

 **哈尔滨银行** HARBIN BANK

HARBIN BANK CO., LTD.

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

Stock Code : 6138



Interim Report 2014

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Definitions

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

“Articles of Association”	the Articles of Association of Harbin Bank Co., Ltd.
“Board” or “Board of Directors”	the board of directors of the Company
“Board of Supervisors” or “Supervisory Board”	the board of supervisors of the Company
“CBRC”	the China Banking Regulatory Commission
“Chief Financial Officer”	the chief financial officer of the Company
“Company”, “our Bank”, “Bank”, or “Group”	Harbin Bank Co., Ltd. (哈爾濱銀行股份有限公司), a joint stock company incorporated in the PRC on 25 July 1997 with limited liability in accordance with PRC laws and, unless context indicates otherwise, all of its subsidiaries and branches
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Domestic Shares”	ordinary shares of a nominal value of RMB1.00 each issued by the Company in the PRC, which are subscribed for or credited as paid in Renminbi
“H Shares”	ordinary shares of a nominal value of RMB1.00 each in the capital of the Company, which are listed on the Hong Kong Stock Exchange
“Harbin Economic Development”	Harbin Economic Development and Investment Company
“Hong Kong Listing Rules” or “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 of the Hong Kong Listing Rules
“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

Authorized Representatives for the Hong Kong Stock Exchange:

LIU Zhuo; SUN Feixia

Board Secretary:

LIU Zhuo

Joint Company Secretaries:

SUN Feixia; NGAI Wai Fung

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Registered Address:

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

Principal Place of Business in Hong Kong:

18/F, Tesbury Centre, 28 Queen's Road East,
Wanchai, Hong Kong

Website for Publishing this Report:

www.hrbb.com.cn

Place where this Report is Available:

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

Place of Listing, Stock Name and Stock Code:

The Stock Exchange of Hong Kong Limited,
HARBIN BANK, 06138

Registration Number of Corporate Business License:

230100100006877

Registration Number of Tax Certificate:

DaoLiGuoShuiZi No. 230102127592111,
HeiDiShuiZi No. 230102127046970

Finance Permit Institution Number:

B0306H223010001

Organization Code:

12759211-1

Date of Initial Registration:

25 July 1997

Initial Registration Authorities:

Administration For Industry and Commerce of Harbin,
Heilongjiang Province, PRC

Legal Advisers as to Laws of China:

Beijing Jun He Law Offices

Legal Advisers as to Laws of Hong Kong, China:

Linklaters

Auditors:

Ernst & Young, Certified Public Accountants

Hong Kong H Share Registrar and Transfer Office:

Computershare Hong Kong Investor Services Limited

Company Profile

Company Profile

The Bank 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. Headquartered in Harbin, the Bank is an emerging city commercial bank in the northeast region of China in recent years. As of 30 June 2014, our Bank has established 16 branches in Tianjin, Chongqing, Dalian, Shenyang, Chengdu and Harbin, etc. and 24 village and township banks in 14 provinces and municipalities, including Beijing, Guangdong, Jiangsu, Jilin and Heilongjiang. The Bank, as a strategic investor, participated in equity investment of Guangdong Huaxing Bank and, as a controlling shareholder, promoted the establishment of Harbin Bank Financial Leasing Co., Ltd.. As of 30 June 2014, the Group had 317 branch outlets with branches and sub-branches across six administrative regions across China.

On 31 March 2014, the Bank was listed on the Hong Kong Stock Exchange. A total of 2,748,700,000 H shares were issued at an issue price of HK\$2.90 per share, and the net proceeds amounted to approximately HK\$7.722 billion (equivalent to approximately RMB6.184 billion).

As of 30 June 2014, the Bank had total assets of RMB344,142.5 million, total loans of RMB119,704.4 million and total deposits of RMB235,265.9 million.

Company Profile

Major Subsidiaries

The major subsidiaries of the Bank as of 30 June 2014 were as follows:

Company Name	Place of incorporation/ registration and operations Location in the PRC	Nominal value of issued share/ paid-up capital in RMB millions	Percentage ownership/ voting rights directly owned by the Bank %	Amount invested by the Bank in RMB millions	Company nature
Bayan Rongxing Village and Township Bank Co., Ltd.	Bayan, Heilongjiang	50	90.00	45	Village and Township Bank
Huining Huishi Village and Township Bank Co., Ltd.	Huining, Gansu	30	100.00	30	Village and Township Bank
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	Huairou, Beijing	100	90.00	90	Village and Township Bank
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30	100.00	30	Village and Township Bank
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	200	70.00	140	Village and Township Bank
Yanshou Rongxing Village and Township Bank Co., Ltd.	Yanshou, Heilongjiang	30	100.00	30	Village and Township Bank
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	60	90.00	54	Village and Township Bank
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80	75.00	60	Village and Township Bank
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	50	98.00	49	Village and Township Bank
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	30	100.00	30	Village and Township Bank
Yanshi Rongxing Village and Township Bank Co., Ltd.	Yanshi, Henan	30	100.00	30	Village and Township Bank
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	30	100.00	30	Village and Township Bank
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	100	80.00	80	Village and Township Bank
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30	100.00	30	Village and Township Bank
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	50	80.00	40	Village and Township Bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50	70.00	35	Village and Township Bank

Company Profile

Company Name	Place of incorporation/ registration and operations Location in the PRC	Nominal value of issued share/ paid-up capital in RMB millions	Percentage ownership/ voting rights directly owned by the Bank %	Amount invested by the Bank in RMB millions	Company nature
Xinan Rongxing Village and Township Bank Co., Ltd.	Xinan, Henan	30	100.00	30	Village and Township Bank
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30	100.00	30	Village and Township Bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	30	100.00	30	Village and Township Bank
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50	100.00	50	Village and Township Bank
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30	96.67	29	Village and Township Bank
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100	80.00	80	Village and Township Bank
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	30	100.00	30	Village and Township Bank
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	Youyang, Chongqing	60	100.00	60	Village and Township Bank
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000	80.00	1,600	Financial Leasing

Summary of Accounting Data and Financial Indicators

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

	For the six months ended 30 June			For the year ended 31 December
	2014	2013	2014 vs. 2013	2013
(in millions of RMB, except percentages)				
Results of operations			Rate of change	
Net interest income	4,099.2	3,280.7	24.95%	6,817.8
Net fee and commission income	831.8	512.3	62.37%	1,247.1
Operating income	5,031.8	3,955.2	27.22%	8,543.9
Operating expenses	(1,987.0)	(1,589.0)	25.05%	(3,591.0)
Impairment losses	(392.3)	(276.4)	41.93%	(506.1)
Profit before tax	2,663.9	2,093.5	27.25%	4,450.0
Net profit	1,994.1	1,584.9	25.82%	3,371.1
Net profit attributable to shareholders of our Bank	1,982.4	1,575.4	25.83%	3,350.3
For each share (RMB yuan)			Rate of change	
Net assets per share attributable to shareholders of our Bank	2.50	2.39	4.60%	2.39
Earnings per share	0.21	0.19	10.53%	0.41
Profitability indicators			Changes	
Return on average total assets ⁽¹⁾	1.20%	1.12%	0.08%	1.14%
Return on average equity ⁽²⁾	16.77%	18.04%	-1.27%	18.36%
Net interest spread ⁽³⁾	2.44%	2.50%	-0.06%	2.56%
Net interest margin ⁽⁴⁾	2.60%	2.55%	0.05%	2.64%
Net fee and commission income to operating income ratio	16.53%	12.95%	3.58%	14.60%
Cost-to-income ratio ⁽⁵⁾	31.93%	34.29%	-2.36%	35.85%

Summary of Accounting Data and Financial Indicators

	As of 30 June	As of 31 December	2014 vs. 2013
	2014	2013	
(in millions of RMB, except percentages)			
Capital adequacy indicators ⁽⁶⁾			Changes
Core tier 1 capital adequacy ratio	14.01%	10.68%	3.33%
Tier 1 capital adequacy ratio	14.01%	10.68%	3.33%
Capital adequacy ratio	15.26%	11.95%	3.31%
Total equity to total assets	8.18%	6.19%	1.99%
Assets quality indicators			Changes
Non-performing loan ratio ⁽⁷⁾	0.94%	0.85%	0.09%
Impairment coverage ratio ⁽⁸⁾	249.40%	268.34%	-18.94%
Impairment losses on loans reserve ratio ⁽⁹⁾	2.34%	2.29%	0.05%
Other indicators			Changes
Loan-deposit ratio	50.88%	47.26%	3.62%
Scale indicators			Rate of change
Total assets	344,142.5	322,175.4	6.82%
Of which: total loans and advances to customers	119,704.4	105,941.3	12.99%
Total liabilities	315,987.9	302,248.2	4.55%
Of which: deposits from customers	235,265.9	224,178.1	4.95%
Share capital	10,995.6	8,246.9	33.33%
Equity attributable to shareholders of our Bank	27,543.1	19,727.5	39.62%
Non-controlling interests	611.5	199.7	206.21%
Total equity	28,154.6	19,927.2	41.29%

Notes:

- (1) The percentage of net profit for a period to the average balance of the total assets at the beginning and the end of the period.
- (2) The percentage of net profit attributable to the equity shareholders of our Bank for a period to the average balance of total equity attributable to equity holders of the parent company at the beginning and the end of the 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 business tax and surcharges and divided by the operating income.
- (6) Calculated pursuant to the new Capital Adequacy Measures and other relevant regulations in the PRC and in accordance with PRC GAAP.
- (7) Calculated with the total non-performing loans divided by the total loans to customers.
- (8) Calculated with the allowance for impairment loss divided by the total non-performing loans.
- (9) Calculated with the allowance for impairment loss on loan divided by the total loans to customers.

Management Discussion and Analysis

I. Past economic and business environment and operation overview

(i) Past economic and business environment

For the first half of 2014, against the back-drop of an unstable, complex and ever-changing international political and economic situation, the Chinese economic growth slowed under the impact of shrinking external demand, excess production capacity and real estate market adjustment. With the rolling out of a series of “growth-stabilizing” policies and their implementing effects, the economy has showed remarkable improvement since May. For the first half of 2014, the annual gross domestic product (GDP) amounted to RMB26.9 trillion, up 7.4% as compared to the first half of 2013, and the consumer price index (CPI) rose 2.3% as compared to the first half of 2013. By the end of June, the broad money (M2) balance was RMB120.96 trillion, up 14.7% as compared to the end of last June, while the narrow money (M1) balance was RMB34.15 trillion, up 8.9% as compared to the end of last June. Balance of deposit in RMB amounted to RMB113.61 trillion, up 12.6% as compared to the end of last June, and balance of loan in RMB amounted to RMB77.63 trillion, up 14% as compared to the end of last June. For the first half of 2014, aggregate financing to the real economy amounted to RMB10.57 trillion, up RMB414,600 million as compared to the first half of 2013.

For the first half of 2014, the major economic indicators in the Heilongjiang region continued to maintain growth. Affected by multiple factors such as a tightened macro environment and insufficient demand, the overall growth began to slow down; however, financial operations continued to run smoothly. The balance of loans in the Heilongjiang region was RMB1.31 trillion, up 15.3% as compared to the end of last June, 1.6 percentage point higher than the national average. Meanwhile, Heilongjiang province was vigorously developing and establishing a sound environment for Sino-Russia financial services. By the end of June, investment by the Heilongjiang province in Russia amounted to US\$51.99 million, up 2% as compared to the end of last June; the accumulated amount of cross-border RMB actual payment of the province amounted to RMB14.345 billion, up 56.2% as compared to the end of last June, which are signs of good development momentum.

(ii) Operation overview

For the first half of 2014, with the slowing down of the Chinese economy and the accelerated reform of the financial market with tighter regulatory policies and intensified industry competition, the Bank, through the leadership of the Board and supervision of the Supervisory Board, proactively met challenges posed by such reforms, accelerated its business transformation, strictly adhered to the microcredit development strategy, and through stabilizing and diversifying operations, strengthening risk management and exploring transformation models, achieved continued growth in profitability with stable asset quality.

Increasing profitability

For the first half of 2014, the Bank recorded net profit attributable to equity holders of RMB1,982.4 million, up RMB407.0 million or 25.8% as compared to the first half of 2013, mainly due to increases in both net interest income as well as net fee and commission income. For the first half of 2014, we recorded net interest income of RMB4,099.2 million, up RMB818.5 million or 24.9% as compared to the first half of 2013, and net fee and commission income of RMB831.8 million, up RMB319.5 million or 62.4% as compared to the first half of 2013. The annualized return on average total assets increased to 1.20% as compared with 1.12% for the same period of 2013. Due to the issuance of new shares, the return on average equity was 16.77%, which represented a decrease as compared with 18.04% for the same period of 2013.

Steady business development

As of 30 June 2014, the Bank had total assets of RMB344,142.5 million, up RMB21,967.1 million or 6.8% from the end of last year. Our total loans and advances to customers amounted to RMB119,704.4 million, up RMB13,763.1 million or 13.0% from the end of last year. Our deposits from customers amounted to RMB235,265.9 million, up RMB11,087.8 million or 5.0% from the end of last year.

Stable asset quality

As of 30 June 2014, the Bank had non-performing loans balance of RMB1,125.4 million, increased by RMB221.2 million or 24.5% from the end of last year. NPL ratio, impairment losses on loans ratio and impairment coverage ratio amounted to 0.94%, 2.34% and 249.40%, increased by 0.09 and 0.05 percentage points and decreased by 18.94 percentage points from the end of last year, respectively.

Management Discussion and Analysis

II. Analysis on income statement

	For the six months ended 30 June			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Interest income	9,373.3	6,901.9	2,471.4	35.8%
Interest expense	(5,274.1)	(3,621.2)	(1,652.9)	45.6%
Net interest income	4,099.2	3,280.7	818.5	24.9%
Fee and commission income	904.0	562.5	341.5	60.7%
Fee and commission expense	(72.2)	(50.2)	(22.0)	43.8%
Net fee and commission income	831.8	512.3	319.5	62.4%
Net trading income	118.8	186.2	(67.4)	-36.2%
Net loss on financial investments	(62.3)	(34.5)	(27.8)	80.6%
Other operating income, net	44.3	10.5	33.8	321.9%
Operating income	5,031.8	3,955.2	1,076.6	27.2%
Operating expenses	(1,987.0)	(1,589.0)	(398.0)	25.0%
Impairment losses:				
Loans and advances to customers	(392.3)	(276.4)	(115.9)	41.9%
Operating profit	2,652.5	2,089.8	562.7	26.9%
Share of profits of an associate	11.4	3.7	7.7	208.1%
Profit before tax	2,663.9	2,093.5	570.4	27.2%
Income tax expense	(669.8)	(508.6)	(161.2)	31.7%
Net profit	1,994.1	1,584.9	409.2	25.8%

For the first half of 2014, the Bank recorded profit before tax of RMB2,663.9 million and net profit of RMB1,994.1 million, representing an increase of 27.2% and 25.8% as compared to the same period last year respectively.

(i) Net interest income, net interest spread and net interest margin

For the first half of 2014, the Bank recorded net interest income of RMB4,099.2 million, representing an increase of RMB818.5 million or 24.9% as compared to the same period last year. Among this, a net interest income growth of RMB1,200.9 million was attributable to the expansion of our business scale and a decrease of RMB382.4 million was attributable to changes in yield or cost rate. The following tables set forth, for the periods indicated, the average balance of our interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities.

Management Discussion and Analysis

For the six months ended 30 June

	2014			2013		
	Average balance ⁽⁶⁾	Interest income	Average yield	Average balance ⁽⁶⁾	Interest income	Average yield
(In millions of RMB, except percentages)						
Interest-earning assets						
Loans and advances to customers	116,259.7	4,533.3	7.80%	93,341.6	3,556.5	7.62%
Investments in debt securities ⁽¹⁾	74,655.2	2,340.0	6.27%	32,649.9	979.6	6.00%
Cash and balances with central bank	45,632.9	336.1	1.47%	41,264.2	297.6	1.44%
Due from banks and other financial institutions ⁽²⁾	78,611.7	2,163.9	5.51%	90,549.8	2,068.2	4.57%
Total interest-earning assets	315,159.5	9,373.3	5.95%	257,805.5	6,901.9	5.35%

For the six months ended 30 June

	2014			2013		
	Average balance ⁽⁶⁾	Interest expense	Average cost	Average balance ⁽⁶⁾	Interest expense	Average cost
(In millions of RMB, except percentages)						
Interest-bearing liabilities						
Due to customers	214,050.6	2,737.4	2.56%	182,035.7	1,990.5	2.19%
Due to banks and other financial institutions ⁽³⁾	82,011.9	2,436.9	5.94%	67,320.7	1,533.7	4.56%
Debt securities issued	3,500.0	86.2	4.93%	3,500.0	86.5	4.94%
Due to central bank	912.4	13.6	2.98%	564.4	10.5	3.72%
Total interest-bearing liabilities	300,474.9	5,274.1	3.51%	253,420.8	3,621.2	2.86%
Net interest income		4,099.2			3,280.7	
Net interest spread ⁽⁴⁾			2.44%			2.50%
Net interest margin ⁽⁵⁾			2.60%			2.55%

Notes:

- (1) Include available-for-sale financial assets, held-to-maturity investments and investments in receivables.
- (2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.
- (3) Include due to banks and other financial institutions and financial assets sold under reverse repurchase agreements.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average interest earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of our daily balances

Management Discussion and Analysis

The following table sets forth, for the periods indicated, the changes in our 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 our interest-earning assets and interest-bearing liabilities and changes in rates are measured by changes in the average rates of our interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volumes and rates have been allocated to changes in interest rate.

