group

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Cost:							
At 1 January 2017	5,693,296	2,540,057	470,251	1,598,427	76,574	314,398	10,693,003
Additions	29,732	320,607	27,169	125,898	9,027	–	512,433
CIP transfers	405,515	(456,244)	–	50,729	–	–	–
Disposals	(2,814)	(21,530)	–	(5,742)	(4,261)	–	(34,347)
At 31 December 2017 and 1 January 2018	6,125,729	2,382,890	497,420	1,769,312	81,340	314,398	11,171,089
Additions	–	112,444	20,165	133,508	4,627	–	270,744
CIP transfers	38,576	(46,122)	–	7,546	–	–	–
Disposals	(1,270)	(10,987)	–	(737)	(3,225)	–	(16,219)
At 30 June 2018	6,163,035	2,438,225	517,585	1,909,629	82,742	314,398	11,425,614
Accumulated depreciation:							
At 1 January 2017	632,956	–	303,781	949,390	59,026	29,916	1,975,069
Depreciation charge for the year	171,889	–	56,490	205,125	6,280	14,886	454,670
Disposals	(1,729)	–	–	(4,979)	(4,048)	–	(10,756)
At 31 December 2017 and 1 January 2018	803,116	–	360,271	1,149,536	61,258	44,802	2,418,983
Depreciation charge for the period	87,143	–	26,614	99,434	2,667	7,467	223,325
Disposals	–	–	–	(699)	(2,404)	–	(3,103)
At 30 June 2018	890,259	–	386,885	1,248,271	61,521	52,269	2,639,205
Net carrying amount:							
At 31 December 2017	5,322,613	2,382,890	137,149	619,776	20,082	269,596	8,752,106
At 30 June 2018	5,272,776	2,438,225	130,700	661,358	21,221	262,129	8,786,409

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

22. 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:

	Group	
	30 June 2018	31 December 2017
Held in China:		
Over 50 years	1,754,129	1,770,516
10 to 50 years	3,483,602	3,516,433
Less than 10 years	35,045	35,664
	5,272,776	5,322,613

As at 30 June 2018, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB2,293 million (31 December 2017: RMB2,334 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

23. Deferred income tax assets and liabilities

(a) Analysed by nature

Group

	30 June 2018		31 December 2017	
	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	8,527,942	2,123,749	6,760,544	1,690,510
Contingent liabilities	92,801	23,201	–	–
Changes in fair value of financial assets at fair value through other comprehensive income	252,238	63,060	–	–
Changes in fair value of financial assets at fair value through profit or loss	173,974	43,494	101,828	25,457
Change in fair value of available-for-sale financial assets	–	–	701,357	175,339
Change in fair value of derivatives	8,466	2,117	10,275	2,569
Salaries, bonuses, allowances and subsidies payable	46,323	11,214	52,348	12,720
Early retirement benefits	26,851	6,713	23,337	5,835
Deferred revenue	369,747	92,434	335,017	83,754
Subtotal	9,498,342	2,365,982	7,984,706	1,996,184
Net deferred income tax	9,498,342	2,365,982	7,984,706	1,996,184

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

23. Deferred income tax assets and liabilities (Continued)

(b) Movements in deferred income tax

Group

	At 1 January 2018	Impact of adopting IFRS 9	Total gains/ (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	At 30 June 2018
Deferred income tax assets:					
Allowance for impairment losses	1,690,510	241,365	191,874	–	2,123,749
Contingent liabilities	–	20,374	2,827	–	23,201
Change in fair value of available-for-sale financial assets	175,339	(175,339)	–	–	–
Changes in fair value of financial assets at fair value through other comprehensive income	–	169,223	–	(106,163)	63,060
Changes in fair value of financial assets at fair value through profit or loss	25,457	25,487	(7,450)	–	43,494
Changes in fair value of derivatives	2,569	–	(452)	–	2,117
Salaries, bonuses, allowances and subsidies payable	12,720	–	(1,506)	–	11,214
Early retirement benefits	5,835	–	878	–	6,713
Deferred revenue	83,754	–	8,680	–	92,434
Subtotal	1,996,184	281,110	194,851	(106,163)	2,365,982
Net deferred income tax	1,996,184	281,110	194,851	(106,163)	2,365,982

	At 1 January 2017	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2017
Deferred income tax assets:				
Allowance for impairment losses	1,229,556	460,954	–	1,690,510
Change in fair value of available-for-sale financial assets	31,092	–	144,247	175,339
Change in fair value of financial assets held for trading	11,350	14,107	–	25,457
Changes in fair value of derivatives	4,905	(2,336)	–	2,569
Salaries, bonuses, allowances and subsidies payable	10,366	2,354	–	12,720
Early retirement benefits	4,639	1,196	–	5,835
Deferred revenue	122,752	(38,998)	–	83,754
Subtotal	1,414,660	437,277	144,247	1,996,184
Net deferred income tax	1,414,660	437,277	144,247	1,996,184

As at 30 June 2018, the Group did not have significant unrecognised deferred income tax assets and liabilities (31 December 2017: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

24. Other assets

	Group	
	30 June 2018	31 December 2017
Interest receivable (a)	3,938,335	3,932,409
Land use rights (b)	4,910	5,004
Advance payments	309,941	299,418
Settlement and clearing accounts	3,786,325	3,051,718
Intangible assets (c)	151,529	166,720
Other receivables	233,773	157,082
Input VAT carried forward	87,190	32,499
Others	1,628	4,624
	8,513,631	7,649,474

(a) Interest receivable

	Group	
	30 June 2018	31 December 2017
Banks and other financial institutions	158,566	167,180
Reverse repurchase agreements	185	3,629
Loans and advances to customers	2,238,388	2,142,943
Bonds and other investments	1,425,158	1,496,680
Finance lease receivables	116,038	121,977
	3,938,335	3,932,409

(b) Land use rights

	Group	
	30 June 2018	31 December 2017
Located in Mainland China		
10-50 years	4,910	5,004

(c) Intangible assets

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

25. Borrowings from banks and other financial institutions

	Group	
	30 June 2018	31 December 2017
Unsecured borrowings	8,625,000	12,131,614
Pledged borrowings	531,345	666,477
	9,156,345	12,798,091

As at 30 June 2018 and 31 December 2017, the pledged borrowings of RMB531 million and RMB666 million were secured by the finance lease receivables of RMB673 million and RMB804 million respectively.

26. Due to banks

	Group	
	30 June 2018	31 December 2017
Deposits:		
Banks operating in Mainland China	21,480,635	23,060,543
Banks operating outside Mainland China	10,020	11,659
	21,490,655	23,072,202
Placements:		
Banks operating in Mainland China	225,250	549,861
	21,715,905	23,622,063

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

27. Repurchase agreements

Repurchase agreements comprise the repurchase of bonds and bills.