	For the six months ended 30 June		
	2014 vs.2013		
	Increase/(decrease) due to Volume ⁽¹⁾	Interest rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
	(In millions of RMB)		
Interest-earning assets			
Loans to customers	873.2	103.6	976.8
Investments in debt securities	1,260.3	100.1	1,360.4
Cash and balances with central bank	31.5	7.0	38.5
Due from banks and other financial institutions	(272.8)	368.5	95.7
Change in interest income	1,892.2	579.2	2,471.4
Interest-bearing liabilities			
Due to customers	350.1	396.8	746.9
Due to banks and other financial institutions	334.7	568.5	903.2
Debt securities issued	0.0	(0.3)	(0.3)
Due to central bank	6.5	(3.4)	3.1
Change in interest expense	691.3	961.6	1,652.9

Notes:

- (1) Represents the average balance for the reporting period minus the average balance for the previous period, multiplied by the average yield/cost for such previous period.
- (2) Represents the average yield/cost for the reporting period minus the average yield/cost 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.

Management Discussion and Analysis

(ii) Interest income

For the first half of 2014, our interest income increased by RMB2,471.4 million or 35.8% to RMB9,373.3 million as compared to the same period last year. Our average balance of interest-earning assets increased by 22.3% from RMB257,805.5 million for the first half of 2013 to RMB315,159.5 million for the first half of 2014 attributable to increases in our loans and advances to customers and due from banks and other financial institutions. The average yield of our interest-earning assets increased from 5.35% for the first half of 2013 to 5.95% for the first half of 2014, which was primarily the result of a slightly higher proportion of loans to customers and investments in receivables in interest-earning assets for the first half of 2014.

1. Interest income from loans and advances to customers

For the first half of 2014, interest income from loans and advances to customers increased by RMB976.8 million or 27.5% to RMB4,533.3 million as compared to the same period last year, primarily as a result of a 24.6% increase in average balance of loans and advances to customers, which in turn was attributable to an expansion of our branch network and our efforts to develop our microcredit business, and a 0.18% increase in the average yield of our loans and advances to customers, which in turn was attributable to our further enhancing loan pricing management, optimizing market-oriented pricing mechanisms and steady implementation of microcredit strategy.

The following table sets forth, for the periods indicated, the average balance, interest income and average yield for each component of our loans and advances to customers.

	For the six months ended 30 June					
	2014			2013		
	Average Balance	Interest income	Average yield	Average Balance	Interest income	Average yield
	(In millions of RMB, except percentages)					
Corporate loans	71,406.6	2,693.8	7.54%	50,963.4	1,892.5	7.35%
Personal loans	41,720.4	1,726.5	8.28%	35,745.2	1,447.6	8.10%
Discounted bills	3,132.7	113.0	7.21%	6,633.0	216.4	7.13%
Total loans and advances to customers	116,259.7	4,533.3	7.80%	93,341.6	3,556.5	7.62%

Management Discussion and Analysis

2. Interest Income from Investments in Debt Securities

For the first half of 2014, interest income from investments in debt securities increased by RMB1,360.4 million or 138.9% to RMB2,340.0 million as compared to the same period last year, principally attributable to a 128.7% increase in the average balance of our investments in debt securities and a 0.27% increase in the average yield of our investments in debt securities. The increase in the average balance of our investments in debt securities was primarily attributable to an expanded and diversified investment portfolio as a result of increased capital sources from customers, while the increase in the average yield of our investments in debt securities was attributable to our strengthened management of our investment portfolio and timely allocation to financial bonds with higher yields and quality corporate bonds and an increase in the average balance of investments in receivables with a higher yield than other debt securities investments.

3. Interest Income from Cash and Balances with Central Bank

For the first half of 2014, interest income from cash and balances with central bank increased by RMB38.5 million or 12.9% to RMB336.1 million as compared to the same period last year, primarily attributable to a 10.6% increase in the average balance of our cash and balances with central bank as a result of receipt of increased deposits.

4. Interest Income from Due from Banks and Other Financial Institutions

For the first half of 2014, interest income from due from banks and other financial institutions increased by RMB95.7 million or 4.6% to RMB2,163.9 million as compared to the same period last year, primarily attributable to a 0.94% increase in the average yield of the relevant assets, which was partially offset by a 13.2% decrease in the average balance of such assets. Such decrease was primarily attributable to less application of such assets due to more capital resources applied to loans to customers and investments in debt securities, where the increase in the average yield of the relevant assets was attributable to changes in market liquidity and in structure of such assets.

(iii) Interest expense

For the first half of 2014, our interest expense increased by RMB1,652.9 million or 45.6% to RMB5,274.1 million as compared to the same period last year, primarily attributable to a 18.6% increase of the average balance of the interest-bearing liabilities from RMB253,420.8 million for the first half of 2013 to RMB300,474.9 million for the first half of 2014 resulting from a significant increase in our customer deposits. The average cost rate of interest-bearing liabilities increased from 2.86% for the first half of 2013 to 3.51% for the first half of 2014.

Management Discussion and Analysis

1. Interest Expense on Due to Customers

For the first half of 2014, our interest expense on deposits due to customers increased by RMB746.9 million or 37.5% to RMB2,737.4 million as compared to the same period last year, primarily attributable to (i) a 17.6% increase in the average balance of total deposits from customers from RMB182,035.7 million for the first half of 2013 to RMB214,050.6 million for the first half of 2014, and (ii) an increase in the average cost of our deposits from customers from 2.19% for the first half of 2013 to 2.56% for the first half of 2014. The increase in the average balance of total deposits from customers was primarily attributable to the expansion of the scale of our deposits from customers, while the increase in average cost of our deposits was primarily attributable to the interest rate liberalization which resulted in an increased market competition.

For the six months ended 30 June

	2014			2013		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
(In millions of RMB, except percentages)						
Corporate deposits						
Demand	61,616.6	198.1	0.64%	62,147.6	249.7	0.80%
Time	93,007.1	1,751.7	3.77%	68,523.0	1,216.4	3.55%
Subtotal	154,623.7	1,949.8	2.52%	130,670.6	1,466.1	2.24%
Personal deposits						
Demand	25,203.7	48.3	0.38%	22,187.7	44.1	0.40%
Time	34,223.2	739.3	4.32%	29,177.4	480.3	3.29%
Subtotal	59,426.9	787.6	2.65%	51,365.1	524.4	2.04%
Total due to customers	214,050.6	2,737.4	2.56%	182,035.7	1,990.5	2.19%

2. Interest Expense on Due to Banks and Other Financial Institutions

For the first half of 2014, our interest expense due to banks and other financial institutions increased by RMB903.2 million or 58.9% to RMB2,436.9 million as compared to the first half of 2013, primarily attributable to a 21.8% increase in the average balance of the relevant liabilities from RMB67,320.7 million for the first half of 2013 to RMB82,011.9 million for the first half of 2014, and an increase in the average cost of the underlying liabilities from 4.56% for the first half of 2013 to 5.94% for the first half of 2014. The average balance of the underlying liabilities increased mainly because we actively absorbed interbank funds and broadened our sources of liabilities taking comprehensive consideration of the need to match assets and liabilities, while the increase in the average cost of the underlying liabilities was mainly because of the changes in market liquidity and in structure of such liabilities.

Management Discussion and Analysis

3. Interest Expense on Debt Securities Issued

For the first half of 2014, our interest expense on debt securities issued amounted to RMB86.2 million.

(iv) Net Interest Spread and Net Interest Margin

Our net interest spread decreased from 2.50% for the first half of 2013 to 2.44% for the first half of 2014, mainly attributable to the gradually smaller spread between loan and deposit rates in the banking sector resulting from the advance in market liberalization of interest rate. Our net interest margin increased from 2.55% for the first half of 2013 to 2.60% for the first half of 2014, mainly attributable to the slightly higher proportion of interest-generating assets with high yields during the reporting period.

(v) Non-interest income

1. Net fee and commission income

For the first half of 2014, our net fee and commission income increased by RMB319.5 million or 62.4% to RMB831.8 million as compared to the first half of 2013, primarily attributable to an increase in our advisory and consulting fees, agency and custodian fees and bank card fees as a result of the development of the related businesses.

	For the six months ended 30 June			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Fee and commission income	904.0	562.5	341.5	60.7%
Advisory and consultancy fee	305.7	175.3	130.4	74.4%
Settlement fee	42.0	46.3	(4.3)	-9.3%
Agency and custodian fee	442.4	268.8	173.6	64.6%
Of which: non-principal protected wealth management agency fee	201.5	149.5	52.0	34.8%
Bank card fee	86.5	50.0	36.5	73.0%
Others	27.4	22.1	5.3	24.0%
Fee and commission expense	(72.2)	(50.2)	(22.0)	43.8%
Net fee and commission income	831.8	512.3	319.5	62.4%

For the first half of 2014, our advisory and consultancy fee income reached RMB305.7 million, up RMB130.4 million or 74.4% as compared to the first half of 2013, mainly attributable to the expansion of our advisory and consultancy businesses, resulting in an increase in our customers and sustained growth in business volume.

Management Discussion and Analysis

The Bank realized income of RMB42.0 million from settlement fee for the first half of 2014, down slightly as compared with the same period last year.

For the first half of 2014, the Bank's agency and custodian fee income was RMB442.4 million, up 64.6% or RMB173.6 million as compared to the first half of 2013, mainly as a result of the development of our trust fund custody business and wealth management business.

For the first half of 2014, the Bank earned RMB86.5 million from bank card fee, up 73.0% or RMB36.5 million as compared to the first half of 2013, mainly attributable to the development and marketing of our bank card business and a rise in the issuance and transaction volume of our bank cards during the reporting period.

Other charges and commission generated income of RMB27.4 million, up 24.0% or RMB5.3 million as compared to the first half of 2013. It was associated with foreign exchange business.

2. *Net trading income*

For the first half of 2014, our net trading income decreased by RMB67.4 million or 36.2% to RMB118.8 million as compared to the first half of 2013 mainly attributable to a decrease in bonds held for trading and the change in the conditions of the bond market.

3. *Net loss on financial investments*

For the first half of 2014, our net losses increased by RMB27.8 million or 80.6% to RMB62.3 million as compared to the first half of 2013 mainly attributable to fluctuations in bond markets and an increase in trading volumes of bonds.

4. *Other operating income, net*

For the first half of 2014, our other operating income increased by RMB33.8 million or 321.9% to RMB44.3 million as compared to the first half of 2013 primarily attributable to increases in government subsidies.

Management Discussion and Analysis

(vi) Operating expenses

For the first half of 2014, our operating expenses increased by RMB398.0 million or 25.0% to RMB1,987.0 million as compared to first half of 2013 primarily attributable to growth in our staff cost and business tax and surcharges.

	For the six months ended 30 June			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Staff costs	827.5	730.2	97.3	13.3%
Business tax and surcharges	380.4	232.8	147.6	63.4%
Depreciation and amortization	166.8	131.5	35.3	26.8%
Others	612.3	494.5	117.8	23.8%
Total operating expenses	1,987.0	1,589.0	398.0	25.0%

Staff costs are the largest component of our operating expenses, representing 41.6% and 46.0% of our total operating expenses for the first half of 2014 and 2013, respectively.

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

	For the six months ended 30 June			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	673.9	594.5	79.4	13.4%
Social insurance	74.5	55.0	19.5	35.5%
Housing fund	36.2	30.2	6.0	19.9%
Staff benefits	32.0	35.7	(3.7)	-10.4%
Labour union expenditure and education costs	7.1	11.7	(4.6)	-39.3%
Early retirement benefits	3.8	3.1	0.7	22.6%
Total	827.5	730.2	97.3	13.3%

Management Discussion and Analysis

For the first half of 2014, the staff costs of the Bank were RMB827.5 million, up 13.3% or RMB97.3 million as compared to the first half of 2013 primarily attributable to more branches established by the Bank, thus increasing the number of our staff, and their wages and benefits.

For the first half of 2014, the Bank had to pay business tax and surcharges of RMB380.4 million, up 63.4% or RMB147.6 million as compared to the first half of 2013 primarily attributable to the increase in interest income as well as income from fee and commission.

For the first half of 2014, the depreciation and amortization was RMB166.8 million, up 26.8% or RMB35.3 million as compared to the first half of 2013 primarily as a result of an expansion of the distribution network and an increase in the operating offices related cost.

For the first half of 2014, the Bank's other operating expenses were RMB612.3 million, up 23.8% or RMB117.8 million as compared to the first half of 2013 primarily attributable to our business expansion.

(vii) Impairment losses

For the first half of 2014, our impairment losses increased by RMB115.9 million or 41.9% to RMB392.3 million as compared to the same period last year primarily attributable to our impairment provision for loans on prudent and dynamic basis as a result of the increase of loans by the Bank and given the comprehensive consideration as to the uncertainties from the economic environment.

	For the six months ended 30 June			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Loans and advances to customers	392.3	276.4	115.9	41.9%
Others	0	0	0	0.0%
Total impairment losses	392.3	276.4	115.9	41.9%

Management Discussion and Analysis

(viii) Income Tax Expenses

For the first half of 2014, our income tax increased by RMB161.2 million or 31.7% to RMB669.8 million as compared to the same period last year, which was generally consistent with the increase in our operating profit.

	For the six months ended 30 June			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Current income tax expenses	791.6	567.7	223.9	39.4%
Deferred income tax expenses	(121.8)	(59.1)	(62.7)	106.1%
Effective income tax expenses	669.8	508.6	161.2	31.7%

III. Analysis of key items of financial position

(i) Assets

As of 30 June 2014, our total assets increased by RMB21,967.1 million or 6.8% to RMB344,142.5 million from the end of last year. The increase was mainly attributable to the increase in our loans and advances to customers and investment securities and other financial assets.

The following table sets forth, as of the dates indicated, the components of our total assets.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Loans and advances to customers, gross	119,704.4	34.8%	105,941.3	32.9%
Allowance for impairment losses	(2,806.7)	-0.8%	(2,426.3)	-0.8%
Loans and advances to customers, net	116,897.7	34.0%	103,515.0	32.1%
Investment securities and other financial assets, net	78,161.2	22.7%	71,035.9	22.1%
Cash and balances with central bank	53,269.2	15.5%	51,552.1	16.0%
Due from banks and other financial institutions	31,308.8	9.1%	33,871.2	10.5%
Reverse repurchase agreements	52,641.0	15.3%	51,110.9	15.9%
Other assets	11,864.6	3.4%	11,090.3	3.4%
Total assets	344,142.5	100.0%	322,175.4	100.0%

Management Discussion and Analysis

1. Loans and advances to customers

As of 30 June 2014, our total loans and advances to customers increased by RMB13,763.1 million to RMB119,704.4 million, representing an increase of 13.0% over the end of last year.

The following table sets forth, as of the dates indicated, a breakdown of our loans by business lines.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Corporate loans	73,357.6	61.3%	63,538.2	60.0%
Personal loans	44,902.4	37.5%	40,498.6	38.2%
Discounted bills	1,444.4	1.2%	1,904.5	1.8%
Total loans and advances to customers	119,704.4	100.0%	105,941.3	100.0%

(1) Corporate loans

As of 30 June 2014, our corporate loans increased by RMB9,819.4 million to RMB73,357.6 million, representing an increase of 15.5% over the end of last year, mainly due to an increase in our corporate loans (in particular, loans to Small Enterprises) to respond to the PRC government's policies on promoting the development of SMEs.