	Group	
	30 June 2018	31 December 2017
Repurchase agreements analysed by counterparty:		
Central bank	1,590,000	4,590,000
Other financial Institutions within Mainland China	588,000	–
	2,178,000	4,590,000
Repurchase agreements analysed by collateral:		
Bonds	2,178,000	4,590,000

28. Due to customers

	Group	
	30 June 2018	31 December 2017
Demand deposits:		
Corporate customers	88,265,870	110,714,291
Personal customers	42,042,711	42,580,802
	130,308,581	153,295,093
Time deposits:		
Corporate customers	151,756,325	138,792,569
Personal customers	88,535,366	86,170,736
	240,291,691	224,963,305
	370,600,272	378,258,398

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

29. Debt securities issued

	Group	
	30 June 2018	31 December 2017
Financial bonds issued	6,992,952	9,994,837
Tier 2 capital bonds issued	7,999,254	7,998,676
Negotiable certificates of deposit issued	96,638,227	73,340,477
	111,630,433	91,333,990

As approved by the PBOC and the former CBRC, 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 2018 (2017: 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)
15 Harbin Bank 01	26 May 2015	100	4.20%	28 May 2015	28 May 2018	4,000 million
16 Harbin Bank Tier 2	14 June 2016	100	4.00%	16 June 2016	16 June 2026	8,000 million
16 Harbin Bank leasing financial bonds 01	27 July 2016	100	3.50%	29 July 2016	29 July 2019	1,000 million
17 Harbin Bank Green Finance 01	6 April 2017	100	4.79%	11 April 2017	11 April 2020	2,000 million
17 Harbin Bank Green Finance 02	5 May 2017	100	4.68%	10 May 2017	10 May 2020	2,000 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	2 May 2018	100	5.48%	4 May 2018	4 May 2021	1,000 million

For the six-month period ended 30 June 2018 and the year ended 31 December 2017, the Group issued 176 tranches and 261 tranches of interbank negotiable certificates of deposit through the domestic interbank bond market respectively, at a face value of RMB100 and sold them at discount. As at 30 June 2018 and 31 December 2017, 239 tranches and 137 tranches of negotiable certificates of deposit issued by the Group have not yet expired, the balances of which were RMB96.64 billion and RMB73.34 billion respectively, with a time limit of 1 month to 1 year.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

30. Other liabilities

	Group	
	30 June 2018	31 December 2017
Interest payable (a)	5,851,113	6,014,262
Wealth management products payable	4,474	4,758
Settlement and clearing accounts	1,677,423	753,723
Account payable from agency services	741,758	378,851
Salaries, bonuses, allowances and subsidies payable (b)	269,647	557,036
Sundry tax payables	253,296	225,764
Deferred revenue (c)	406,394	449,389
Dividends payable	578,469	28,689
Accrued expenses	45,035	57,636
Lease guarantee fee	1,075,757	950,278
Other payables	508,908	541,206
Contingent liabilities	92,801	—
	11,505,075	9,961,592

(a) Interest payable

	Group	
	30 June 2018	31 December 2017
Due to banks	477,879	552,613
Due to customers	5,275,070	4,999,649
Repurchase agreements	1,822	10,952
Bonds payable	96,342	451,048
	5,851,113	6,014,262

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

30. Other liabilities (Continued)

(b) Salaries, bonuses, allowances and subsidies payable

	Group	
	30 June 2018	31 December 2017
Salaries, bonuses and allowances	196,245	511,845
Social insurance	23,390	8,785
Housing fund	14,009	4,593
Labour union expenditure and education costs	9,152	8,476
Early retirement benefits	26,851	23,337
	269,647	557,036

(c) Deferred revenue

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

	Group	
	30 June 2018	31 December 2017
Intermediary services	406,394	449,389

31. Share capital

	Bank			
	2018		2017	
	Number of shares (thousand)	Nominal value	Number of shares (thousand)	Nominal value
At 1 January	10,995,600	10,995,600	10,995,600	10,995,600
Changes in the current period/year	—	—	—	—
As at 30 June 2018/31 December 2017	10,995,600	10,995,600	10,995,600	10,995,600

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

32. Capital reserve

	Share premium	Other capital reserve	Total
At 1 January 2017	7,624,993	10,716	7,635,709
Increase during the year	–	1,158	1,158
Decrease during the year	–	–	–
At 31 December 2017	7,624,993	11,874	7,636,867
Increase during the period	–	–	–
Decrease during the period	–	–	–
At 30 June 2018	7,624,993	11,874	7,636,867

33. Surplus reserves

	Statutory surplus reserve	Discretionary surplus reserve	Total
At 1 January 2017	2,383,545	26,186	2,409,731
Appropriation during the year	486,452	–	486,452
At 31 December 2017	2,869,997	26,186	2,896,183
Appropriation during the period	–	–	–
At 30 June 2018	2,869,997	26,186	2,896,183

The Bank is required to appropriate 10% of its net profit pursuant to the Company Law of the People's Republic of China to the statutory surplus reserve until the reserve balance exceeds 50% of its registered capital. Subject to the approval of the shareholders, the statutory surplus reserve may be used to replenish the accumulated losses or increase the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

34. General and regulatory reserves

	30 June 2018	31 December 2017
Balance as at the beginning of the period/year	6,805,820	5,481,049
Increase during the period/year	295,260	1,324,771
Balance as at the end of the period/year	7,101,080	6,805,820

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

35. Undistributed profits

	30 June 2018	31 December 2017
Balance as at the end of the previous year	13,452,019	10,014,136
Impact of adopting IFRS 9	(863,528)	–
Balance as at the beginning of the year	12,588,491	10,014,136
Profit for the period/year attributable to owners of the parent	2,605,826	5,249,106
Net of:		
Appropriation to statutory surplus reserves	–	(486,452)
Appropriation to statutory general and regulatory reserves	(295,260)	(1,324,771)
Cash dividends payable of ordinary shares	(549,780)	–
Balance as at the end of the period/year	14,349,277	13,452,019

An ordinary share dividend of RMB0.5 per share in respect of the profit for the year ended 31 December 2017 was approved by the equity holders of the Group at the Annual General Meeting of 2017 held in May 2018.

As approved by the equity holders of the Group at the Annual General Meeting of 2016 held in May 2017, the Group did not distribute any cash dividends.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

36. 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	
	2018	2017
Items that will not be reclassified to profit or loss		
Changes in fair value of equity instruments measured at fair value through other comprehensive income	12,638	–
Items that may be reclassified to profit or loss		
Changes in fair value of debt instruments measured at fair value through other comprehensive income	411,035	–
Changes in fair value of available-for-sale financial assets	–	(267,501)
Transfer to the statement of profit or loss arising from disposal	983	5,088
Income tax effect	(106,163)	65,604
	318,493	(196,809)

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

	Gain/(loss) on financial assets investment at fair value through other comprehensive income	Changes in fair value of available-for- sale financial assets	Share of other comprehensive income of an associate to be reclassified to profit or loss subsequently under the equity method	Total
As at 1 January 2017	–	(93,277)	64,860	(28,417)
Changes in amount for the previous year	–	(432,741)	(64,860)	(497,601)
As at 31 December 2017	–	(526,018)	–	(526,018)
Impact of adopting IFRS 9	(501,118)	526,018	–	24,900
As at 1 January 2018	(501,118)	–	–	(501,118)
Changes in amount for the period	318,493	–	–	318,493
As at 30 June 2018	(182,625)	–	–	(182,625)

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

37. Cash and cash equivalents

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

	Group	
	30 June 2018	30 June 2017
Cash on hand (note 14)	810,084	692,844
Balances with the central bank (note 14)	21,276,710	12,978,567
Due from banks and other financial institutions	6,096,235	9,099,770
Reverse repurchase agreements	1,264,400	14,518,900
	29,447,429	37,290,081

38. Commitments and contingent liabilities

(a) Capital commitments

The Group had capital commitments as follows:

	Group	
	30 June 2018	31 December 2017
Contracted, but not provided	755,077	771,185

(b) Operating lease commitments

Operating lease commitments – Lessee

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

	Group	
	30 June 2018	31 December 2017
Within one year	301,193	282,869
After one year but not more than five years	665,338	675,452
After five years	150,107	170,551
	1,116,638	1,128,872

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

38. Commitments and contingent liabilities *(Continued)*

(c) Credit commitments

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

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

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

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of undrawn credit card limits are under the assumption that the amounts will be fully advanced. The amounts for bank bill acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the reporting period had the counterparties failed to perform as contracted.

	Group	
	30 June 2018	31 December 2017
Bank bill acceptances	49,047,442	58,339,376
Letters of guarantee issued	6,329,889	8,778,764
Letters of credit	7,729,531	6,722,094
Undrawn credit card limits	12,163,751	9,266,766
	75,270,613	83,107,000

(d) Legal proceedings

As at 30 June 2018 and 31 December 2017, significant legal proceedings exceed RMB10,000 thousand outstanding against the Group amounted to RMB69,000 thousand and RMB69,000 thousand respectively. Management expects that there will be no loss caused by these litigations and no provisions need to be made.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

38. Commitments and contingent liabilities *(Continued)*

(e) Redemption commitments of government bonds

As an underwriting agent of the government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 30 June 2018, the Bank had underwritten and sold bonds with an accumulated amount of RMB2,864 million (31 December 2017: RMB2,740 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

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

(f) Assets pledged as security

Financial assets of the Group including debt securities and bills have been pledged as security for liabilities or contingent liabilities which mainly arise from repurchase agreements and negotiated deposits. As at 30 June 2018, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB14,643 million (31 December 2017: approximately RMB14,485 million).

39. Fiduciary activities

	Group	
	30 June 2018	31 December 2017
Designated funds	5,977,481	6,690,147
Designated loans	5,977,481	6,690,147

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

40. Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose 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 2018 and 31 December 2017, none of the above-mentioned financial assets and related financial liabilities were transferred to third parties while that did not qualify for derecognition in the Group.

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.

As at 30 June 2018, the Group derecognised the transferred credit assets in their entirety in the credit assets securitisation transactions. The book value of the corresponding total carrying amount of asset-backed securities held by the Group in the credit assets securitisation transactions invested was RMB985,151 thousand as at 30 June 2018 (31 December 2017: RMB641,464 thousand), which also approximates to the Group's maximum exposure to loss.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

41. Interests in unconsolidated financial statement of the structured entities

The Group is principally involved with structured entities through financial investments, asset management and credit assets transfer, etc. 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 into consolidated financial statement, depending on the Group's controls on them. The interests held by the Group in the unconsolidated financial statement of the structured entities are set out below:

41.1 Unconsolidated structured entities managed by the Group

(1) *Wealth management products*

When conducting wealth management businesses, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 30 June 2018, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB66,589 million (31 December 2017: RMB67,308 million). For the six-month period ended 30 June 2018, fee and commission income included commission and custodian fee and management fee income from the wealth management business that amounted to RMB281,159 thousand (for the six-month period ended 30 June 2017: RMB271,152 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 2018, the Group did not provide any financing to the unconsolidated wealth management products (for the six-month period ended 30 June 2017: 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 structured entities are not significant.

For the six-month period ended 30 June 2018, the Group did not transfer credit assets to the special purpose trust entities set up in credit assets securitisation transactions (for the six-month period ended 30 June 2017: RMB5,621,844 thousand).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

41. Interests in unconsolidated structured entities (Continued)

41.2 Interests in Structured entities sponsored by third party 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 months ended 30 June 2018 and the year ended 2017, the Group has not provided liquidity support for these structured entities.

As at 30 June 2018, the interests held by the Group through direct investments in the structured entities sponsored by thirty party financial institutions are set out below:

	As at 30 June 2018			
	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total	Maximum exposure to loss
Wealth management products	100,096	–	100,096	100,096
Investment trusts and asset management plans	15,644,077	131,491,386	147,135,463	144,508,604
Funds	500,000	–	500,000	500,000

	As at 31 December 2017			
	Available-for- sale financial assets	Debt instruments classified as receivables	Total	Maximum exposure to loss
Wealth management products	100,000	–	100,000	100,000
Investment trusts and asset management plans	553,840	145,266,489	145,820,329	143,505,210
Funds	28,100	–	28,100	28,100

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

42. Related party disclosures

(a) Significant related party disclosures

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

Name	Share percentage in the Bank	
	30 June 2018	31 December 2017
	%	%
Harbin Economic Development and Investment Company	19.65	19.65
Fubon Life Insurance Company Limited	7.03	7.03
Harbin Kechuang Xingye Investment Company Limited	6.55	6.55
Heilongjiang Keruan Software Technology Company Limited	6.55	6.55
Heilongjiang Xin Yongsheng Trading Company Limited	5.82	5.82
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	5.20	5.20

(ii) Subsidiaries of the Bank

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

(iii) Key management personnel of the Group and their close family members (including spouse, children aged 18 or above and their spouse, parents and spouse's parent, siblings and their spouses, spouse's siblings, parents of children's spouses).

(iv) Legal person or other entities directly or indirectly controlled or jointly controlled by director, supervisor, senior management of the Group and their close family members or acting by its own as a director or senior management.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

42. Related party disclosures (Continued)

(b) Related party transactions

1. Transactions between the Group and related parties

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

Deposit interest expense

	For the six-month period ended 30 June	
Related party name	2018	2017
Harbin Economic Development and Investment Company	12,941	8,005
Heilongjiang Xin Yongsheng Trading Company Limited	30	8
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	38	32

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

	For the six-month period ended 30 June	
Transaction name	2018	2017
Loan interest income	807	545
Deposit interest expense	88	34

- (iii) Transactions with the Group's controlling subsidiaries

	For the six-month period ended 30 June	
Transaction name	2018	2017
Interest income	97,755	19,219
Interest expense	19,333	24,002

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

42. Related party disclosures (Continued)

(b) Related party transactions (Continued)

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

- (iv) Transactions with the legal person or other entities directly or indirectly controlled or jointly controlled by director, supervisor, senior management of the Group and their close family members or acting by its own as a director or senior management.