The following table sets forth a breakdown of our corporate loans by customer type as of the dates indicated.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Loans to Small Enterprises ¹	37,102.3	50.6%	32,661.2	51.4%
Other corporate loans excluding loans to Small Enterprises	36,255.3	49.4%	30,877.0	48.6%
Total corporate loans	73,357.6	100.0%	63,538.2	100.0%

¹ Loans to Small Enterprises include corporate loans to small enterprises and micro enterprises as defined in the SMEs Classification Standards. According to the SMEs Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but fewer 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 five but fewer 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 fewer than 20 employees or generating less than RMB3 million in operating income in a year are classified as micro enterprises, while enterprises having fewer than five employees or generating less than RMB10 million in operating income in a year in the wholesale industry are also classified as micro enterprises.

Management Discussion and Analysis

As of 30 June 2014, our loans to Small Enterprises increased by RMB4,441.1 million to RMB37,102.3 million, representing an increase of 13.6% over the end of last year. The increase in our loans to Small Enterprises was primarily due to our proactive development of microcredit business to respond to the national policy on promoting the development of SMEs. As of 31 December 2013 and 30 June 2014, our loans to Small Enterprises accounted for 51.4% and 50.6%, respectively, of our total corporate loans.

(2) Personal loans

As of 30 June 2014, our personal loans increased by RMB4,403.8 million to RMB44,902.4 million, representing an increase of 10.9% over the end of last year. This increase was mainly attributable to our continued development of personal loans as a response to the PRC government's policies to support financial institutions in developing financial services for SMEs and rural areas. Our personal loans (including loans to Small Enterprise Owners, personal consumption loans and loans to farmers) are an important component of our microcredit business, which increased substantially under our strategy of focusing on the development of our microcredit business.

The following table sets forth a breakdown of our personal loans by product type as of the dates indicated.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Loans to Small Enterprise Owners	18,036.5	40.2%	15,380.5	38.0%
Personal consumption loans	17,073.9	38.0%	15,870.2	39.2%
Loans to farmers	9,792.0	21.8%	9,247.9	22.8%
Total of personal loans	44,902.4	100.0%	40,498.6	100.0%

As of 30 June 2014, loans to Small Enterprise Owners, personal consumption loans and loans to farmers increased over the end of last year, representing an increase of 17.3%, 7.6% and 5.9%, respectively.

Management Discussion and Analysis

2. Investment securities and other financial assets

As of 30 June 2014, the balance of our investment securities and other financial assets increased by RMB7,125.3 million to RMB78,161.2 million, representing an increase of 10.0% over the end of last year. The increase in such assets for the first half of 2014 was mainly due to our efforts to increase various types of investments, and continue the expansion of our capital operating channels, in order to improve the efficiency of our use of funds.

The following table sets forth the components of our investment securities and other financial assets as of the dates indicated.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Investments in receivables	42,360.8	54.2%	43,528.7	61.3%
Held-to-maturity investments	19,330.5	24.7%	17,080.8	24.0%
Available-for-sale financial assets	13,925.0	17.8%	7,914.1	11.1%
Financial assets held for trading	2,544.9	3.3%	2,512.3	3.6%
Total investment securities and other financial assets	78,161.2	100.0%	71,035.9	100.0%

The following table sets forth, as of the dates indicated, the distribution of our investment securities and other financial assets by debt investments and equity investments.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Debt investments:				
Bond investments	35,882.2	45.9%	27,666.3	39.0%
Debt instruments issued				
by financial institutions ⁽¹⁾	42,254.4	54.1%	43,345.0	61.0%
Subtotal	78,136.6	100.0%	71,011.3	100.0%
Equity investment	24.6	0.0%	24.6	0.0%
Total investment securities and other financial assets	78,161.2	100.0%	71,035.9	100.0%

Note:

(1) Includes fund trust plans and structured wealth management products.

Management Discussion and Analysis

As of 30 June 2014, our investment in debt instruments issued by financial institutions decreased by RMB1,090.6 million to RMB42,254.4 million, representing a decrease of 2.5% over the end of last year. As a percentage of total investment securities and other financial assets, such investments decreased from 61.0% as of 31 December 2013 to 54.1% as of 30 June 2014. This decrease was mainly due to a slight decrease in the balance of certain debt instruments upon their expiry.

The following table sets forth the components of bond investments as of the dates indicated.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Government bonds	3,234.4	9.0%	3,069.0	11.1%
Bonds issued by financial institutions	1,051.1	3.0%	349.0	1.2%
Corporate bonds	8,800.3	24.5%	7,771.4	28.1%
Bonds issued by policy banks	22,796.4	63.5%	16,476.9	59.6%
Total bond investments	35,882.2	100.0%	27,666.3	100.0%

3. Other components of Our Assets

Other components of our 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 of 30 June 2014, our cash and balances with central bank increased by RMB1,717.1 million to RMB53,269.2 million, representing an increase of 3.3% over the end of last year.

As of 30 June 2014, our due from banks and other financial institutions decreased by RMB2,562.4 million to RMB31,308.8 million, representing a decrease of 7.6% over the end of last year. This decrease was largely because we moderately adjusted the scale of such assets based on the need to match assets and liabilities and changes in liquidity in the market.

As of 30 June 2014, our financial assets held under reverse repurchase agreements increased by RMB1,530.1 million to RMB52,641.0 million, representing an increase of 3.0% over the end of last year.

Management Discussion and Analysis

(ii) Liabilities

As of 30 June 2014, our total liabilities increased by RMB13,739.7 million to RMB315,987.9 million, representing an increase of 4.5% over the end of last year.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Due to customers	235,265.9	74.5%	224,178.1	74.2%
Due to banks and other financial institutions	65,166.2	20.6%	50,610.9	16.7%
Repurchase agreements	4,116.6	1.3%	19,091.2	6.3%
Debt securities issued	3,500.0	1.1%	3,500.0	1.1%
Due to central bank	1,610.8	0.5%	787.2	0.3%
Other liabilities ⁽¹⁾	6,328.4	2.0%	4,080.8	1.4%
Total liabilities	315,987.9	100.0%	302,248.2	100.0%

Note:

- (1) Other liabilities primarily consist of 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 of 30 June 2014, our due to customers increased by RMB11,087.8 million to RMB235,265.9 million, representing an increase of 4.9% over the end of last year. This increase in our due to customers was primarily attributable to the expansion of outlets, improvement of service and strengthening of marketing capabilities.

Management Discussion and Analysis

The following table sets forth our due to customers by product type and maturity profile of deposits as of the dates indicated.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Corporate deposits				
Demand deposits	73,428.1	31.2%	79,909.6	35.6%
Time deposits	82,915.9	35.3%	76,894.5	34.3%
Subtotal	156,344.0	66.5%	156,804.1	69.9%
Personal deposits				
Demand deposits	31,362.3	13.3%	33,789.1	15.1%
Time deposits	47,559.6	20.2%	33,584.9	15.0%
Subtotal	78,921.9	33.5%	67,374.0	30.1%
Total due to customers	235,265.9	100.0%	224,178.1	100.0%

2. *Due to banks and other financial institutions*

As of 30 June 2014, the amount due to banks and other financial institutions increased by RMB14,555.3 million to RMB65,166.2 million, representing an increase of 28.8% over the end of last year. This increase in these liabilities was primarily due to our actively accepting liabilities from other banks and broadening our sources of liabilities in order to increase return in response to the changes in market liquidity and the need to match assets and liabilities.

3. *Financial assets sold under repurchase agreements*

As of 30 June 2014, our repurchase agreements decreased by RMB14,974.6 million to RMB4,116.6 million, representing a decrease of 78.4% from the end of last year. The changes in our financial assets sold under repurchase agreements reflected adjustments to the proportion of financial assets sold under repurchase agreements to our liabilities based on market liquidity and our capital needs in view of the need to match assets and liabilities.

Management Discussion and Analysis

(iii) Shareholders' Equity

As of 30 June 2014, our shareholders' equity increased by RMB8,227.4 million to RMB28,154.6 million, representing an increase of 41.3% over the end of last year. As of 30 June 2014, equity attributable to equity holders of the parent company increased by RMB7,815.6 million to RMB27,543.1 million, representing an increase of 39.6% over the end of last year. The increase in shareholders' equity was mainly due to the issue of our new shares as well as an increase of our net profit.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Share capital	10,995.6	39.1%	8,246.9	41.4%
Reserves	12,520.5	44.4%	7,449.9	37.4%
Retained profit	4,027.0	14.3%	4,030.7	20.2%
Equity attributable to equity holders				
of our Bank	27,543.1	97.8%	19,727.5	99.0%
Non-controlling interests	611.5	2.2%	199.7	1.0%
Total equity	28,154.6	100.0%	19,927.2	100.0%

IV. Off-balance Sheet Commitments

The following table sets forth the contractual amounts of our off-balance sheet commitments as of the dates indicated.

	As of 30 June 2014	As of 31 December 2013
(In millions of RMB)		
Credit commitments:		
Bank bills acceptance	37,800.6	42,654.8
Issued letters of guarantee	3,292.3	1,821.1
Issued sight letters of credit	1,818.1	2,204.1
Credit limit of credit card	816.4	1,238.2
Subtotal	43,727.4	47,918.2
Capital expenditure commitments	1,458.3	1,437.4
Operating lease commitments	880.1	670.1
Treasury bond redemption commitments	1,914.0	1,620.0
Relief obligation under risk cooperative fund	180.0	180.0
Total	48,159.8	51,825.7

In addition, as of 30 June 2014, there was no material litigation in which either our Bank or subsidiaries of our Bank is a defendant. To the reporting date, our Bank had no significant contingent liabilities. Details of off-balance sheet commitments contracts are disclosed in note "commitments and contingent liabilities" in financial statements.

Management Discussion and Analysis

V. Analysis on Loan Quality

During the reporting period, our Bank continued to strengthen credit risk management, improved credit investigation and credit approvals and strengthened post-loan management measures to increase the efforts on collection and disposal of non-performing loans, so that the loan quality was generally kept at a manageable level. However, our Bank faced an upward pressure upon non-performing loans due to changes in the external business environment and the impact of natural disasters in the Heilongjiang region last year. As of 30 June 2014, the balance of non-performing loans of total loan portfolio increased by RMB221.2 million to RMB1,125.4 million, representing an increase of 24.5% over the end of last year. The non-performing loans ratio amounted to 0.94%, up 0.09% over the end of last year.

(i) Distribution of loans by five-category loan classification

The following table sets forth our loans and advances to customers in each category of our five-category loan classification as of the dates indicated.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Pass	116,825.2	97.5%	103,945.6	98.1%
Special mention	1,753.8	1.5%	1,091.5	1.0%
Substandard	468.0	0.4%	405.4	0.4%
Doubtful	311.0	0.3%	265.3	0.3%
Loss	346.4	0.3%	233.5	0.2%
Total loans to customers	119,704.4	100.0%	105,941.3	100.0%
Non-performing loans and NPL ratio⁽¹⁾	1,125.4	0.94%	904.2	0.85%

Note:

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

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

Management Discussion and Analysis

(ii) The distribution of loans and non-performing loans by business line

The following table sets forth our loans and non-performing loans by business lines as of the dates indicated.

	As of 30 June 2014			As of 31 December 2013		
	Loan amount	NPL amount	NPL ratio	Loan amount	NPL amount	NPL ratio
(In millions of RMB, except percentages)						
Corporate loans						
Loans to small enterprises	37,102.3	359.8	0.97%	32,661.2	160.9	0.49%
Other corporate loans excluding loans to small enterprises	36,255.3	3.5	0.01%	30,877.0	30.0	0.10%
Subtotal	73,357.6	363.3	0.50%	63,538.2	190.9	0.30%
Personal loans						
Loans to small enterprise owners	18,036.5	96.2	0.53%	15,380.5	110.7	0.72%
Personal consumption loans	17,073.9	55.0	0.32%	15,870.2	88.1	0.56%
Loans to farmers	9,792.0	610.9	6.24%	9,247.9	514.5	5.56%
Subtotal	44,902.4	762.1	1.70%	40,498.6	713.3	1.76%
Discounted bills	1,444.4	–	–	1,904.5	–	–
Total	119,704.4	1,125.4	0.94%	105,941.3	904.2	0.85%

For the first half of 2014, our Bank actively responded to the national policies, by strengthening the adjustment of loans structure and continuing to develop microcredit business (corporate loans to Small Enterprises and personal loans). By the end of the reporting period, the NPL ratio of corporate loans rose by 0.2% to 0.50%, mainly due to an increase in non-performing corporate loans to small enterprises. The NPL ratio of personal loans dropped by 0.06% to 1.70%, of which non-performing loans of farmers climbed by 0.68% to 6.24%.

Management Discussion and Analysis

(iii) The distribution of loans and non-performing loans classified by industry

The following table sets forth the distribution of our loans and non-performing loans by industry as of the dates indicated.

	As of 30 June 2014				As of 31 December 2013			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
(In millions of RMB, except percentages)								
Agriculture, forestry, husbandry and fishery	4,414.7	3.7%	1.6	0.04%	4,163.2	3.9%	1.6	0.04%
Mining	365.6	0.3%	3.0	0.82%	874.6	0.8%	-	-
Manufacturing	11,679.0	9.8%	158.5	1.36%	13,603.7	12.8%	60.3	0.44%
Production and supply of electricity, gas and water	1,758.5	1.5%	-	-	1,535.6	1.4%	-	-
Construction	5,495.5	4.6%	10.4	0.19%	5,171.5	4.9%	10.4	0.20%
Transportation, storage and postal services	3,030.9	2.5%	-	-	2,194.0	2.1%	-	-
Information transmission, computer services and software	637.0	0.5%	0.9	0.14%	544.2	0.5%	0.9	0.17%
Wholesale and services	24,900.3	20.7%	182.2	0.73%	21,778.9	20.6%	113.9	0.52%
Accommodations and Catering	2,797.7	2.3%	-	-	1,234.0	1.2%	-	-
Finance	20.2	0.0%	-	-	20.0	0.0%	-	-
Real estate	3,209.7	2.7%	3.3	0.10%	2,236.3	2.1%	3.4	0.15%
Rental and commercial services	11,043.8	9.2%	0.4	0.00%	5,523.2	5.2%	0.4	0.01%
Scientific research, technical services and geological prospecting	265.6	0.2%	-	-	179.9	0.2%	-	-
Water conservation, environment, public utility management and investment	2,375.3	2.0%	-	-	2,543.6	2.4%	-	-
Residential and other services	423.0	0.4%	3.0	0.71%	992.2	0.9%	-	-
Education	540.1	0.5%	-	-	481.2	0.5%	-	-
Health, social security and social welfare	219.8	0.2%	-	-	264.4	0.3%	-	-
Culture, sports and entertainment	180.9	0.2%	-	-	180.3	0.2%	-	-
Public management and social organization	0	0.0%	-	-	17.4	0.0%	-	-
Total corporate loans	73,357.6	61.3%	363.3	0.50%	63,538.2	60.0%	190.9	0.30%
Total personal loans	44,902.4	37.5%	762.1	1.70%	40,498.6	38.2%	713.3	1.76%
Discounted bills	1,444.4	1.2%	-	-	1,904.5	1.8%	-	-
Total	119,704.4	100.0%	1,125.4	0.94%	105,941.3	100.0%	904.2	0.85%

As of 30 June 2014, the non-performing corporate loans of our Bank concentrated in the wholesale and service industry and the manufacturing industry, with NPL ratio of 0.73% and 1.36%, respectively.

Management Discussion and Analysis

(iv) The distribution of loans and non-performing loans by geographical region

The following table sets forth the distribution of our loans and non-performing loans by geographical region as of the dates indicated.

	As of 30 June 2014				As of 31 December 2013			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
(In millions of RMB, except percentages)								
Heilongjiang region	59,623.6	49.8%	1,009.3	1.69%	53,879.6	50.9%	805.4	1.49%
Other Northeast region	20,294.6	17.0%	26.9	0.13%	18,343.1	17.3%	73.2	0.40%
Southwest region	26,358.8	22.0%	2.0	0.01%	23,555.6	22.2%	0.7	0.00%
Northern China	9,703.1	8.1%	69.8	0.72%	7,517.2	7.1%	17.7	0.24%
Other regions	3,724.3	3.1%	17.4	0.47%	2,645.8	2.5%	7.2	0.27%
Total	119,704.4	100.0%	1,125.4	0.94%	105,941.3	100.0%	904.2	0.85%

As of 30 June 2014, a majority of our non-performing loans was concentrated in the Heilongjiang region, primarily because loans and advances to customers in the Heilongjiang region constituted the largest portion of our loans and advances to customers, and the loans to farmers which have high NPL ratio accounted for a larger portion in the Heilongjiang region.

(v) The distribution of loans and non-performing loans by collateral

The following table sets forth the distribution of our loans and non-performing loans by collateral as of the dates indicated.

	As of 30 June 2014				As of 31 December 2013			
	Amount	% of total	NPL amount	NPL ratio	Amount	% of total	NPL amount	NPL ratio
(In millions of RMB, except percentages)								
Unsecured loans	4,761.8	4.0%	53.1	1.12%	4,902.8	4.6%	38.9	0.79%
Guaranteed loans	44,530.9	37.2%	803.8	1.81%	41,061.8	38.8%	586.8	1.43%
Collateralized loans	58,561.7	48.9%	256.2	0.44%	45,948.2	43.4%	278.5	0.61%
Pledged loans	11,850.0	9.9%	12.3	0.10%	14,028.5	13.2%	-	-
Total	119,704.4	100.0%	1,125.4	0.94%	105,941.3	100.0%	904.2	0.85%

Management Discussion and Analysis

(vi) Concentration of borrowers

As of 30 June 2014, our Bank was in compliance with the lending limit of 10% of our net capital to any single borrower. The following table sets forth, as of 30 June 2014, our 10 largest single borrowers (excluding group borrowers) in terms of loan balance, none of which was a non-performing loan.

Industry		As of 30 June 2014		
		Loan balance	% of total loans	% of net capital
(In millions of RMB, except percentages)				
Borrower A	Wholesale and services	992.0	0.83%	3.26%
Borrower B	Agriculture, forestry, husbandry and fishery	800.0	0.67%	2.63%
Borrower C	Wholesale and services	700.0	0.58%	2.30%
Borrower D	Accommodation and catering	655.6	0.55%	2.16%
Borrower E	Wholesale and services	646.0	0.54%	2.13%
Borrower F	Leasing and business services	570.0	0.48%	1.88%
Borrower G	Construction	535.6	0.44%	1.75%
Borrower H	Transportation, storage and postal services	500.0	0.42%	1.65%
Borrower I	Water conservation, environment and public utility management	500.0	0.42%	1.65%
Borrower J	Real estate	500.0	0.42%	1.65%
Total		6,399.2	5.35%	21.06%

(vii) Overdue loans and advances to customers

The following table sets forth, as of the dates indicated, the distribution of our loans and advances to customers by maturity.

	As of 30 June 2014		As of 31 December 2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Current loans	117,492.4	98.2%	104,566.0	98.7%
Loans past due				
For 1 to 90 days	1,097.5	0.9%	440.1	0.4%
For 91 days to 1 year	462.6	0.4%	588.3	0.6%
For 1 year and above	651.9	0.5%	346.9	0.3%
Subtotal	2,212.0	1.8%	1,375.3	1.3%
Total loans to customers	119,704.4	100.0%	105,941.3	100.0%

As of 30 June 2014, the amount of overdue loans totaled RMB2,212.0 million, up RMB836.7 million over the end of last year; the overdue loans accounted for 1.8% of the total loans, up 0.5% over the end of last year. The increase in the overdue loans was mainly due to an increase on the overdue corporate loans to Small Enterprises and overdue loans to farmers.

Management Discussion and Analysis

(viii) Movements of allowance for impairment losses on loans

The Bank adopts individual assessment and collective assessment on impairment loss on loans as of balance sheet dates. We take prudence as our principle and make provision for impairment in the full amount. As of 30 June 2014, impairment losses on loans amounted to RMB2,806.8 million, up RMB380.5 million over the end of last year. The Impairment losses on loans ratio was 2.34%, up 0.05 percentage points over the end of last year. Impairment coverage ratio was 249.40%, down 18.94 percentage points over the end of last year.

Movements of allowance for impairment losses are as follows:

Item	For the first half of 2014	2013
	(In millions of RMB)	
Balance at the beginning of the period	2,426.3	1,966.3
Exchange difference	(0.3)	(0.5)
Impairment loss:	392.3	517.7
Impairment allowances charged	400.9	520.9
Reversal of impairment allowances	(8.6)	(3.2)
Accreted interest on impaired loans	(21.0)	(36.2)
Write-off	(10.0)	(62.9)
Recoveries of loans and advances previously written off	19.4	41.9
Balance at the end of the period	2,806.8	2,426.3

VI. Segment Report

(i) Geographical Segment Report

The distribution of the geographical areas is as follows:

Heilongjiang region:	Including Head Office, branches in Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqihar, Yichun as well as village and township banks operating within Heilongjiang.
Other northeast region:	Branches in Dalian, Shenyang, as well as village and township banks operating in Northeastern China excluding the ones in Heilongjiang.
Southwest region:	Branches in Chengdu, 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 Tianjing and located in Northern China.
Other regions:	Village and township banks operating in regions other than those listed above.

Management Discussion and Analysis

The table below sets forth certain key financial indicators of each of our geographical regions of our head office and branches for the periods indicated.

	Mainland China					Total
	Heilongjiang region	Other northeast region	Southwest region	Northern China	Other regions	
(In millions of RMB)						
For the six months ended						
30 June 2014						
Operating income	3,103.5	476.8	919.2	378.6	153.7	5,031.8
Operating expenses	1,323.5	201.9	290.0	102.4	69.2	1,987.0
Impairment losses	252.3	36.8	54.3	34.5	14.4	392.3
Operating profit	1,527.7	238.1	574.9	241.7	70.1	2,652.5
As of 30 June 2014						
Segment assets	207,710.7	50,018.0	64,006.1	16,624.9	5,782.8	344,142.5
Segment liabilities	178,873.8	51,394.4	63,910.9	16,808.3	5,000.5	315,987.9

The table below sets forth our operating income by geographical regions and their proportion to our total operating income for the periods indicated:

	For the six months ended 30 June			
	2014		2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Heilongjiang region	3,103.5	61.7%	2,599.6	65.7%
Other northeast region	476.8	9.5%	462.7	11.7%
Southwest region	919.2	18.3%	556.2	14.1%
Northern China	378.6	7.5%	235.0	5.9%
Other regions	153.7	3.0%	101.7	2.6%
Total operating income	5,031.8	100.0%	3,955.2	100.0%

Management Discussion and Analysis

(ii) Business Segment Report

The table below sets forth our operating income by business segments and their proportion to our total operating income for periods as indicated:

	For the six months ended 30 June			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate banking business	2,204.4	43.8%	1,505.1	38.1%
Personal banking business	1,435.0	28.5%	1,206.2	30.5%
Treasury operations	1,349.5	26.8%	1,230.6	31.1%
Other businesses ⁽¹⁾	42.9	0.9%	13.3	0.3%
Total operating income	5,031.8	100.0%	3,955.2	100%

Note:

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

VII. Analysis on Capital Adequacy Ratio

Our Group continued to optimize its business structure and strengthen capital management, and as of 30 June 2014, the capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 15.26%, 14.01% and 14.01%, up 3.31%, 3.33% and 3.33%, respectively, over the end of last year, in line with the requirements during the transition period provided in the Regulations Governing Capital of Commercial Banks (Provisional) issued by CBRC. The changes in capital adequacy ratio were mainly due to the increase in net profit and the scale of capital resulting from the listing of new shares on the Hong Kong Stock Exchange in March 2014, the effect of which on the capital adequacy ratio was partially offset the increase in risk-weighted assets.

In accordance with Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) issued by China Banking Regulatory Commission, the capital adequacy ratio is (in the new approach) as follows:

	As of 30 June 2014	As of 31 December 2013
	(In millions of RMB, except percentages)	
Net core tier 1 capital	27,899.4	19,867.9
Core tier 1 capital	27,899.4	19,867.9
Net capital	30,384.6	22,230.7
Risk-weighted assets	199,154.8	186,014.5
Of which:		
Credit risk-weighted assets	182,537.2	169,098.0
Market risk-weighted assets	3,290.8	3,589.7
Operational risk-weighted assets	13,326.8	13,326.8
Core tier 1 capital adequacy ratio	14.01%	10.68%
Tier 1 capital adequacy ratio	14.01%	10.68%
Capital adequacy ratio	15.26%	11.95%

Management Discussion and Analysis

VIII. Business Operation

(i) Corporate banking business

For the first half of 2014, centering on the theme of “brand establishment” and “efficiency improvement”, setting primary goals of “revenue growth” and “customer multiplication”, and supported by the institutional construction, team building and system establishment, our Bank improved its overall management and operational efficiency, marketing efficiency and profitability of its corporate banking business. In response to the changes in the economic and policy environment of China, our Bank continued to strengthen our marketing capabilities and improve customer services through business innovation, and promoted the healthy development of our corporate banking business. For the first half of 2014, our operating income from corporate banking business amounted to RMB2,204.4 million, accounting for 43.8% of the total operating income over the same period, representing a year-on-year increase of 46.5%. Leveraging on the advantages of our cross-regional operating network, our Bank also actively expanded our corporate customer groups through promoting corporate customer multiplication actions. As of 30 June 2014, our Bank had more than 68,000 corporate customers, representing an increase of 11.48% over the beginning of the year.

1. Corporate deposits

Our Bank provided demand and time deposits service to customers based on the statutory interest rate and floating range, mostly denominated in RMB and a small part denominated in foreign currencies. For the first half of 2014, our overall corporate deposits remained stable. As of 30 June 2014, our total corporate deposits amounted to RMB156,344.0 million, down 0.29% from the end of last year.

2. Corporate loans

As of 30 June 2014, the balance of our corporate loans amounted to RMB73,357.6 million. At the same time, the asset quality of corporate loans was overall controllable, with non-performing loans at RMB363.3 million and NPL ratio at 0.50%. The credit structure was constantly optimized. In terms of the industry structure, as of 30 June 2014, our Bank's customers with corporate loans mainly concentrated in the wholesale and services industry, manufacturing, rental and commercial services, construction, respectively accounting for 33.9%, 15.9%, 15.1% and 7.5% of our corporate loans.

3. Corporate banking products

For the first half of 2014, our Bank increasingly enriched our product categories and gradually optimized our management process through rationalization of our businesses and products and researching and developing products for the actual needs of customers. In particular, a number of products such as cash management products provided supports for our business development, thereby further improving our corporate banking product series. Through provision cash management system and efforts in improving customer experience, we initially realized the collective management of funds from financial customers and group customers, increasingly expanded our customer base and increased customer contribution.

Management Discussion and Analysis

4. *Customer management*

For the first half of 2014, our customer base was further strengthened through the deepening of customer management work. On the basis of overall analysis of corporate customer status, we further identified customers' requirements and clarified their growth targets at different stages, gradually set up a fully functional, unified and high-efficient customer relationship management platform by application and promotion of OCRM system, initially realizing hierarchical management of customers and efficiently improving customer relations and Account Manager's management efficiency.

5. *Optimization of team building*

We actively promoted the construction of Public Finance School. For the first half of 2014, we set up differentiated and ladder training programs based on the "establishing of college system", and guided sub-branches to carry out trainings of "learning and teaching" through the combination of training and testing and deepening of business understanding, further improving the fighting force and cohesiveness of our corporate business team. Meanwhile, through strengthening of business risk control, we brought the risk manager system's role of operational guarantee during the course of business operation into full play. Risk manager management system was optimized, risk manager team member was increased, operational system was regulated, and disclosure and analyzing on business risks was strengthened from a unique risk perspective.

(ii) *Personal banking*

For the first half of 2014, our Bank continued to enrich personal banking product system to change customer structure and enhance network teams' sales momentum, facilitating healthy development of personal banking. As of 30 June 2014, the number of our personal customers exceeded 6 million. For the first half of 2014, the operating income from our personal banking business (including personal banking international business) amounted to RMB1,435.0 million, accounting for 28.5% of our total operating income over the same period and representing a year-on-year increase of 19.0%.

1. *Personal deposits*

Facing with complicated macro economic situation and intensive market competition, our Bank fully optimized our personal banking product system by centering on the idea of customer-oriented, in order to meet customers' all-around financial needs. We insisted on incorporating brand services into value enhancement to carry out in-depth customer multiplication activities and improve medium and high-end customer services system, increasing customer satisfaction and dependency, thus consolidating our market dominant position. We boosted network's performance and pushed the scale of personal business into a higher level through formulating tailor-made regional marketing strategies and strengthening marketing system establishment. As of 30 June 2014, our total personal deposits amounted to RMB78,921.9 million, up 17.14% or RMB11,547.9 million over the end of last year. Total personal deposits, annual increment and market share ranked high among banks in the regions.

Management Discussion and Analysis

2. *Personal loans*

Our Bank set up a goal to become a first-class domestic microcredit bank known worldwide, and by sustaining the dominant position of the personal loans business, and through constantly optimizing the credit structure and facilitating the adjustment of customer structure, to achieve a steady growth of personal loans business. Personal loans are an important part of the microcredit business, including loans to Small Enterprise Owners, personal consumption loans and loans to farmers. As of 30 June 2014, the balance of our personal loans reached RMB44,902.4 million, accounting for 37.5% of our total loans to customers, of which loans to Small Enterprise Owners, personal consumption loans and loans to farmers amounted to RMB18,036.5 million, RMB17,073.9 million and RMB9,792.0 million, respectively, and accounted for 40.2%, 38.0% and 21.8%, respectively, of our total personal loans.

3. *Bank cards*

During the period, while insisting on product innovation by starting from installment products, including flexible installments, free installments, car-oriented installments, parking-oriented installments, home decoration-oriented installments, our Bank actively met the market demand, strived to seek breakthroughs in personal loans, and gained the recognition from the market and customers. Income index increased rapidly as shown by the obvious advantage on average return on cards over that of financial institutions with same size. Comfort level of customer experience on our self-receiving phone (自收單電話) POS products, which was intensively developed, promoted and issued by us, was greatly improved. Financial IC card products were progressively put on line and issued. As of 30 June 2014, our Bank totally issued 6,683,700 debit cards, including 751,300 newly issued cards in the first half of 2014; the total number of credit cards issued by our Bank reached 140,700, of which 90,300 had been activated.

4. *Products and services*

During the reporting period, directed by the needs of customers, our Bank constantly adhered to the goal of building up a high-quality wealth management bank and, strengthened innovation of products, services and brand, in order to meet increasingly diversified financial needs of customers. Firstly, we innovated and developed structured wealth management products to further enrich our personal financial wealth management product system. Secondly, we upgraded all-around sales management system, optimized business process and improved services and management level. Thirdly, we increased cooperation with banks and extended cooperation with institutions in terms of fund distribution, bancassurance, and sales of precious metals, foreign exchange and other products. Fourthly, we deepened customer segmentation services by launching Lilac Fortune VIP Card, strengthened cross-sales, and expanded sales channels by making great efforts to promote sale of wealth management products through online banking.

Management Discussion and Analysis

(iii) Treasury operations

For the first half of 2014, our Bank continued to strengthen our analyses on macroeconomic policies and market trends in order to minimize the adverse impacts caused by extremely market volatility and slowdown in China's economic growth, thus ensuring a steady growth of revenue from our treasury operations. For the first half of 2014, the operating income of our treasury operations (including international treasury operations) amounted to RMB1,349.5 million, accounting for 26.8% of our total operating income and representing a year-on-year increase of 9.7%.

1. *Monetary Market Transactions*

For the first half 2014, liquidity of the monetary market showed signs of decline before tightening up. We closely tracked movements of capital and cost of capital in the monetary market and actively commenced capital transaction business. By ensuring a safe level of liquidity, we captured opportunities in the market with improved profitability.

As of 30 June 2014, the balance of our due from and placements with banks and other financial institutions and financial assets held under reserve repurchase agreements was RMB83,949.8 million, down 1.21% or RMB1,032.3 million from the end of last year. As at the same date, the balance of our due to and placements from banks and other financial institutions and financial assets sold by under reverse repurchase agreements was RMB69,282.8 million, down 0.6% or RMB419.3 million from the end of last year.

2. *Investments in Securities and Other Financial Assets*

For the first half of 2014, monetary policies trended towards accommodative with remarkable decreases in rates of bond yields. In such environment, our Bank drew a close attention to changes in the economic environment and the bond market. Based on the analyses of market interest rates, our Bank dynamically adjusted the positions in the trading accounts through band operations, in order to achieve a better spread income. Meanwhile, we made reasonable arrangements for investment opportunities according to market liquidity and bond market movements, adopted defensive strategies of shortening account duration and, by ensuring the security of liquidity, realized the sound investment, and made timely profit. Meanwhile, following our efforts to attract more deposits, more capital was available for our investment. In order to apply the various types of investment more efficiently and to achieve continued expansion of investment channels, our Bank appropriately increased the investments in debt instruments issued by financial institutions in order to improve our capital efficiency.