Deposit interest expense

Related party name	For the six-month period ended 30 June	
	2018	2017
Dalian Port Company Limited	1,290	1,561
Sino Russian Financial Union (Harbin)	18	–
Huaxia Life Insurance Company Limited	–	44,758

Commission income

Related party name	For the six-month period ended 30 June	
	2018	2017
Da Cheng Fund Management Company Limited (i)	3,607	767

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

(v) Transactions with other related parties

Transaction name	For the six-month period ended 30 June	
	2018	2017
Emoluments of key management personnel and their close family members	11,331	12,228

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.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

42. 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

Deposits

Related party name	30 June 2018	31 December 2017
Harbin Economic Development and Investment Company	1,837,375	4,024,434
Heilongjiang Xin Yongsheng Trading Company Limited	101	2,474
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	11,898	186

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

Transaction name	30 June 2018	31 December 2017
Loans	33,478	27,700
Deposits	20,720	13,191

(iii) Balances with the Group's controlling subsidiaries

Transaction name	30 June 2018	31 December 2017
Deposits and loans of due from banks and other financial institutions	8,820,000	1,159,000
Due to banks	2,937,452	5,594,619
Interest receivable	78,968	21,289
Interest payable	12,562	7,875
Other assets	–	3,008
Deposits	8,102	425,762

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

42. Related party disclosures (Continued)

(b) Related party transactions (Continued)

2. Balances with related parties (Continued)

- (iv) Balances with the legal person or other entities directly or indirectly controlled or jointly controlled by director, supervisor, senior management of the Group and their close family members or acting by its own as a director or senior management.

Deposits

	30 June 2018	31 December 2017
Related party name		
Dalian Port Company Limited	180,038	100,027
Sino Russian Financial Union (Harbin)	7,878	–

As at 30 June 2018, the Group's unconsolidated non-guaranteed wealth management products purchased "2014 Huaxia subordinated bond", which was issued by Huaxia Life Insurance Company Limited, the balance of which is RMB400,000 thousand (31 December 2017: RMB400,000 thousand).

43. Segment information

(a) Operating segments

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

Corporate financial business

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

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, etc.

Interbank financial business

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

Other business

This represents business 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.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

43. Segment information (Continued)

(a) Operating segments (Continued)

Other business (Continued)

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.

	Corporate financial business	Retail financial business	Interbank financial business	Other business	Total
<u>Six months ended 30 June 2018</u>					
External net interest income	521,721	1,954,277	2,495,059	–	4,971,057
Internal net interest income/(expense)	1,159,411	(83,010)	(1,076,401)	–	–
Net fee and commission income	266,034	292,532	572,960	–	1,131,526
Other income net (i)	8,692	–	401,977	24,511	435,180
Operating income	1,955,858	2,163,799	2,393,595	24,511	6,537,763
Operating expenses	(562,106)	(520,355)	(816,435)	(21,813)	(1,920,709)
Impairment losses on:					
Loans and advances to customers	(499,864)	(413,692)	–	–	(913,556)
Other	(183,158)	–	(33,115)	–	(216,273)
Operating profit	710,730	1,229,752	1,544,045	2,698	3,487,225
Profit before tax	710,730	1,229,752	1,544,045	2,698	3,487,225
Income tax expense					(879,197)
Profit for the period					2,608,028
Other segment information:					
Depreciation and amortisation	76,583	70,895	118,150	424	266,052
Capital expenditure	85,417	79,073	131,780	472	296,742
<u>As at 30 June 2018</u>					
Segment assets	198,251,024	133,857,561	239,279,624	553,267	571,941,476
Segment liabilities	245,182,062	132,359,333	148,632,982	1,824,771	527,999,148
Other segment information:					
Credit commitments	63,106,862	12,163,751	–	–	75,270,613

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

43. Segment information (Continued)

(a) Operating segments (Continued)

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

43. Segment information *(Continued)*

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows:

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

43. Segment information (Continued)

(b) Geographical information (Continued)

	Mainland China					Total
	Heilongjiang region	Other northeastern regions in China	Southwestern China	Northern China	Other regions	
<u>Six months ended 30 June 2018</u>						
External net interest income	4,090,331	118,889	335,583	208,986	217,268	4,971,057
Internal net interest income/(expense)	(1,003,887)	442,621	461,550	92,615	7,101	–
Net fee and commission income	823,928	99,698	79,033	120,051	8,816	1,131,526
Other income, net (i)	431,709	962	749	446	1,314	435,180
Operating income	4,342,081	662,170	876,915	422,098	234,499	6,537,763
Operating expenses	(1,371,916)	(154,137)	(220,267)	(96,571)	(77,818)	(1,920,709)
Impairment losses on:						
Loans and advances to customers	(333,688)	(101,211)	(307,472)	(140,439)	(30,746)	(913,556)
Other	(209,207)	(1,871)	(3,312)	(1,396)	(487)	(216,273)
Operating profit	2,427,270	404,951	345,864	183,692	125,448	3,487,225
Profit before tax	2,427,270	404,951	345,864	183,692	125,448	3,487,225
Income tax expense						(879,197)
Profit for the period						2,608,028
Other segment information:						
Depreciation and amortisation	189,313	15,042	46,960	5,316	9,421	266,052
Capital expenditure	198,142	20,298	44,307	23,405	10,590	296,742
<u>As at 30 June 2018</u>						
Segment assets	424,761,657	45,875,848	56,760,212	34,964,509	9,579,250	571,941,476
Segment liabilities	355,691,442	50,545,685	68,259,273	45,302,651	8,200,097	527,999,148
Other segment information:						
Credit commitments	28,236,299	12,454,021	22,050,557	9,292,272	3,237,464	75,270,613

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

43. Segment information (Continued)

(b) Geographical information (Continued)

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. 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 contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

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

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

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance of the financial instruments at the balance sheet date of the current 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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. 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 a credit loss occurring 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 borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Modification of contractual cash flows

Criteria for judging significant increases in credit risk

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. 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/the PD of the financial instruments reaches a certain extent, compared with the one at initial recognition.

Qualitative criteria

- The credit risk event of the debtor which is highly likely to lead to significant adverse effects;
- The debtor meets problems of cash flows or liquidity, i.e. overdue loans;
- The debtor is unwilling to repay the debt, i.e. debt dodge, fraud;
- The debtor defaults on loans outside the Group, resulting in non-performing assets in PBOC credit system;
- Credit spread increases significantly; and
- For collateralised and pledged loans, change of the value of collateral might incur a rise in credit risk.

Baseline criteria

- Be classified into Special Mention category.

Definition of credit-impaired financial asset

The method adopted by the Group to determine whether a credit impairment occurs under IFRS 9 – Financial Instruments is consistent with the internal credit risk management objectives of the relevant financial instrument, and takes into account quantitative and qualitative criteria. When the Group assesses whether a credit impairment of a debtor occurs, the following main factors are considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, has granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. 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 – Financial Instruments, 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.

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.