As of 30 June 2014, the balance of our Bank's investment securities and other financial assets was RMB78,161.2 million, up 10.0% or RMB7,125.3 million from the end of last year.

3. *Wealth Management Business*

For the first half of 2014, our Bank actively responded to the targeting trends of the nation's macro policies and was strictly in compliance with relevant requirements of regulators. Adhering to the fundamental starting point of meeting the needs of wealth management of customers and support the development of real economy, our Bank vigorously carried out innovations and continued to enhance our wealth management business.

Management Discussion and Analysis

During the first half of 2014, our Bank issued 329 tranches of wealth management products to our customers, and raised total funds of RMB83,666.8 million, up 108.91% over the same period last year. As of 30 June 2014, the balance of wealth management products was RMB56,882.4 million, of which non-principle protected wealth management products amounted to RMB43,653.2 million and principle protected wealth management products was RMB13,229.2 million.

In assets allocation, our Bank controlled our investments in non-standard debt-based assets strictly in compliance with relevant regulations of the regulators. As of 30 June 2014, our balance of wealth management investments in non-standard debt-based assets was RMB8,609.5 million, representing approximately 15.14 % of the balance of our wealth management products as of 30 June 2014 and 2.67% of our total assets as at the end of 2013. These balances complied with the regulatory requirements.

(iv) Development of key unique business

1. Microcredit business

For the first half of 2014, centering on the theme of “the year of brand establishment”, our Bank insisted on exploring and innovative microcredit business from a global perspective. Under such efforts, microcredit business has made a great progress in brand management, customer segmentation, team building, channel establishment, product research and development, technology exportation, etc. In order to improve the management on microcredit business, a microcredit management committee was established on this regard. Meanwhile, we established microcredit and consumer finance departments to facilitate specialized operation of microcredit business. As of 30 June 2014, the balance of our microcredit loans reached RMB82,004.7 million, representing an increase of 12.1% over the end of last year, accounting for 68.5 % of our total loans to customers. For the first half of 2014, the interest income from our microcredit business was RMB2,800.1 million, accounting for 69.7 % of the total interest income from loans to customers, and annualized average yield was 7.93%.

The following table sets forth the distribution of the microcredit loans by product type as of the date indicated.

	As of 30 June		As of 31 December	
	2014		2013	
	Amount	% of total	Amount	% of total
(In millions of RMB, except percentages)				
Corporate loans to small enterprises	37,102.3	45.2%	32,661.2	44.6%
Personal loans	44,902.4	54.8%	40,498.6	55.4%
Total microcredit	82,004.7	100.0%	73,159.8	100.0%

Management Discussion and Analysis

(1) Small Enterprise banking

For the first half of 2014, our Bank provided comprehensive services to customers and expanded services channels for Small and Micro Enterprises by setting up and combining the Coalition of Small and Micro Enterprise Customers, direct marketing team for Small Enterprises, specialized branches for Small Enterprises, and small and micro branches. As of 30 June 2014, our Bank had over 42,500 Small Enterprise customers, representing an increase of 28.61% over the beginning of the year. Meanwhile, our Bank developed a Small Enterprise Evaluation Card to evaluate the level of risks for Small Enterprises, which improved our risk assessment ability. For the first half of 2014, our Bank upgraded and improved loan products to Small Enterprise, the average yield on loans from Small Enterprise banking reached 8.39%.

During the reporting period, our Bank strengthened risk management of loans to Small Enterprises, effectively raising the quality of assets of Small Enterprises available for credit. By establishing six risk management systems, namely marketing management system, overdue loan management system, risk warning management system, special post-loan management system, key area risk checking system and loan approval management system, we strengthened credit investment guidance and risk profile quantitative analysis, investigated potential risks and timely adjusted risk policies on Small Enterprises. As a result, the NPL ratio of Small Enterprise loans was far less than the 3% tolerance rate specified by the CBRC.

During the reporting period, given our excellent performance in Small Enterprise financial services, our Bank was awarded the title of “2013 Preferred Service Provider for Small and Medium Enterprises in China” (2013中國中小企業首選服務商) by China International Cooperation Association of Small and Medium Enterprises; our “Revolving Loans for Small and Micro Enterprises” (小微企業循環貸款) product was awarded “Double Top 10 Characteristic Product Awards” (雙十佳特色產品獎) for Small and Micro Enterprises by Heilongjiang Banking Association.

(2) Loans to farmers

For the first half of 2014, guided by the modern agriculture industry policy of the State, our Bank continued to increase its support to new agriculture operation bodies, actively optimized structure of loans to farmers, increasingly strengthened rural financial products innovation, vigorously promoted agriculture industry-chain financial services model, and further improved risk mitigation measures on loans to farmers. Hence, our market competitiveness saw a steady improvement. As of 30 June 2014, our Bank had over 210,000 farmer financial related customers to loan, representing an increase of 10.38% over the beginning of the year, and the balance of loans to farmers was RMB9,792.0 million.

Management Discussion and Analysis

During the reporting period, taking the opportunities arising from the comprehensive supporting reforms of Sanjiang Plain and Songnen Plain and the implementation of border areas development and opening plans, we expanded into markets featuring customers of new type agricultural operation bodies, such as agricultural cooperatives, family farms, leading specialized farming households. We released the first tranche of local loans secured by land management right, a new type agricultural body loans, in Qiqihar, Qitaihe and Mudanjiang of Heilongjiang province. Meanwhile, according to the characteristics of rural farming customers, our Bank innovated pledge and security methods with rural characteristic, added several security methods such as cash pledge of grain direct subsidies, land revenue right pledge and greenhouse pledge, thus providing modernised agricultural operation bodies with more financing security options.

During the reporting period, our Bank continued to strengthen risk management on loans to farmers. Drawing post-loan management experiences from international microcredit institutions, our Bank innovated the post-loan management on loans to farmer in terms of management structure, job duties, customer segmentation and post-sale services, and explored and implemented a three-layer post-loan management system, thereby further strengthening risk control on our loans to farmers.

Our Bank continued to increase our support for the establishment of rural payment channels and facilitated the construction of Farmer-assistance e-stations. As of 30 June 2014, we had over 1,100 “Just-for-you” Farmer-assistance e-stations and completed more than 220,000 transactions of various types. Meanwhile, we vigorously pushed forward a cooperative mobile phone banking project with International Finance Company (IFC), by establishing distributor network in rural areas on a trial basis, with a view to increasingly enhancing our core competitiveness in rural payment channels.

(3) Microcredit Know-how and Technology R&D and Exportation

Our Bank was committed to promote and facilitate financial business development, and became the first in China to export microcredit core technology to other banks. For the first half of 2014, our Bank had a total of 8 microcredit core technology exportation projects. Among which, the Shanxi Yuncheng Rural Commercial Bank project was our Bank’s first revenue sharing model technology exportation project. The outstanding performance of our panel of experts was highly recognized by the cooperative bank and local CRBC.

While doing a good job in exporting the technology to domestic banks, our Bank actively explored the exportation of microcredit technology to countries in Asia and Africa. For the first half of 2014, taking opportunities arising from “Training Programs For Presidential Advisors Of African Countries” opened by the Graduate School of China Academy of Social Sciences, our Bank promoted the exchange and cooperation in microcredit technology with banks in Asia and Africa countries.

Our Bank paid high attention to the building-up of as well as the development and research of microcredit technology. We joined hands with institutions such as Financial Consumer Protection Bureau of PBOC, Financial Institute of the Chinese Social Sciences Academy, China Microcredit Alliance (中國小額信貸聯盟) and U.S. MIX Market and undertook researches on key projects of microcredit, thus fully enhancing our Bank’s brand awareness and voice in microcredit at home and abroad.

Management Discussion and Analysis

During the reporting period, our Bank successively won 9 awards, including “2014 China’s Best Automobile Credit Product”(2014年度中國優秀汽車信貸產品) by the Asian Banker, “2013 Rising Star Bank”(2013年度最具成長性銀行) by the Investor Journal, and “2013 China Microcredit Best Banking Service Award”(2013年度中國小微金融最佳行業服務獎) by China Microfinance Institution Association, etc.

2. *Sino-Russia financial services*

For the first half of 2014, centering on the key work requirements with Russia put forward by the State, provinces, and municipalities, our Bank paid high attention to the development of Sino-Russia financial services by escalating it as a bank-wide strategy, setting-up a Sino-Russia financial service department, and achieved significant breakthroughs in Sino-Russia financial services in terms of market-making transactions in Ruble, cash exchange, cooperation with banks, cross-border financing. Such services gradually became the pioneer of innovation in Sino-Russia financial services. Such efforts enriched the financial connotation of Heilongjiang as a bridgehead to Sino-Russia financial services, and facilitated Sino-Russia trade and investment.

For the first half of 2014, our Bank’s international settlements reached U.S. \$1,445.3 million, representing a year-on-year increase of 22%. As of 30 June 2014, the balance of our foreign currency loans amounted to U.S. \$186.0 million and the balance of our foreign currency deposits amounted to U.S. \$105.1 million.

During the reporting period, our Bank accelerated the development speed of various financial business with Russia, maintaining the leading position among domestic banks in Ruble market-making transactions and Ruble cash exchange. For the first half of 2014, our Bank handled Ruble cash exchange of RUB1,397.5 million, accounting for more than 86% of total Ruble cash exchange in the domestic banks, and accumulated cross-border transactions in Ruble cash of RUB625.0 million, equivalent to the sum of cross-border transactions in Ruble cash for 2012 and 2013, enabling it become the biggest Sino-Russia cash transaction institution. Interbank market trading volume reached US\$18,801.0 million, near to the trading volume last year, ranked 48th in interbank market, became for the first time the top 50 banks in interbank foreign exchange market. The trading volume of Ruble foreign exchange amounted to RUB22,596.0 million, of which the trading volume of domestic interbank market amounted to RUB12,270.0 million, doubled that of the last year. The sales volume of Renminbi to Russia banks amounted to RMB11.1 million, representing an increase of 63% as compared to the first half of 2013.

Our Bank gradually improved the product system of financial services with Russia. It became the bank designated by PBOC to transport cash across the border. Under the prerequisite of consolidating cross-border channels of European Ruble cash with Russia, our Bank opened up the Far East channel with Russia, thus achieving a breakthrough in Ruble in cash with Russia in the Far East. As of 30 June 2014, the number of our correspondent banks reached 645, of which, the number of correspondent banks in Russia was 114, enabling our Bank became the largest correspondent bank in Russia with most accounts. In the meantime, during “The Third Most Trusted Financial Service Providers Selection By Foreign Trade Enterprises in China”(第三屆中國外經貿企業最信賴的金融服務商評選), our Bank won two big awards, namely “2013 Best Sino-Russia Cross-border Financial Service Bank”(2013年度最佳中俄跨境金融服務銀行) and “2013 Best Growth Bank in Trade and Finance”(2013年度最佳貿易金融成長銀行). In addition, our Bank also became the only Designated Foreign Exchange Bank in the province awarded with Class A Foreign Exchange Management for five consecutive years.

Management Discussion and Analysis

(V) Distribution Channels

1. *Physical Network*

Physical branch outlet network was our Bank's main business channel. As of 30 June 2014, the Group had a total of 317 branch outlets, including: 16 branches, 252 sub-branches, 1 branch-level financial service center for small enterprises, and 24 village and township banks and their 24 sub-branches. For the first half of 2014, newly established outlets included 1 branch, namely Yichun Branch; 2 sub-branches, namely Shenyang Hunnan sub-branch and Dalian Xi'an Road sub-branch. Meanwhile, the establishment of Chengdu Gaoxin sub-branch had been approved, and the upgrading job of Jiansanjiang sub-branch of Heilongjiang Province into Agricultural branch was also under active preparation.

2. *Electronic Banking*

Insisting on developing through innovation, centering on application and promotion of new electronic banking platforms, and based on improving customer experience, our Bank strengthened the establishment of basic platforms to expand their application into new businesses, and steadily facilitated the strategic transformation of marketing and services of electronic banking. Through the joint effects of the whole bank, electronic banking business of the Bank maintained a stable development. During the reporting period, the replacement rate of business transactions through our Bank's electronic banking reached 58.53%, up 10.25 percentage points over the end of 2013.

(1) *Self-service terminals*

From the perspective of building up actual channels, our Bank pushed forward the upgrading and improvement of relevant systems of self-service terminals. Such terminals provided various convenience services to customers, including deposit and withdrawal, account inquiry, bill payment, passcode changing and transfer services. As of 30 June 2014, our Bank had 739 self-service terminals, up 4% as compared to the end of last year, including 326 ATMs, 260 cash recycling systems and 153 multi-media inquiry machines.

(2) *Online banking*

Being customer-oriented, our Bank accelerated the application and promotion of new online banking platforms and developed a series of new functions based on its existing functions, constantly improving customer experience on electronic banking. As of 30 June 2014, a total of 531,905 customers opened their online banking accounts, representing an increase of 67.50% over the end of last year. Of which: corporate online banking customers amounted to 39,344, representing an increase of 52.96% over the end of last year, with transaction amount reached RMB305,708 million, representing an increase of 21.11% over the same period last year. Personal online banking customers amounted to 492,561, representing an increase of 68.78% over the end of last year, with transaction amount reached RMB64,159 million, representing an increase of 1.66% over the same period last year. After Alipay and Tenpay were put into operation, there were 1.43 million transactions with a total transaction amount of RMB1,100 million.

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(3) Phone banking

Our Bank provided 24-hour services to customers through the unified national customer service hotline 95537. Such services include account inquiries, bill payment, credit card, oral freeze, operator inquiry and outgoing calls. Our Bank also accelerated the establishment of a service center platform for new customers. As of 30 June 2014, the business volume of the customer service center totaled 1,163,100 calls.

(4) Mobile banking

The mobile banking service supported multiple transaction functions, namely, account management, basic finance, transfer, self-service payment, credit card and funds. At of 30 June 2014, the number of mobile banking customers amounted to 275,549, up 262.07% as compared to the end of last year; for the first half of 2014, the transaction totaled RMB415.5381 million, up 403.37% as compared with the same period last year; the number of transaction with account movement reached 52,103 times, up 4.47% as compared with the same period last year.

(VI) Information Technology

For the first half of 2014, our Bank carried out a good deal of work in technology innovation and transformation, aiming to improve service quality and efficiency.

Improving our technology internal efficiency was a priority focus of our Bank for the first half of the year. With an organizational structure of one department and three centers, we fully streamlined the internal functions and process of the IT department, enabling even clearer internal work division with steady increase in technology work efficiency.

For the first half of 2014, our Bank continued to enhance maintenance and management, increased the monitoring of the key operation systems while at the same time regularly carrying out usability analysis on such systems. Under effective management and maintenance, no emergency has happened in our core and key systems. This well ensured the stability and operation of such systems during our listing. Meanwhile, we continued to establish a disaster recovery system throughout the bank. For the first half of 2014, we substantially finished our expansion work of two disaster recovery centers in the same city and an applied-level disaster recovery center in other place.

The IT planning project runs smooth on the whole. 15 systems such as new generation data platform, personal loan system, operation risk and internal control smart system, office automation system have been put into operation. Meanwhile, various annual planning projects have been vigorously carried out. Currently, Sino-Russia cross-border e-commerce payment platform project, mobile banking service project, agricultural-related service outlet project and construction of a new official website are in smooth progress.

We had completed the setting up of the Demand and Innovation Center which has officially been put into operation. By establishing a demand and management system throughout the Bank, the Center gradually undertook the demand work for whole-process credit, small enterprise credit, agricultural-related financial services reform and innovation businesses. Our IT Services Desk was established as a frontline, second-line and third-line technology supporting and services system to track and manage problems during the whole process. Meanwhile, through further strengthening the construction of monitor system and sticking to the goal of "active, timely, accurate positioning", we realized a full-network and system-wide monitoring, and made substantial progress on application and monitoring of key systems such as online banking, whole process and core system.

Management Discussion and Analysis

(VII) Employees and Human Resources Management

1. *Basic information on staff*

By the end of June 2014, the Bank employed 7,455 staff, of which 898 staff were stationed at the headquarters, representing 12.05% of the total staff. The number of staff in our Harbin Branch and other branches were 2,668 and 3,889, respectively. The average age of our staff was 32, of which 2,914 staff were aged from 26-30, representing 39.09% of the total staff. 1,160 staff were aged from 31-35, representing 15.56% of the total staff. The percentage of staff with a bachelor degree or above was 82.19%. The total number of staff of our subsidiaries was 949 as of 30 June 2014.

The Bank determines staff remuneration with reference to their work performance, experience and abilities. In accordance with the Labor Law of the People's Republic of China and relevant requirements of the State and local governments, the Bank provides various social insurances and other benefits to employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing funds and accident insurance. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed by the Bank and employees at a certain proportion in accordance with the relevant local requirements. The social insurance premiums payable by employees are paid by the Bank on behalf of them.

2. *Overall human resources management*

For the first half of 2014, in terms of staff selection and introduction, the Bank carried out its staff recruitment works in an orderly manner according to its annual plan and adopted flexible employment so as to meet our development requirements. In terms of human resources allocation and reserve, the Bank focused on the career development and planning of our staff, and enriched their jobs and stimulated their work enthusiasm through internal recruitment, competitive recruitment and career advancement and work placement and rotation. We have strengthened our cadre team building and optimized our talented person echelon structure through position competition, examination and assessment.

In terms of human resources training and development, our Bank continued to carry out the manager training scheme and summer internship scheme. Moreover, we further improved the training programme, innovated position training model, and increased the matching degree of talents with their positions through two-way choice between the Company and staff.

In terms of identification and prevention of risks relating to human resources, the Bank paid great attention to related risks and treated them seriously. The Bank conducted its inspection works on staff conducts through home visit, daily conversation, reporting on default and relatives avoidance system. It also established four book account system and strengthened the internal control of the Bank.

The Bank established a series of employee incentive policies in line with the development characteristics of our Bank: firstly, remuneration incentives by implementing salary adjustment for promotion and downgrading; secondly, career development platform by building up multi-channel career development paths for our staff, including talent exchange and secondment; thirdly, innovated training methods, by refining the 3-level training, and conducting overseas training with a view to establishing high standard education and training system for our staff.

Management Discussion and Analysis

3. Training

In 2014, the Bank conducted its training works based on our target for this year being “the year of brand establishment”. The Bank continued to enhance the content and standard of training management. The Bank conducted its training in a scientific and innovative way. Benefiting from our accumulated past experience, we continued to improve. In addition, the Bank has standardized training assessment while strictly implemented training management system. The Bank also optimized its staff training system to promote the career development of our staff. The Bank has adopted innovative and efficient team management mode and strengthened the management skills of the senior management. It has improved the training for new staff, thereby facilitating job rotation and adaptation. The Bank focused on establishing the training result assessment system and enhancing training efficiency in various aspects. In order to achieve our goal, the Banks has strengthened the training mode of our talent scheme. Moreover, the Bank has been improving the standard of training management. Hence, sufficient theoretical and manpower support has been provided for the brand construction of the Bank.

IX. Risk Management

For the first half of 2014, the Bank constantly improved risk management system and stuck to risk bottom line by adhering to the core risk management concept of “risk management creating value”, aiming to maximize the risk-adjusted revenue. The Bank promoted the innovation and application of risk management, and optimized and adjusted risk management system in compliance with new regulation standards under the Basel Accords, improving overall risk management, prevention and control.

(I) Credit Risk

Credit risk refers to our 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 executed a unified risk appetite in credit risk management and controlled risk within an acceptable level, in order to achieve a higher risk return and realize the identification, measurement, monitoring and control of credit risk.

The Bank formulated the 2014 major risk management policies and 2014 credit management policies early this year. By incorporating national economic structural adjustment policies into regional development planning, the Bank specified credit risk management policies in different aspects of industries, customers, risk mitigation and risk pricing based on our own business characteristics. By further strengthening adjustment of industry structure in real estate industry and local financing platforms, through quota management of the industries with excess supply and customer-name-list management, the Bank continued to focus on the actual controllers of its customers and their relationships and optimize credit assets structure.

During the reporting period, taking the opportunity in implementing the Basel Accords, the Bank completed the mode establishment of the internal rating system for retail and non-retail operations so as to provide support for operation lines on model establishment, as well as developed marking card and price rating card. During the process of model development, the Bank has established the main scale in line with the actual situation of the Bank in order to make adjustment on non-retail model. The Bank completed the core application and partial advanced application of internal rating system, mainly including: setting up credit granting plans, credit limit for single customer, combined credit limit, risk monitoring plans, provision management plans, model control and

Management Discussion and Analysis

management plans, internal rating process and risk appetite. The Bank facilitated the reassessment on risk value of collateral and completed the risk value assessment for collateral. The Bank optimized and improved the risk monitor and alert mechanism, adjusted risk ratings of industry, region and product dynamically, incorporated the risk alert and checking results of our branch into their performance assessment systems. Drawing advanced experience from banks, the Bank implemented risk data mart project, put forward a risk alert mechanism, specifically identifying the alert procedures and alert signals processing procedures as well as standardizing the alert procedures. The Bank designed a risk data mart structure in order to meet the requirements of internal system establishment, model verification and risk weighted assets (RWA) measurement. The establishment and application of the above risk management tools and systems enhanced our credit risk management.

(II) Liquidity Risk

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

The Assets and Liabilities Management Committee of the Bank is responsible for formulating liquidity management guidelines and policies, and reviewing the major problems arising from such liquidity management activities. The Bank has established a bank-wide liquidity risk management system to comprehensively manage liquidity risks. It has also set up liquidity risk management indicators, which monitor and control liquidity risk at a prescribed frequency. During the reporting period, the Bank took the opportunity in implementing the Basel Accords to actively implement the liquidity risk management project results, by strengthening liquidity risks monitoring, introducing liquidity risk analysis for branch outlets and providing guidance on liquidity control for branches. Moreover, the Bank conducted liquidity risk stress testing by combining maturity gap analysis with cash utilization analysis. Hence, our liquidity risk management ability has been enhanced.

(III) Market Risk

Market risk refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in market prices (interest rates, exchange rates, stock prices and commodity prices).

The market risks currently faced by our Bank are interest rate risk and exchange rate risk. The Bank's objective of market risk management is to maximize risk-adjusted revenue while limiting the potential losses arising from market risk within a reasonably acceptable level based on our bank-wide risk appetite.

1. *Interest rate risk analysis*

Interest rate risk mainly consists of bank account interest rate risk and trading account interest rate risk.

Bank account interest rate risk refers to the risk of decrease in net interest income or long term market value of the assets and liabilities portfolio as a result of interest rate fluctuation. Our bank account interest rate risk arises primarily from the differences in the maturity dates (for fixed rate) or repricing dates (for floating rate) of bank assets, liabilities and off-balance sheet businesses. The Bank assesses the undertaking bank account interest rate risk based on analysis upon interest rate repricing and sensitivity analysis.

Management Discussion and Analysis

Trading account interest rate risk refers to the risk of loss in our on- and off-balance sheet businesses under our trading account as a result of adverse changes in interest rates.

The interest rate risk associated with our trading accounts exists mainly in the trading businesses, including bond trading and derivative trading. For the management of rate risk of trading accounts, we define the classification standards for trading accounts and bank accounts, reevaluate the market value of assets under our trading accounts on a daily basis, set rating caps, stop-loss limits and risk limits, and monitor and control them by frequency. Our Bank uses duration analysis, sensitivity analysis and other methods to measure interest rate risk of trading accounts.

2. *Exchange rate risk analysis*

Exchange rate risk refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in exchange rates. Our exchange rate risk exists mainly in our foreign currency-related trading and non-trading businesses, including foreign currency loans, foreign currency deposits, proprietary foreign exchange trading and foreign exchange settlement on behalf of customers. Our Bank sets transaction caps, stop-loss limits and exposure limits to manage exchange rate risk arising from our foreign exchange business.

During the reporting period, our Bank actively carried out the development and establishment of OPICS system bond model and market risk management system and related functions. Our foreign exchange centre monitors market changes on a real-time basis, thus enhancing our profitability in foreign exchange self-operation transactions. Meanwhile, for foreign exchange settlement, the Bank has designated officers responsible for monitoring the foreign exchange market and implemented large position advance reporting system. Large foreign exchange settlement will be settled on a real time basis. This can ensure profits while controlling exchange rate risk effectively.

(IV) Operational Risk

Operational risk refers to the risk of loss arising from flawed internal procedures, and loss caused by staff, IT systems, and external events.

Under a unified operational risk appetite, our Bank uses a standardized operational risk management system for daily risk management to establish a full set of operational risk management systems, covering relevant corporate governance structures, policies and systems, management tools, measurement methods and IT system, effectively preventing events of high operational risk.

During the reporting period, taking the opportunity arising from the implementation of the Basel Accords, the Bank promoted the nationwide application of three major management tools, namely self-assessment on risks and control, key risk indicators, loss data collection, and put into operation of the internal smart system operational risk management mode. By strengthening operation management and supervision and promoting the pilot work of after event monitoring system, the Bank kept a good control of the occurrence of errors in its counter services. By enhancing continuous business management, the Bank's key information systems such as core business maintained a 100% stable operation rate. By monitoring and controlling of the whole network and system, the Bank made substantial progress in the application and monitoring of key systems of online banking,

Management Discussion and Analysis

whole process and core business, enabling it maintain a relative stable system operation. By enriching 16 major exercise scenarios, setting up RTO and RPO indicators and strengthening key information system emergency management, the Bank achieved a 100% completion rate in its key information system emergency scenario exercises. By carrying out continuous construction of disaster recovery system throughout the Bank, the Bank finished its work goals of expanding disaster recovery centers in the same city and construction of applied-level disaster recovery centers in different places.

(V) Anti-money Laundering Management

For the first half of 2014, the Bank actively implemented the comprehensive trail works on large-sum anti-money laundering transactions and suspicious transactions, aiming to prevent relevant risks. The operation efficiency was enhanced by defining own monitoring rules, upgrading anti-money laundering detection system and improving anti-money laundering system. The Bank promoted the implementation of the requirements of the People's Bank of China in customer identification and customer risk rating. The Bank also put greater efforts on assessment of working quality and efficiency. In addition, the Bank has enhanced the anti-money laundering prevention skill of staff and the overall management standard relating anti-money laundering by holding regular anti-money laundering training and activities of anti-money laundering awareness month within the Bank. This helps to prevent relevant risks effectively.

X. Internal Control and Internal Audit

(I) Internal Control

The Board as the decision-making level of our Bank is responsible for the consolidation and effective implementation of internal control; the management at various levels is responsible for coordinating the establishment of the implementation of internal control and its daily operation work; each of our branches and sub-branches and departments is responsible for establishing and continuously improving its own internal control system in accordance with the requirements of laws and regulations; the compliance departments at different levels and independent internal audit departments are responsible for the supervision and assessment of the internal control system of the Bank. At present, the Bank has formulated an internal control system covering the five major aspects of internal environment, risk assessment, control activities, information and communication, and internal supervision, in accordance with the "Basic Rules on Enterprise Internal Control" and its supporting guidelines, the "Internal Control Guidelines for Commercial Banks".

During the reporting period, the Bank carried out the second phase construction of internal control. Based on COSO and control guidelines of issued by China's five ministries and commissions, and by evaluating the importance of internal control process, we integrated the concept of internal control into the bank's main information system by introducing advanced concept of internal control information. Through strengthening the automation rate of internal control at different processes, we further realized the automation and normalization of the control system in the first layer of defense so as to move forward the function of risk control management, significantly increasing the effectiveness of control in the business process. We introduced the idea of information system application control of COBIT, promoted the organic combination of internal control process management with information system to solidify the management procedure into the system and improve the information and automation of internal control.

Management Discussion and Analysis

(II) Internal Audit

During the reporting period, the Internal Audit Department of our Bank continued to strengthen the supervision and inspection on “key areas/regions, operations and projects” under the principle of “run the Bank strictly”. It organized and implemented a comprehensive audit on branches and sub-branches, Village and Township Banks, terms of office of the management, key projects (special audit) and information technology projects. In addition, it assessed the effectiveness of internal control and risk management on the Bank and Village and Township Banks through implementation of a comprehensive and continuous supervision on IT-supported operations via off-site auditing system. The Board and the senior management emphasized on the audit findings and transformation of audit results, actively promoted problem rectification and process improvement, supervised the effective duty performance of the units under auditing, so as to improve our risk prevention and control.

XI. Prospects

For the second half of 2014, although the global economy will continue to recover, we remain cautious about geopolitics and regional risks. As China’s economic growth is slowing down, the bank industry will face even more uncertainties arising from accelerated interest rate liberalization, RMB internationalization, deepened economic and financial reforms, the restrictions imposed by regulation policies on the development of part of our businesses and the development of internet financial services, etc. For the second half year of 2014, adhering to customer-oriented philosophy and following the theme of enhancing corporate value, the Bank will continue to strengthen its edges in micro-credit operation by seizing opportunities and consolidating resources, aiming to improve profitability. Meanwhile, the Bank will greatly expand the internet financing and consumer financing businesses by utilizing the established Internet Financing Department and Consumer Financing Department with a view to exploring new business opportunities. The Bank will fully utilize its geographic advantages in Sino-Russia business to enhance our brand influence in Sino-Russian financial services. The Bank will focus on establishing new development model for Sino-Russia business, aiming to achieve growth in both scale and efficiency. Keeping up with changes in market demand, the Bank will continue to optimize the existing management mode and technical means in order to strengthen the establishment of its professional teams and specialized operational entities, and raise the levels and efficiency of its professional and unique services. Our Bank is dedicated to developing itself into one of the best listed banks.

Changes in Share Capital and Information on Shareholders

I. Share Capital

The Bank was listed on the Hong Kong Stock Exchange on 31 March 2014, upon an issuance of 2,748,700,000 H Shares in total. After completion of the issuance, the total share capital of the Bank increased to 10,995,599,553 Shares, with a registered capital of RMB10,995,599,553.

II. Statement of Changes in Shares

	1 January 2014		Increase/decrease during the reporting period (+/-)					30 June 2014	
	Number	Percentage	Private placement	New share issued	Bonus issue	Others	Subtotal	Number	Percentage
Domestic shares									
1. Non-listed shares held by domestic corporations	8,164,367,752	99.00%				-274,870,000	-274,870,000	7,889,497,752	71.75%
Including: (1) Shares held by state-owned enterprises	2,469,659,800	29.95%				-274,870,000	-274,870,000	2,194,789,800	19.96%
(2) Shares held by private enterprises	5,694,707,952	69.05%						5,694,707,952	51.79%
2. Non-listed shares held by domestic natural person	82,531,801	1.00%						82,531,801	0.75%
H Shares									
3. Overseas listed foreign shares				2,748,700,000		274,870,000	3,023,570,000	3,023,570,000	27.50%
Total number of shares	8,246,899,553	100%						10,995,599,553	100%

Note: Non-overseas listed shares of the Bank were held by 31 state-owned corporate shareholders, including Harbin Economic Development, the Finance Bureau of Acheng, Harbin (哈爾濱市阿城區財政局), the Finance Bureau of Daoli, Harbin (哈爾濱市道里區財政局), etc.

Changes in Share Capital and Information on Shareholders

III. Shareholdings of Shareholders

At the end of the reporting period, the Bank had a total of 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 Xin Yongsheng Trading Company Limited	Private enterprise	639,804,806	5.82%	212,925,649	Non-overseas listed shares
5	Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	Private enterprise	572,253,048	5.20%	80,000,000	Non-overseas listed shares
6	Heilongjiang Tuokai Economic and Trading Company Limited	Private enterprise	522,447,109	4.75%	222,916,051	Non-overseas listed shares
7	Heilongjiang Tongda Investment Co., Ltd.	Private enterprise	358,578,793	3.26%	–	Non-overseas listed shares
8	Harbin Jubang Investment Co., Ltd.	Private enterprise	301,170,095	2.74%	123,657,487	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%	–	Non-overseas listed shares

Note: As at 30 June 2014, the aforesaid shareholding percentage of non-overseas listed shares is based on the total share capital of the Bank of 10,995,599,553 shares. In addition, the aforesaid pledged or frozen shares held by the shareholders are subject to pledge only and not judicial moratorium.