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

In addition to providing a baseline economic scenario, 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 I) or life time (stage II and stage III) for the measurement of the related impairment allowance. The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. 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:

	Group	
	30 June 2018	31 December 2017
Balances with the central bank	60,421,799	68,523,309
Due from banks and other financial institutions	16,240,620	20,626,087
Financial assets at fair value through profit or loss	19,141,845	–
Financial assets held for trading	–	4,540,089
Reverse repurchase agreements	1,264,390	4,775,700
Loans and advances to customers	243,423,508	230,646,535
Derivative financial assets	4,193	22,841
Financial investments		
– Financial assets at amortised cost	158,521,658	–
– Financial assets at fair value through other comprehensive income	35,692,638	–
– Debt instruments classified as receivables	–	143,051,479
– Held-to-maturity investments	–	27,279,545
– Available-for-sale financial assets	–	29,598,154
Finance lease receivables	16,754,719	15,759,176
Others	7,958,433	7,141,209
	559,423,803	551,964,124
Credit commitments	75,270,613	83,287,000
Total maximum credit risk exposure	634,694,416	635,251,124

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(iii) Risk concentrations

By industry distribution

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

	Group	
	30 June 2018	31 December 2017
Agriculture, forestry, animal husbandry and fishing	3,069,779	3,438,945
Mining	230,679	324,895
Manufacturing	10,980,375	11,612,529
Production and supply of electricity, gas and water	3,122,192	3,588,720
Construction	10,328,001	6,088,702
Transportation, storage and postal services	3,878,415	3,712,895
Information transmission, computer services and software	1,071,584	1,093,027
Commercial trade	35,598,469	33,717,160
Lodging and catering	3,163,359	3,375,677
Finance	199,980	5,000
Real estate	18,133,084	13,726,652
Leasing and commercial services	30,906,082	23,418,895
Scientific research, technological services and geological prospecting	391,740	329,896
Water, environment and public utility management and investment industry	10,567,156	10,477,581
Resident services and other services	392,007	490,527
Education	422,864	391,673
Health, social security and social welfare	1,331,966	1,143,360
Culture, sports and entertainment	1,030,610	1,117,950
Public administration and social organisations	422,497	423,496
Subtotal for corporate loans and advances	135,240,839	118,477,580
Personal business	32,195,836	32,841,427
Personal consumption	67,956,883	75,431,921
Loans to farmers	13,576,988	10,102,440
Subtotal for personal loans	113,729,707	118,375,788
Discounted bills	2,178,434	544,417
Total for loans and advances to customers	251,148,980	237,397,785

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(iv) Loans and advances to customers

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

	Group	
	30 June 2018	31 December 2017
Neither past due nor impaired	237,706,352	228,056,765
Past due but not impaired	8,936,454	5,304,009
Impaired	4,506,174	4,037,011
	251,148,980	237,397,785
Less: Allowance for impairment losses	(7,725,472)	(6,751,250)
	243,423,508	230,646,535

Neither past due nor impaired

The management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the reporting period.

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

Group

	30 June 2018		
	Pass	Special mention	Total
Unsecured loans	32,246,481	27,885	32,274,366
Guaranteed loans	67,881,954	1,379,608	69,261,562
Loans secured by mortgages	107,942,934	897,164	108,840,098
Pledged loans	27,302,326	28,000	27,330,326
	235,373,695	2,332,657	237,706,352

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(iv) Loans and advances to customers (Continued)

Neither past due nor impaired (Continued)

Group (Continued)

	31 December 2017		
	Pass	Special mention	Total
Unsecured loans	34,466,622	41,064	34,507,686
Guaranteed loans	60,537,172	1,184,132	61,721,304
Loans secured by mortgages	100,605,714	1,729,552	102,335,266
Pledged loans	29,492,480	29	29,492,509
	225,101,988	2,954,777	228,056,765

Past due but not impaired

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

Group

	30 June 2018		
	Corporate loans and advances	Personal loans	Total
Past due for:			
Less than one month	2,296,012	1,635,011	3,931,023
One to two months	1,794,892	679,113	2,474,005
Two to three months	1,100,495	797,046	1,897,541
Over three months	361,019	272,866	633,885
	5,552,418	3,384,036	8,936,454
Fair value of collateral held	9,249,146	3,232,811	12,481,957

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(iv) Loans and advances to customers (Continued)

Past due but not impaired (Continued)

Group (Continued)

	31 December 2017		
	Corporate loans and advances	Personal loans	Total
Past due for:			
Less than one month	1,702,176	744,060	2,446,236
One to two months	659,381	633,456	1,292,837
Two to three months	591,588	344,533	936,121
Over three months	465,114	163,701	628,815
	3,418,259	1,885,750	5,304,009
Fair value of collateral held	6,204,542	1,972,942	8,177,484

Impaired

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

The fair values of collateral that the Group holds relating to impaired corporate loans as at 30 June 2018 amounted to RMB2,145,299 thousand (31 December 2017: RMB2,486,566 thousand). The collateral mainly consists of land, buildings, and others.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(iv) Loans and advances to customers (Continued)

Impaired (Continued)

Loans and advances to customers analysed by the five-tier loan classification and the three stages:

	30 June 2018			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL- impaired)	
Pass	238,664,945	837,104	–	239,502,049
Special mention	–	7,140,757	–	7,140,757
Substandard	–	–	1,185,093	1,185,093
Doubtful	–	–	1,908,233	1,908,233
Loss	–	–	1,412,848	1,412,848
Total	238,664,945	7,977,861	4,506,174	251,148,980

(v) Financial lease receivables

	Group	
	30 June 2018	31 December 2017
The lease amount		
Neither past due nor impaired	16,252,878	14,947,659
Past due but not impaired	674,288	718,835
Impaired	359,631	385,981
Subtotal	17,286,797	16,052,475
Less: Allowance for impairment losses	(532,078)	(293,299)
Net amount	16,754,719	15,759,176

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(vi) Debt securities

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

Financial assets at amortised cost analysed by the five-tier loan classification and the three stages:

	30 June 2018			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL- impaired)	
Pass	156,581,587	–	–	156,581,587
Special mention	–	1,698,988	–	1,698,988
Impaired	–	–	2,916,993	2,916,993
Subtotal	156,581,587	1,698,988	2,916,993	161,197,568
Allowance for impairment losses	(983,532)	(575,240)	(1,117,138)	(2,675,910)
Net balance	155,598,055	1,123,748	1,799,855	158,521,658

Debt securities at fair value through other comprehensive income analysed by the five-tier loan classification and the three stages:

	Six-month period ended 30 June 2018			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL- impaired)	
Pass	35,612,559	–	–	35,612,559

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(a) Credit risk (Continued)

(vi) Debt securities (Continued)

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

	31 December 2017				
	Debt instruments classified as receivables	Held-to- maturity investments	Available- for-sale financial assets	Financial assets held for trading	Total
Neither past due nor impaired					
Governments and the central bank	100,109	6,121,028	7,222,030	827,305	14,270,472
Policy banks	–	14,554,768	10,790,798	126,007	25,471,573
Banks and other financial institutions	–	2,769,872	7,749,922	3,527,087	14,046,881
Corporate entities	140,283,296	3,833,877	3,835,404	59,690	148,012,267
Subtotal	140,383,405	27,279,545	29,598,154	4,540,089	201,801,193
Past due but not impaired					
Corporate entities	2,722,876	–	–	–	2,722,876
Subtotal	2,722,876	–	–	–	2,722,876
Impaired					
Corporate entities	2,260,317	–	–	–	2,260,317
Subtotal	2,260,317	–	–	–	2,260,317
Less: Allowance for impairment losses	(2,315,119)	–	–	–	(2,315,119)
Total	143,051,479	27,279,545	29,598,154	4,540,089	204,469,267