Substantial Interests and Short Positions

As at 30 June 2014, the interests and short positions of substantial shareholders (within the meaning of the SFO), other than directors and supervisors, in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Changes in Share Capital and Information on Shareholders

Domestic Shares

Name of shareholder	Capacity	Number of domestic shares held (long position)	Percentage of issued domestic share capital of the Bank	Percentage of total issued share capital of the Bank
Harbin Economic Development and Investment Company ¹	Beneficial owner	2,160,507,748	27.10%	19.65%
Harbin Kechuang Xingye Investment Company Limited ²	Beneficial owner	720,262,554	9.03%	6.55%
Heilongjiang Keruan Software Technologies Company Limited ³	Beneficial owner	719,816,019	9.03%	6.55%
Heilongjiang Xin Yongsheng 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%

Note:

1. Harbin Economic Development is wholly owned by Harbin Municipal Finance Bureau and is our only substantial shareholder (as defined under the Hong Kong Listing Rules).
2. Harbin Kechuang Xingye Investment Company Limited is owned as to 93.92% by Tianjin Wenhua Tianhai Industrial Company Limited (天津文華天海實業有限公司), which is owned as to 50% and 47.3% by Batou Ronghui Trading Company Limited (包頭市榮慧貿易有限責任公司) and Hangzhou Jiela Trading Company Limited (杭州傑拉貿易有限公司), respectively. Batou Ronghui Trading Company Limited (包頭市榮慧貿易有限責任公司) is owned as to 98.22% by Jinan Kangze Commercial and Trading Company Limited (濟南康澤商貿有限公司), which is in turn owned as to 62.5% and 37.5% by two natural persons, Tan Ran (譚然) and Zhang Yanyong (張衍勇), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Harbin Kechuang Xingye Investment Company Limited.
3. Heilongjiang Keruan Software Technologies Company Limited is owned as to 95.83% by Dalian Yujiaxin Technology Company Limited (大連宇嘉信科技有限公司), which in turn is owned as to 60% and 40% by two natural persons, Liang Yifeng (梁乙峰) and Diao Xiaoxi (刁小熙), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Keruan Software Technologies Company Limited.
4. Heilongjiang Xin Yongsheng Trading Company Limited is owned as to 95.4% by Beijing Chengxinfenghui Technology and Trading Company Limited (北京誠信豐滙科貿有限公司), which in turn is owned as to 60% and 40% by two natural persons, Liu Kun (劉坤) and Zhao Yonghe (趙永和), respectively. Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Xin Yongsheng Trading Company Limited.
5. Heilongjiang Tiandi Yuanyuan Network Technology Company Limited is owned as to 93.61% by Beijing Huifutong International Investment Company Limited (北京滙富通國際投資有限公司), which in turn is owned as to 80% by a natural person Dong Yan (董雁). Each of the above entities/persons is deemed to have interests in the same number of shares as Heilongjiang Tiandi Yuanyuan Network Technology Company Limited.
6. Heilongjiang Tuokai Economic and Trading Company Limited is owned as to 95.27% by Beijing Tailonghuasheng Technology Company Limited (北京泰隆華勝科技有限公司), which in turn is owned as to 87.5% by Beijing Jieshentiancheng Trading Company Limited (北京傑勝天成貿易有限公司), which in turn is owned as to 70% by a natural person Guan Wu (管武). 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 Bank	Percentage of total issued share capital of the Bank
Fubon Financial Holding Co., Ltd.	Interest of controlled corporations ¹	773,124,000	25.57%	7.03%
CITIC Group Corporation	Interest of controlled corporations ²	401,275,000	13.27%	3.65%

Note:

1. Fubon Financial Holding Co., Ltd. holds the interests in 773,124,000 H shares of the Bank through its controlled corporation, Fubon Life Insurance Company Limited.
2. CITIC Group Corporation holds the interests in the relevant number of shares through its controlled corporations and CITIC Capital HB Investment L.P.

Save as disclosed above, as of 30 June 2014, none of other persons had any interests or short positions in the Company or its associated corporations as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange.

IV. Substantial Shareholders of the Bank

By the end of the reporting period, Harbin Economic Development and Investment Company, Fubon Life Insurance Company Limited, Harbin Kechuang Xingye Investment Company Limited, Heilongjiang Keruan Software Technologies Company Limited, Heilongjiang Xin Yongsheng Trading Company Limited, and Heilongjiang Tiandi Yuanyuan Network Technology Company Limited held 2,160,507,748 shares, 773,124,000 shares, 720,262,554 shares, 719,816,019 shares, 639,804,806 shares and 572,253,048 shares of the Bank respectively, representing 19.65%, 7.03%, 6.55%, 6.55%, 5.82% and 5.20%, respectively, of the total share capital of the Bank, and are substantial shareholders holding 5% or more of the total share capital of the Bank.

Save as the aforesaid shareholders, there are no other corporate shareholders holding 5% or more of the total share capital of the Bank, nor are there any other natural persons holding 5% or more of the shares of the Bank.

At the end of the reporting period, Harbin Economic Development and Investment Company is the substantial shareholder holding 10% or more of the shares (as defined under the Listing Rules) of the Bank.

As at 30 June 2014, Harbin Economic Development and Investment Company, as the single largest shareholder of the Bank, held 19.65% of the total issued shares of the Bank. According to the Business License (Registration No.: 230100100001678) issued by Harbin Administration of Industry and Commerce on 30 May 2012, and Amendment to the Articles of Association of Harbin Economic Development and Investment Company issued on 19 September 2011, Harbin Economic Development is a validly subsisting economic entity owned by the whole people, with the Harbin Municipal Finance Bureau as its sole shareholder.

Changes in Share Capital and Information on Shareholders

V. Pledge and Freeze of Shares of Shareholders with Shareholding of 5% or above of the Company

As at 30 June 2014, 292,925,649 Shares of two shareholders each with a shareholding of 5% or above were subject to pledge.

VI. Controlling Shareholders and Actual Controllers

The Company has neither controlling shareholders or actual controllers.

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

Please see (IV) Substantial Shareholders of the Bank above for particulars of shareholders with shareholding of 5% or more of the Company as at 30 June 2014.

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

The Company or any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company for the six months ended 30 June 2014.

Directors, Supervisors and Senior Management

Directors of the Bank

The board of directors of the Bank comprises a total of 13 directors, including 3 executive directors, namely Mr. Guo Zhiwen (chairman of the Board and secretary to the Party Committee), Ms. Gao Shuzhen (president) and Mr. Liu Zhuo (vice chairman of the Board and secretary to the board); 4 non-executive directors, namely Mr. Zhang Taoxuan, Mr. Chen Danyang, Mr. Qin Hongfu and Mr. Cui Luanyi; and 6 independent non-executive directors, namely Mr. Zhang Shengping, Mr. He Ping, Mr. Du Qingchun, Mr. Ma Yongqiang, Mr. Wan Kam To and Mr. Kong Siu Chee.

Supervisors of the Bank

The board of supervisors of the Bank comprises a total of 8 supervisors, including 1 shareholder representative supervisor, namely Ms. Lu Yujuan; 3 external supervisors, namely Mr. Wang Jiheng, Ms. Bai Fan and Ms. Meng Rongfang; and 4 employee representative supervisors, namely Mr. Zhang Bin (chairman of the Board of supervisors), Ms. Cheng Yun (vice chairman of the Board of Supervisors), Ms. Wang Ying and Mr. Chen Yutao.

Joint Company Secretaries and Secretary to the Board

Ms. Sun Feixia and Mr. Ngai Wai Fung were appointed as joint company secretaries of the Bank in January 2014. Mr. Liu Zhuo was the secretary to the Board of the Bank, his qualification for acting as secretary to the Board was approved by Heilongjiang Supervision Administration of CBRC on 10 September 2008.

Securities Transactions by Directors and Supervisors

The Bank has adopted a code of conduct regarding securities transactions by directors and supervisors and relevant employees on terms no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. Having made specific enquiries, all directors and supervisors of the Bank confirmed that they have complied with the aforesaid code from the Listing Date (31 March 2014) to 30 June 2014.

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Bank

During the Reporting Period, the Directors, Supervisors and President and their respective associates did not hold interests or short positions of any Shares, relevant shares or debentures of the Bank or associated corporations (as defined in the SFO) which were required to be registered in the register pursuant to section 352 of SFO or to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

Important Events

I. Corporate Governance

During the reporting period, the Bank continued to improve our 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 Banking Law of the People's Republic of China as well as the Listing Rules, with due consideration given to actual conditions of the Bank.

Reform of the organization. In order to strengthen the management over and facilitate the development of microcredit business, the Microcredit Management Committee (for details please see "Organization Chart") was established to provide strong protection for the development of the microcredit business of the Bank.

Corporate Governance Code. From the Listing Date (31 March 2014) to 30 June 2014, the Bank had been observing and complying with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Bank has purchased Directors' Liability Insurance and published discloseable documents and information onto the websites of the Bank and the Hong Kong Stock Exchange. Meanwhile, the Bank had been observing and complying with most of the recommended best practices set out in the aforementioned code.

II. The Use of Proceeds

The Company was listed on the Hong Kong Stock Exchange on 31 March 2014. A total number of 3,023,570,000 H Shares were issued in the Global Offering (comprising 2,748,700,000 new shares offered by the Company and 274,870,000 sale shares were offered by the selling shareholders). The offer price was HK\$2.90 per H Share. The nominal value is RMB1.00 per H Share. The net proceeds were approximately HK\$7.722 billion (approximately RMB6.184 billion) and the Stock Code is 6138. As of the date of this report, the Company has applied the proceeds to replenish capital by increasing the registered capital to RMB10,995,599,553 and completed the changes of business registrations in June 2014. As at 30 June 2014, RMB2,748,700,000 from the net proceeds raised by the Company was used as supplementary registered capital, the remaining net proceeds were used as supplementary capital reserve.

III. Significant Business Development

The Company, as the main promoter, applied to the CBRC for the promotion and establishment of Harbin Bank Financial Leasing Co., Ltd., and on 15 January 2014, obtained the approval to proceed with establishment of the company under the approval document number: Yin Jian Fu [2014] No. 35. The company's registered address is in Harbin City of Heilongjiang Province with a registered capital of RMB2 billion. As the main promoter, the Company invested RMB1.6 billion for an equity interest of 80% in the company. Harbin Bank Financial Leasing Co., Ltd shall follow "Giving priority to agriculture, focusing on agricultural machinery, homing in northeast China and serving small and medium-sized enterprises" as its strategic positioning, match-up with the policy orientation in the development of modern agriculture in Heilongjiang Province and China, fully promote the agricultural industrialization and upgrading of the agricultural equipment manufacturing industry, innovate rural financial service channels and promote the development of both the agriculture industry and the regional economy. Harbin Bank Financial Leasing Co., Ltd obtained the commencement of business approval by the CBRC Heilongjiang Bureau (Hei Yin Jian Fu[2014] No. 147) on 10 June 2014, and it formally commenced business operation since 12 June 2014.

The Company has received a notice from the PBOC Harbin Central Sub-branch (Ha Yin Fa [2014] No.93) that pursuant to the Notice on Targeted Reduction of RMB Deposit Reserve Ratio of Certain Financial Institutions published by the People's Bank of China (《中國人民銀行關於定向降低部分金融機構存款準備金率的通知》) (Yin Fa [2014] No. 164), and effective from 16 June 2014, the Bank has implemented a RMB deposit reserve ratio of 17.5%, which is 0.5 percentage point lower than the previous RMB deposit reserve ratio applied by the Bank.

Important Events

IV. Debt Securities Issuing

The Bank has not issued any bond during the reporting period.

Details of the bonds issued by the Bank were as follows:

(I) Subordinated Bonds in 2009

According to the resolutions of the ninth meeting of the fourth Board on 9 February 2009 and the 2009 first extraordinary general meeting of the shareholders on 6 March 2009, the Board and the Shareholders' General Meeting approved the issuance of subordinated bonds of not more than RMB1 billion.

According to the "Approval for Harbin Bank to Issue Subordinated Bonds" issued by the CBRC under approval document: Yin Jian Fu [2009] No.396 dated 15 October 2009 and the "Administrative Approval Decision" by the People's Bank of China under approval document: Banking Market License [2009] No.72 dated 24 November 2009, the Company obtained the consent and permission from the CBRC and the People's Bank of China for the issuance of the 2009 subordinated bonds.

(II) Financial Bonds in 2012

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

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

V. Material Related Party Transactions

The Bank had no significant related party transactions with related parties by the end of the Reporting Period.

VI. Material Legal Proceedings and Arbitrations

As at the end of the reporting period, pending legal proceedings in which the Bank was involved as a defendant or a third party amounted to RMB1,290,000. In the opinion of the Bank, it would not have any material impact on the Bank's operating activities. During the reporting period, there were no material legal proceedings or arbitration which had substantial impact on the operating activities of the Bank.

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

During the reporting period, the Bank and all its directors, supervisors and senior management had no record of being subject to inspections, administrative penalties and circulating criticisms by CSRC or public censures by the Hong Kong Stock Exchange, or penalties by relevant regulatory bodies that posed significant impact on the Bank's operation.

Important Events

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

During the reporting period, neither the Bank nor the shareholders holding 5% or more of the total shares in issue of the Bank gave any undertakings.

IX. Material Contracts and Their Performance

During the reporting period, the Bank had no material contracts to be performed.

X. The Audit Review

The Bank's interim consolidated financial statements for the year 2014 prepared in accordance with International Financial Reporting Standards had been reviewed by Ernst & Young, who had issued an unqualified review opinion.

The Bank's interim report for the year 2014 had been reviewed by the Audit Committee of the Board and the Board.

XI. Implementation of Share Incentive Scheme during the Reporting Period

During the reporting period, the Bank had not implemented any share incentive scheme.

XII. Appointment and Dismissal of Auditors

The appointment of Ernst & Young as the auditors of the Company for the year 2014 was considered and approved at the 2013 Annual General Meeting held on 19 June 2014

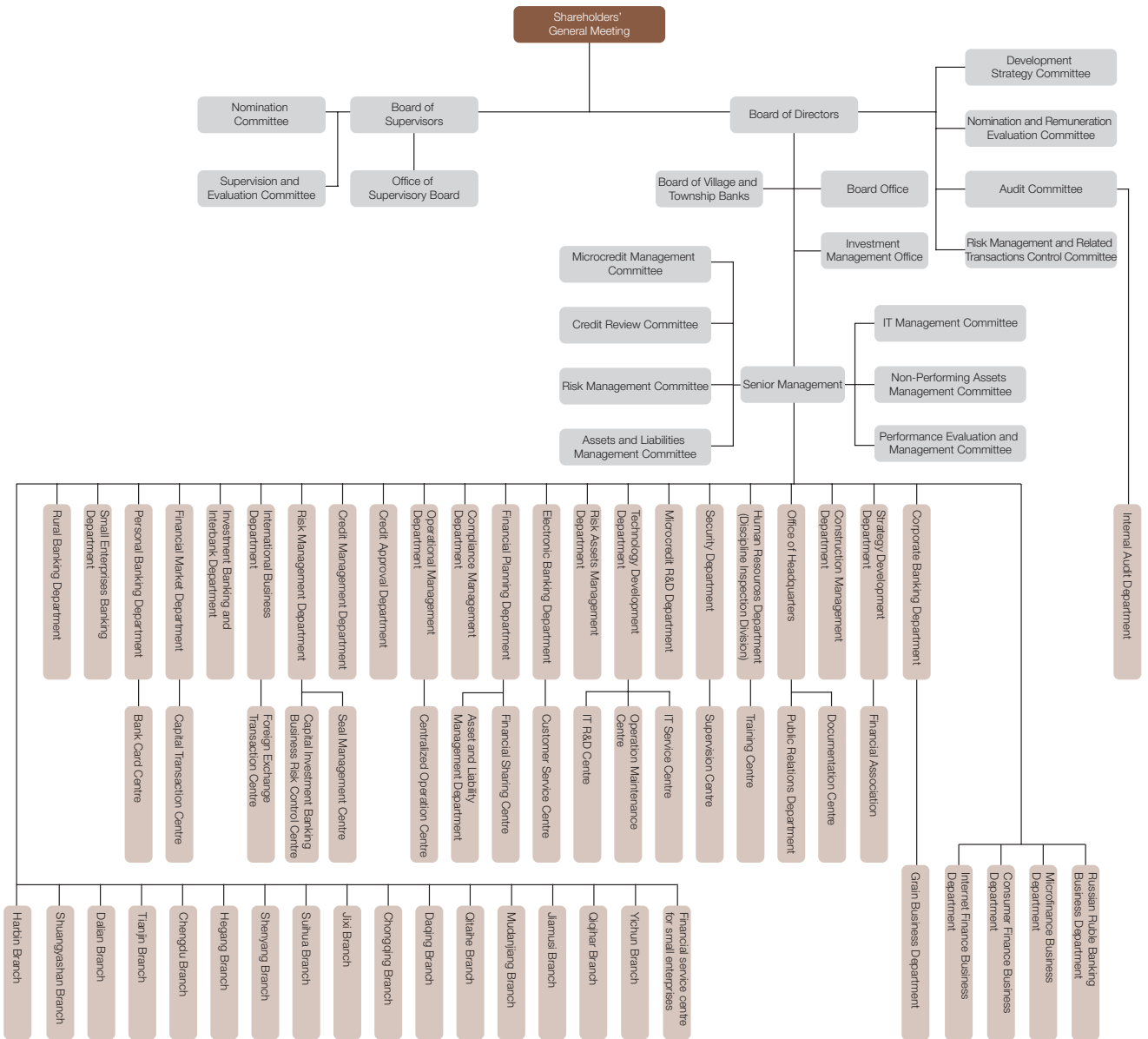
XIII. Material Acquisition and Disposal of Assets and Merger of Enterprises

During the reporting period, the Bank had no material acquisition and disposal of assets and merger of enterprises.