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(b) Liquidity risk

(i) Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

Group

30 June 2018	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows								
Financial assets:								
Cash and balances with the central bank	22,086,794	-	-	-	-	-	39,145,089	61,231,883
Due from banks and other financial institutions (*)	4,510,536	4,544,945	5,816,494	2,486,557	557,196	-	-	17,915,728
Financial assets at fair value through profit or loss	500,000	91,356	204,841	8,321,776	9,214,195	2,590,896	-	20,923,064
Loans and advances to customers	-	18,178,511	21,446,409	73,683,063	83,221,897	110,878,298	9,315,463	316,723,641
Financial investments	-	5,735,035	13,292,002	51,564,501	115,330,356	34,010,344	3,003,800	222,936,038
Finance lease receivables	-	609,736	746,114	5,347,076	10,754,061	198,973	854,416	18,510,376
Other financial assets	399,315	3,453,103	27,823	94,460	27,998	17,399	-	4,020,098
Total financial assets	27,496,645	32,612,686	41,533,683	141,497,433	219,105,703	147,695,910	52,318,768	662,260,828

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(b) Liquidity risk (Continued)

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

Group (Continued)

30 June 2018	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Financial liabilities:								
Due to the central bank	-	109,692	24,586	521,063	-	-	-	655,341
Borrowings from banks and other financial institutions	-	1,489,794	3,921,574	3,426,778	548,473	-	-	9,386,619
Due to banks (**)	31,043	3,489,913	7,091,567	14,051,213	-	-	-	24,663,736
Due to customers	130,865,848	9,390,286	68,706,796	122,317,889	50,932,640	4,153,885	-	386,367,344
Debt securities issued	-	1,505,000	35,480,000	62,481,700	8,756,500	8,960,000	-	117,183,200
Other financial liabilities	2,426,317	627,368	104,355	356,730	1,102,769	14,285	-	4,631,824
Total financial liabilities	133,323,208	16,612,053	115,328,878	203,155,373	61,340,382	13,128,170	-	542,888,064
Net position	(105,826,563)	16,000,633	(73,795,195)	(61,657,940)	157,765,321	134,567,740	52,318,768	119,372,764
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	-	-	10,967	1,568,213	138,574	-	-	1,717,754
Total outflow	-	-	10,954	1,576,282	138,984	-	-	1,726,220
Credit commitments	12,438,403	2,768,806	23,869,387	35,218,246	975,771	-	-	75,270,613

(*) Includes reverse repurchase agreements

(**) Includes repurchase agreements

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(b) Liquidity risk (Continued)

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

Group (Continued)

31 December 2017	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Non-derivative cash flows								
Financial assets:								
Cash and balances with the central bank	21,698,436	-	-	-	-	-	47,834,725	69,533,161
Due from banks and other financial institutions (*)	4,613,799	10,143,689	5,135,688	5,498,265	337,658	-	-	25,729,099
Financial assets held for trading	-	306,606	3,255,550	75,819	562,190	569,938	-	4,770,103
Loans and advances to customers	-	15,255,671	17,795,919	85,065,929	72,374,550	103,029,693	7,737,110	301,258,872
Financial investments	-	13,292,654	7,122,180	55,553,193	113,578,091	35,121,055	4,041,431	228,708,604
Finance lease receivables	-	564,997	701,521	4,779,368	10,011,595	158,061	1,003,288	17,218,830
Other financial assets	69,520	3,008,302	31,530	61,698	19,560	18,190	-	3,208,800
Total financial assets	26,381,755	42,571,919	34,042,388	151,034,272	196,883,644	138,896,937	60,616,554	650,427,469

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(b) Liquidity risk (Continued)

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

Group (Continued)

31 December 2017	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Overdue/ Undated	Total
Financial liabilities:								
Due to the central bank	-	50,970	19,672	457,694	-	-	-	528,336
Borrowings from banks and other financial institutions	-	1,756,505	295,895	10,410,297	701,594	-	-	13,164,291
Due to banks (**)	22,257	5,506,929	4,056,595	19,645,275	-	-	-	29,231,056
Due to customers	154,004,536	14,438,422	41,776,369	127,181,585	52,923,010	1,922,748	-	392,246,670
Debt securities issued	-	7,030,000	28,610,000	43,819,900	7,883,800	9,280,000	-	96,623,700
Other financial liabilities	1,148,677	110,753	290,617	812,246	328,764	400	-	2,691,457
Total financial liabilities	155,175,470	28,893,579	75,049,148	202,326,997	61,837,168	11,203,148	-	534,485,510
Net position	(128,793,715)	13,678,340	(41,006,760)	(51,292,725)	135,046,476	127,693,789	60,616,554	115,941,959
Derivative cash flows								
Derivative financial instruments settled on a gross basis								
Total inflow	-	-	1,022,489	-	-	-	-	1,022,489
Total outflow	-	-	1,032,764	-	-	-	-	1,032,764
Credit commitments	9,266,766	3,010,936	8,493,865	60,230,607	2,104,826	-	180,000	83,287,000

(*) Includes reverse repurchase agreements

(**) Includes repurchase agreements

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management *(Continued)*

(c) Market risk

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

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

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

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

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

(i) Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD, Russian ruble ("RUB") and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's treasury operations and foreign exchange dealings.

The exchange rate of RMB to USD is managed under a floating exchange rate system.

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management *(Continued)*

(c) Market risk *(Continued)*

(i) Currency risk *(Continued)*

Group

		Effect on profit before tax	
Currency	Change in rate	30 June	31 December
		2018	2017
USD	-1%	(29,080)	(20,320)
HKD	-1%	(1,254)	160
RUB	-1%	(669)	(715)

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

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

Group

30 June 2018

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	RUB (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Financial assets:						
Cash and balances with the central bank	61,138,615	76,642	1,051	12,092	3,483	61,231,883
Due from banks and other financial institutions	13,316,422	2,568,351	159,827	80,115	115,905	16,240,620
Financial assets at fair value through profit or loss	19,141,845	–	–	–	–	19,141,845
Derivative financial assets	–	4,193	–	–	–	4,193
Reverse repurchase agreements	1,264,390	–	–	–	–	1,264,390
Loans and advances to customers	242,847,500	568,208	–	–	7,800	243,423,508
Financial investments	194,214,296	–	–	–	–	194,214,296
Finance lease receivables	16,754,719	–	–	–	–	16,754,719
Other financial assets	7,951,328	7,022	–	–	83	7,958,433
Total financial assets	556,629,115	3,224,416	160,878	92,207	127,271	560,233,887
Financial liabilities:						
Due to the central bank	646,920	–	–	–	–	646,920
Borrowings from banks and other financial institutions	9,156,345	–	–	–	–	9,156,345
Due to banks	21,661,440	8,863	–	20,352	25,250	21,715,905
Derivative financial liabilities	3,837	5,191	–	–	3,631	12,659
Repurchase agreements	2,178,000	–	–	–	–	2,178,000
Due to customers	369,008,572	1,184,204	1,159	4,932	401,405	370,600,272
Debt securities issued	111,630,433	–	–	–	–	111,630,433
Other financial liabilities	10,423,920	24,163	34,354	16	484	10,482,937
Total financial liabilities	524,709,467	1,222,421	35,513	25,300	430,770	526,423,471
Net position	31,919,648	2,001,995	125,365	66,907	(303,499)	33,810,416
Credit commitments	75,086,192	184,421	–	–	–	75,270,613

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

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

Group (Continued)

31 December 2017

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	RUB (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Financial assets:						
Cash and balances with						
the central bank	69,361,340	161,551	1,167	7,026	2,077	69,533,161
Due from banks and other financial						
institutions	17,049,290	3,301,779	18,093	152,393	104,532	20,626,087
Financial assets held for trading	4,540,089	–	–	–	–	4,540,089
Derivative financial assets	22,841	–	–	–	–	22,841
Reverse repurchase agreements	4,775,700	–	–	–	–	4,775,700
Loans and advances to customers	229,913,397	730,512	–	–	2,626	230,646,535
Financial investments	199,929,178	–	–	–	–	199,929,178
Finance lease receivables	15,759,176	–	–	–	–	15,759,176
Other financial assets	7,069,550	71,656	–	–	3	7,141,209
Total financial assets	548,420,561	4,265,498	19,260	159,419	109,238	552,973,976
Financial liabilities:						
Due to the central bank	521,110	–	–	–	–	521,110
Borrowings from banks and other						
financial institutions	12,798,091	–	–	–	–	12,798,091
Due to banks	23,500,135	99,886	–	10,339	11,703	23,622,063
Derivative financial liabilities	–	33,116	–	–	–	33,116
Repurchase agreements	4,590,000	–	–	–	–	4,590,000
Due to customers	375,846,707	2,083,265	1,181	77,610	249,635	378,258,398
Debt securities issued	91,333,990	–	–	–	–	91,333,990
Other financial liabilities	8,649,383	17,225	34,060	–	46	8,700,714
Total financial liabilities	517,239,416	2,233,492	35,241	87,949	261,384	519,857,482
Net position	31,181,145	2,032,006	(15,981)	71,470	(152,146)	33,116,494
Credit commitments	83,165,970	121,030	–	–	–	83,287,000

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk

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

Group

30 June 2018

	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	60,421,799	–	–	–	810,084	61,231,883
Due from banks and other financial institutions	13,333,019	2,369,094	538,507	–	–	16,240,620
Financial assets at fair value through profit or loss	7,296,503	6,914,573	2,490,850	2,439,919	–	19,141,845
Derivative financial assets	–	–	–	–	4,193	4,193
Reverse repurchase agreements	1,264,390	–	–	–	–	1,264,390
Loans and advances to customers	99,218,399	119,514,722	14,469,569	2,048,481	8,172,337	243,423,508
Financial investments	34,278,022	36,601,462	91,706,455	28,618,521	3,009,836	194,214,296
Finance lease receivables	15,062,062	617,934	296,608	–	778,115	16,754,719
Other financial assets	–	–	–	–	7,958,433	7,958,433
Total financial assets	230,874,194	166,017,785	109,501,989	33,106,921	20,732,998	560,233,887
Financial liabilities:						
Due to the central bank	131,000	515,920	–	–	–	646,920
Borrowings from banks and other financial institutions	5,280,000	3,345,000	531,345	–	–	9,156,345
Due to banks	8,035,905	13,680,000	–	–	–	21,715,905
Derivative financial liabilities	–	–	–	–	12,659	12,659
Repurchase agreements	2,178,000	–	–	–	–	2,178,000
Due to customers	204,318,349	117,542,982	46,881,200	1,385,599	472,142	370,600,272
Debt securities issued	36,654,231	59,983,996	6,992,952	7,999,254	–	111,630,433
Other financial liabilities	–	–	–	–	10,482,937	10,482,937
Total financial liabilities	256,597,485	195,067,898	54,405,497	9,384,853	10,967,738	526,423,471
Total interest sensitivity gap	(25,723,291)	(29,050,113)	55,096,492	23,722,068	N/A	N/A

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

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

Group (Continued)

31 December 2017

	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	68,523,309	–	–	–	1,009,852	69,533,161
Due from banks and other financial institutions	14,955,885	5,337,376	332,826	–	–	20,626,087
Financial assets held for trading	3,527,088	40,102	449,169	523,730	–	4,540,089
Derivative financial assets	–	–	–	–	22,841	22,841
Reverse repurchase agreements	4,775,700	–	–	–	–	4,775,700
Loans and advances to customers	90,590,859	101,269,365	28,005,388	4,232,578	6,548,345	230,646,535
Financial investments	29,780,560	46,631,165	90,193,054	29,280,093	4,044,306	199,929,178
Finance lease receivables	13,755,647	678,664	331,969	–	992,896	15,759,176
Other financial assets	–	–	–	–	7,141,209	7,141,209
Total financial assets	225,909,048	153,956,672	119,312,406	34,036,401	19,759,449	552,973,976
Financial liabilities:						
Due to the central bank	67,960	453,150	–	–	–	521,110
Borrowings from banks and other financial institutions	1,900,000	10,231,614	666,477	–	–	12,798,091
Due to banks	4,538,063	19,084,000	–	–	–	23,622,063
Derivative financial liabilities	–	–	–	–	33,116	33,116
Repurchase agreements	4,590,000	–	–	–	–	4,590,000
Due to customers	206,769,654	121,456,085	48,804,262	1,123,530	104,867	378,258,398
Debt securities issued	35,381,283	41,959,194	5,994,837	7,998,676	–	91,333,990
Other financial liabilities	–	–	–	–	8,700,714	8,700,714
Total financial liabilities	253,246,960	193,184,043	55,465,576	9,122,206	8,838,697	519,857,482
Total interest sensitivity gap	(27,337,912)	(39,227,371)	63,846,830	24,914,195	N/A	N/A

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management *(Continued)*

(d) Capital management

The Group's objectives of capital management are:

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

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

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by the former CBRC. 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 former CBRC, commercial banks should reach the regulatory requirements of the capital adequacy ratio by the end of 2018. The regulatory requirements request a commercial bank to maintain its core tier 1 capital adequacy ratio above 7.5%, the tier 1 capital adequacy ratio above 8.5% and the capital adequacy ratio above 10.5%.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

44. Financial instrument risk management *(Continued)*

(d) Capital management *(Continued)*

	Group	
	30 June 2018	31 December 2017
Core capital		
Qualified part of share capital	10,995,600	10,995,600
Qualified part of capital reserve	7,454,242	7,110,849
Surplus reserve and general reserve	9,997,263	9,702,003
Retained profits	14,349,277	13,452,019
Qualified part of non-controlling interests	527,163	433,950
Core tier 1 capital deductible items:		
Fully deductible items	(151,529)	(166,720)
Net core tier 1 capital	43,172,016	41,527,701
Net other tier 1 capital	70,288	57,860
Net tier 1 capital	43,242,304	41,585,561
Net tier 2 capital	11,531,576	10,735,959
Net capital	54,773,880	52,321,520
Total risk-weighted assets	449,213,066	427,058,292
Core tier 1 capital adequacy ratio	9.61%	9.72%
Tier 1 capital adequacy ratio	9.63%	9.74%
Capital adequacy ratio	12.19%	12.25%

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

45. Fair value of financial instruments

Determination of fair value and fair value hierarchy

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

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

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

Group

30 June 2018

	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	–	2,897,672	–	2,897,672
– Trust fund plans	–	3,367,447	–	3,367,447
– Asset management plans	–	12,276,630	–	12,276,630
– Funds	–	500,000	–	500,000
– Wealth management products	–	100,096	–	100,096
Subtotal	–	19,141,845	–	19,141,845
Financial assets at fair value through other comprehensive income				
– Debt securities	–	35,612,559	–	35,612,559
– Equity instrument	–	80,079	–	80,079
Subtotal	–	35,692,638	–	35,692,638
Derivative financial assets	–	4,193	–	4,193
Total financial assets	–	54,838,676	–	54,838,676
<u>Financial liabilities measured at fair value</u>				
Derivative financial liabilities	–	12,659	–	12,659
<u>Financial assets disclosed at fair value</u>				
Financial assets at amortised cost	–	158,119,280	–	158,119,280
<u>Financial liabilities disclosed at fair value</u>				
Financial bonds	–	6,978,454	–	6,978,454
Tier 2 capital bonds	–	7,275,976	–	7,275,976
Negotiable certificates of deposit	–	96,874,550	–	96,874,550
	–	111,128,980	–	111,128,980

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

45. Fair value of financial instruments (Continued)

Determination of fair value and fair value hierarchy (Continued)

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

Group (Continued)

31 December 2017

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading Debt securities	–	4,540,089	–	4,540,089
<u>Available-for-sale financial assets</u>				
Debt securities	–	28,916,214	–	28,916,214
Wealth management products	–	100,000	–	100,000
Trust investment and capital management plan	–	553,840	–	553,840
Funds	–	28,100	–	28,100
Subtotal	–	29,598,154	–	29,598,154
Derivative financial assets	–	22,841	–	22,841
Total financial assets	–	34,161,084	–	34,161,084
<u>Financial liabilities measured at fair value</u>				
Derivative financial liabilities	–	33,116	–	33,116
<u>Financial assets disclosed at fair value</u>				
Debt instruments classified as receivables	–	143,047,633	–	143,047,633
Held-to-maturity investments	–	26,267,479	–	26,267,479
	–	169,315,112	–	169,315,112
<u>Financial liabilities disclosed at fair value</u>				
Financial bonds	–	9,855,434	–	9,855,434
Tier 2 capital bonds	–	6,984,784	–	6,984,784
Negotiable certificates of deposit	–	73,196,892	–	73,196,892
	–	90,037,110	–	90,037,110

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

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

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

- (i) The debt instruments classified as receivables and a portion of 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 receivables and financial assets at amortised cost are estimated on the basis of pricing models or discounted cash flows.
- (ii) The fair values of held-to-maturity investments, Tier 2 capital bonds, financial bonds, 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.

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amount in thousands of RMB, unless otherwise stated)

46. Subsequent events

As of the approval date of the financial statements, there were no significant events that need to be disclosed by the Group after the reporting period.

47. Approval of the condensed consolidated interim financial statement

The financial statements were approved and authorised for issue by the Board of Directors on 28 August 2018.

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 2018	31 December 2017
RMB current assets to RMB current liabilities	68.21%	50.97%
Foreign currency current assets to foreign currency current liabilities	697.25%	581.52%

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

(b) Currency concentrations

	USD	HKD	RUB	Others	Total
30 June 2018					
Spot assets	3,224,416	160,878	92,207	127,271	3,604,772
Spot liabilities	(1,222,421)	(35,513)	(25,300)	(430,770)	(1,714,004)
Forward purchases	1,164,332	–	–	158,220	1,322,552
Forward sales	(390,216)	–	–	–	(390,216)
Net long/(short) position	2,776,111	125,365	66,907	(145,279)	2,823,104
31 December 2017					
Spot assets	4,265,498	19,260	159,419	109,238	4,553,415
Spot liabilities	(2,233,492)	(35,241)	(87,949)	(261,384)	(2,618,066)
Forward purchases	471,845	–	–	–	471,845
Forward sales	(471,845)	–	–	–	(471,845)
Net long/(short) position	2,032,006	(15,981)	71,470	(152,146)	1,935,349

Unaudited Supplementary Financial Information

(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”, “Financial assets at fair value through profit or loss”, “Loans and advances to customers” and “Financial investments”.

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

	Banks	Others	Total
30 June 2018			
Asia Pacific excluding Mainland China	225,662	-	225,662
– of which attributed to Hong Kong	165,870	-	165,870
Europe	1,409,457	160,000	1,569,457
North America	1,351,114	-	1,351,114
Total	2,986,233	160,000	3,146,233
31 December 2017			
Asia Pacific excluding Mainland China	78,482	-	78,482
– of which attributed to Hong Kong	23,040	-	23,040
Europe	1,221,135	160,000	1,381,135
North America	1,319,506	-	1,319,506
Total	2,619,123	160,000	2,779,123

(d) Loans and advances to customers

(i) Overdue loans and advances to customers

	30 June 2018	31 December 2017
Amounts for overdue loans and advances to customers:		
Between 3 and 6 months	1,061,750	503,695
Between 6 and 12 months	955,563	1,498,220
Over 12 months	3,121,013	2,642,295
As a percentage of the total gross loans and advances to customers:		
Between 3 and 6 months	0.42%	0.21%
Between 6 and 12 months	0.38%	0.63%
Over 12 months	1.24%	1.11%
	2.04%	1.95%

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

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

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

	30 June 2018	31 December 2017
Amounts for overdue loans and advances to customers		
Heilongjiang region	6,017,696	4,224,008
Northeastern China	2,709,056	1,217,658
Southwestern China	2,591,812	2,585,381
Northern China	1,009,415	735,455
Other regions	1,114,178	566,144
	13,442,157	9,328,646

(e) Overdue accounts from banks and other financial institutions

As at 30 June 2018, there were no overdue accounts from banks and other financial institutions in respect of principal or interest (31 December 2017: Nil).

(f) Overdue placements with banks and other financial institutions

As at 30 June 2018, there were no overdue placements with banks and other financial institutions in respect of principal or interest (31 December 2017: Nil).

(g) Exposures to Mainland China non-bank entities

	30 June 2018	31 December 2017
On-balance sheet exposure	260,629,750	246,540,294
Off-balance sheet exposure	75,270,613	83,287,000

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 of Directors
Harbin Bank Co., Ltd.
Guo Zhiwen
Chairman

Harbin, the PRC, 28 August 2018

As at the date of this announcement, the Board of Directors of the Bank comprises Guo Zhiwen, Lyu Tianjun and Sun Feixia as executive directors; Zhang Taoxuan, Chen Danyang, Ma Pao-Lin and Peng Xiaodong, as non-executive directors; Wan Kam To, Kong Siu Chee, Ma Yongqiang, Zhang Zheng and Sun Yan 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.*