XVI. Profit Distribution during the Reporting Period

The 2013 profit distribution plan of the Bank was considered and approved at the 2013 Annual General Meeting held on 19 June 2014. A dividend of RMB0.38 per 10 Shares (inclusive of tax) will be paid on 19 August 2014. The Bank did not distribute an interim dividend for the period ended 30 June 2014.

Organization Chart



Financial Statements

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

Report on Review of Interim Financial Information



To the shareholders of Harbin Bank Co., Ltd.

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

Introduction

We have reviewed the accompanying interim financial information set out on pages 64 to 127, 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 2014 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of 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

19 August 2014

Condensed Consolidated Income Statement

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2014	2013
		Unaudited	Unaudited
Interest income	4	9,373,263	6,901,871
Interest expense	4	(5,274,050)	(3,621,212)
NET INTEREST INCOME	4	4,099,213	3,280,659
Fee and commission income	5	904,002	562,496
Fee and commission expense	5	(72,221)	(50,196)
NET FEE AND COMMISSION INCOME	5	831,781	512,300
Net trading income	6	118,800	186,179
Net loss on financial investments	7	(62,266)	(34,467)
Other operating income, net	8	44,272	10,512
OPERATING INCOME		5,031,800	3,955,183
Operating expenses	9	(1,986,984)	(1,588,998)
Impairment losses on:			
Loans and advances to customers	17	(392,303)	(276,442)
OPERATING PROFIT		2,652,513	2,089,743
Share of profits of an associate		11,351	3,738
PROFIT BEFORE TAX		2,663,864	2,093,481
Income tax expense	10	(669,737)	(508,572)
PROFIT FOR THE PERIOD		1,994,127	1,584,909
Attributable to:			
Equity holders of the Bank		1,982,370	1,575,442
Non-controlling interests		11,757	9,467
		1,994,127	1,584,909
EARNINGS PER SHARE (RMB yuan)			
Basic and diluted	12	0.21	0.19

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

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

Condensed Consolidated Statements of Comprehensive Income

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014
(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2014	2013
		Unaudited	Unaudited
Profit for the period		1,994,127	1,584,909
Other comprehensive income (after tax, net):			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net gain on available-for-sale financial assets	31	40,670	10,429
Share of other comprehensive income/(loss) of an associate	31	44,642	(6,457)
Subtotal of other comprehensive income for the period		85,312	3,972
Total comprehensive income for the period		2,079,439	1,588,881
Total comprehensive income attributable to:			
Equity holders of the Bank		2,067,682	1,579,414
Non-controlling interests		11,757	9,467
		2,079,439	1,588,881

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

Condensed Consolidated Statement of Financial Position

AS AT 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

	Note	As at 30 June 2014	As at 31 December 2013
		Unaudited	Audited
ASSETS			
Cash and balances with the central bank	13	53,269,187	51,552,089
Due from banks and other financial institutions	14	31,308,803	33,871,192
Financial assets held for trading	15	2,544,877	2,512,264
Reverse repurchase agreements	16	52,641,039	51,110,948
Loans and advances to customers	17	116,897,676	103,515,015
Financial investments	18	75,616,369	68,523,601
Investment in an associate	19	1,019,948	963,955
Property and equipment	20	7,132,322	7,314,942
Deferred income tax assets	21	442,091	333,855
Other assets	22	3,270,178	2,477,579
TOTAL ASSETS		344,142,490	322,175,440
LIABILITIES			
Due to the central bank		1,610,811	787,198
Due to banks and other financial institutions	23	65,166,236	50,610,868
Derivative financial liabilities	24	850	–
Repurchase agreements	25	4,116,577	19,091,166
Due to customers	26	235,265,850	224,178,126
Income tax payable		393,747	262,941
Debt securities issued	27	3,500,000	3,500,000
Other liabilities	28	5,933,843	3,817,854
TOTAL LIABILITIES		315,987,914	302,248,153
EQUITY			
Equity attributable to equity holders of the Bank			
Issued share capital	29	10,995,600	8,246,900
Reserves	30	12,520,432	7,449,935
Retained profits		4,027,042	4,030,707
		27,543,074	19,727,542
Non-controlling interests		611,502	199,745
TOTAL EQUITY		28,154,576	19,927,287
TOTAL EQUITY AND LIABILITIES		344,142,490	322,175,440

The financial statements were approved and authorised for issue by the Board of Directors on 19 August 2014.

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

Guo Zhiwen

Chairman

Gao Shuzhen

President

Zhang Qiguang

Chief Financial Officer

Chen Yutao

General Manager of
Finance and Accounting
Department

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

	Unaudited										
	Attributable to equity holders of the Bank										
	Reserves							Retained profits	Total	Non-controlling interests	Total equity
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves	Subtotal				
Balance as at 1 January 2014	8,246,900	4,222,379	1,190,017	2,270,338	(182,060)	(50,739)	7,449,935	4,030,707	19,727,542	199,745	19,927,287
Profit for the period	-	-	-	-	-	-	-	1,982,370	1,982,370	11,757	1,994,127
Other comprehensive income											
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	40,670	-	40,670	-	40,670	-	40,670
Share of other comprehensive income of an associate	-	-	-	-	-	44,642	44,642	-	44,642	-	44,642
Total comprehensive income	-	-	-	-	40,670	44,642	85,312	1,982,370	2,067,682	11,757	2,079,439
Capital contributed by owners	2,748,700	3,416,983	-	-	-	-	3,416,983	-	6,165,683	400,000	6,565,683
Dividends – 2013 final (note 11)	-	-	-	-	-	-	-	(417,833)	(417,833)	-	(417,833)
Appropriation to general reserve (i)	-	-	-	1,568,202	-	-	1,568,202	(1,568,202)	-	-	-
Balance as at 30 June 2014	10,995,600	7,639,362	1,190,017	3,838,540	(141,390)	(6,097)	12,520,432	4,027,042	27,543,074	611,502	28,154,576

(i) Includes the appropriation made by subsidiaries in the amount of RMB5,292 thousand.

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

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

	Unaudited										
	Attributable to equity holders of the Bank										
	Reserves							Retained profits	Total	Non-controlling interests	Total equity
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves	Subtotal				
Balance as at 1 January 2013	7,560,198	4,222,379	869,686	950,325	(24,237)	7,303	6,025,456	3,179,086	16,764,740	172,241	16,936,981
Profit for the period	-	-	-	-	-	-	-	1,575,442	1,575,442	9,467	1,584,909
Other comprehensive income											
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	10,429	-	10,429	-	10,429	-	10,429
Share of other comprehensive income of an associate	-	-	-	-	-	(6,457)	(6,457)	-	(6,457)	-	(6,457)
Total comprehensive income	-	-	-	-	10,429	(6,457)	3,972	1,575,442	1,579,414	9,467	1,588,881
Capital contributed by owners	-	-	-	-	-	-	-	-	-	5,004	5,004
Dividends – 2012 final (note 11)	-	-	-	-	-	-	-	(171,675)	(171,675)	-	(171,675)
Appropriation to general reserve (i)	-	-	-	1,317,186	-	-	1,317,186	(1,317,186)	-	-	-
Retained profits converted into share capital	686,702	-	-	-	-	-	-	(686,702)	-	-	-
Others	-	-	-	-	-	(1,751)	(1,751)	-	(1,751)	1,751	-
Balance as at 30 June 2013	8,246,900	4,222,379	869,686	2,267,511	(13,808)	(905)	7,344,863	2,578,965	18,170,728	188,463	18,359,191

(i) Includes the appropriation made by subsidiaries in the amount of RMB32,652 thousand.

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

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

	Audited										
	Attributable to equity holders of the Bank										
	Reserves							Retained profits	Total	Non- controlling interests	Total equity
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves	Subtotal				
Balance as at 1 January 2013	7,560,198	4,222,379	869,686	950,325	(24,237)	7,303	6,025,456	3,179,086	16,764,740	172,241	16,936,981
Profit for the year	-	-	-	-	-	-	-	3,350,342	3,350,342	20,749	3,371,091
Other comprehensive income											
Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(157,823)	-	(157,823)	-	(157,823)	-	(157,823)
Share of other comprehensive income of an associate	-	-	-	-	-	(56,291)	(56,291)	-	(56,291)	-	(56,291)
Total comprehensive income	-	-	-	-	(157,823)	(56,291)	(214,114)	3,350,342	3,136,228	20,749	3,156,977
Capital contributed by owners	-	-	-	-	-	-	-	-	-	5,004	5,004
Dividends – 2012 final (note 11)	-	-	-	-	-	-	-	(171,675)	(171,675)	-	(171,675)
Appropriation to surplus reserve	-	-	320,331	-	-	-	320,331	(320,331)	-	-	-
Appropriation to general reserve (i)	-	-	-	1,320,013	-	-	1,320,013	(1,320,013)	-	-	-
Retained profits converted into share capital	686,702	-	-	-	-	-	-	(686,702)	-	-	-
Others	-	-	-	-	-	(1,751)	(1,751)	-	(1,751)	1,751	-
Balance as at 31 December 2013	8,246,900	4,222,379	1,190,017	2,270,338	(182,060)	(50,739)	7,449,935	4,030,707	19,727,542	199,745	19,927,287

(i) Includes the appropriation made by subsidiaries in the amount of RMB35,479 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 2014

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2014	2013
		Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,663,864	2,093,481
Adjustments for:			
Share of profits of an associate		(11,351)	(3,738)
Depreciation and amortisation	9	166,838	131,540
Net trading gain	6	(118,800)	(186,179)
Interest income on financial investments		(2,340,028)	(979,594)
Impairment loss on loans and advances to customers		392,303	276,442
Unrealised foreign exchange (gain)/loss		(10,014)	23,556
Interest expense on issuance of bonds	4	86,161	86,473
Accreted interest on impaired loans	17	(20,982)	(10,297)
Net loss on disposal of available-for-sale financial assets	7	62,266	34,467
		870,257	1,466,151
Net decrease/(increase) in operating assets:			
Due from the central bank		(2,238,803)	(10,608)
Due from banks and other financial institutions		4,440,254	(7,036,405)
Reverse repurchase agreements		(3,697,015)	(43,888,420)
Loans and advances to customers		(13,753,982)	(13,254,342)
Other assets		(475,376)	(1,196,741)
		(15,724,922)	(65,386,516)
Net increase/(decrease) in operating liabilities:			
Due to the central bank		823,613	159,881
Due to banks and other financial institutions		14,555,368	(783,684)
Repurchase agreements		(14,974,589)	10,643,723
Due to customers		11,087,724	10,605,307
Other liabilities		1,592,221	2,206,249
		13,084,337	22,831,476
Net cash flows used in operating activities before tax		(1,770,328)	(41,088,889)
Income tax paid		(647,167)	(842,745)
Net cash flows used in operating activities		(2,417,495)	(41,931,634)

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 2014

(Amount in thousands of RMB, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2014	2013
		Unaudited	Unaudited
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(300,818)	(385,157)
Proceeds from disposal of property and equipment		289,403	10
Cash paid for investments		(98,712,805)	(328,479,261)
Proceeds from sale and redemption of investments		91,631,148	337,008,206
Return on investments		2,117,888	1,435,032
Net cash flows from/(used in) investing activities		(4,975,184)	9,578,830
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		6,306,373	–
Capital injection by non-controlling shareholders		400,000	5,004
Interest paid on debt securities		(113,750)	(113,751)
Dividends paid on ordinary shares		(1,969)	(53,823)
Net cash flows from/(used in) financing activities		6,590,654	(162,570)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(802,025)	(32,515,374)
Cash and cash equivalents at beginning of the period		53,558,236	64,094,278
Effect of exchange rate changes on cash and cash equivalents		(8,741)	20,794
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	32	52,747,470	31,599,698
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
INCLUDE:			
Interest received		6,813,732	5,453,265
Interest paid		(4,382,955)	(2,948,450)

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 2014

(Amount in thousands of RMB, unless otherwise stated)

1. Corporate information and group structure

Harbin Bank Co., Ltd. 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 CBRC of the PRC. The Bank obtained its business license No. 230100100006877 from the SAIC. 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 deposits, loans, payment and settlement services, as well as other banking services approved by the CBRC.

The subsidiaries of the Bank as at 30 June 2014 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	90.00	45,000	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	100,000	90.00	90,000	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	200,000	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	60,000	90.00	54,000	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
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	30,000	100.00	30,000	Village and township bank

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(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
			%		
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	50,000	80.00	40,000	Village and township bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50,000	70.00	35,000	Village and township bank
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	30,000	100.00	30,000	Village and township bank
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30,000	100.00	30,000	Village and township bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	30,000	100.00	30,000	Village and township bank
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50,000	100.00	50,000	Village and township bank
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30,000	96.67	29,000	Village and township bank
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100,000	80.00	80,000	Village and township bank
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebei	30,000	100.00	30,000	Village and township bank
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	Youyang, Chongqing	60,000	100.00	60,000	Village and township bank
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000,000	80.00	1,600,000	Leasing company

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(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 2014 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 2013.

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 2013.

Standards, amendments and interpretations effective in 2014

On 1 January 2014, the Group adopted the following new standards, amendments and interpretations.

IAS 32 Amendments	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
IAS 36 Amendments	Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
IAS 39 Amendments	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Investment Entities
IFRIC 21	Levies

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

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2014

		Effective for annual periods beginning on or after
Annual Improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle (issued in December 2013)		1 July 2014
IFRS 9, IFRS 9 Amendments	Financial Instruments	1 January 2018
IFRS 11 Amendments	Joint Arrangements	1 January 2016
IAS 16 Amendment	Property, Plant and Equipment	1 January 2016
IAS 38 Amendment	Intangible Assets	1 January 2016
IAS 19 Amendments	Employee Benefits-Defined Benefit Plans: Employee Contributions	1 July 2014
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

3. Critical accounting estimates and judgements in applying accounting policies

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 2013.

4. Net interest income

	For the six month period ended 30 June	
	2014	2013
Interest income on:		
Loans and advances to customers	4,533,332	3,556,458
– Corporate loans and advances	2,693,803	1,892,535
– Personal loans	1,726,512	1,447,574
– Discounted bills	113,017	216,349
Reverse repurchase agreements	1,437,057	1,418,353
Available-for-sale financial assets	337,874	187,626
Held-to-maturity financial investments	384,199	272,788
Receivables	1,617,955	519,180
Due from the central bank	336,050	297,593
Deposits with banks and other financial institutions	726,796	649,873
Subtotal	9,373,263	6,901,871
Interest expense on:		
Due to customers	(2,737,415)	(1,990,526)
Repurchase agreements	(343,157)	(607,855)
Deposits from banks and other financial institutions	(2,093,684)	(925,864)
Debt securities issued	(86,161)	(86,473)
Due to the central bank	(13,633)	(10,494)
Subtotal	(5,274,050)	(3,621,212)
Net interest income	4,099,213	3,280,659
Included: interest income on impaired loans	20,982	10,297

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

5. Net fee and commission income

	For the six month period ended 30 June	
	2014	2013
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	305,707	175,266
Settlement and clearing fees	41,981	46,263
Agency and custodian fees	442,367	268,797
Including: non-guaranteed wealth management products fees	201,530	149,494
Bank card fees	86,461	49,979
Others	27,486	22,191
Subtotal	904,002	562,496
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	(8,531)	(7,984)
Agency fees	(3,044)	(3,875)
Bank card fees	(38,149)	(27,191)
Others	(22,497)	(11,146)
Subtotal	(72,221)	(50,196)
NET FEE AND COMMISSION INCOME	831,781	512,300

6. Net trading income

	For the six month period ended 30 June	
	2014	2013
Debt securities	119,650	186,179
Others	(850)	–
Total	118,800	186,179

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

7. Net loss on financial investments

	For the six month period ended 30 June	
	2014	2013
Loss on disposal of available-for-sale financial assets, net	(62,266)	(34,467)

8. Other operating income, net

	For the six month period ended 30 June	
	2014	2013
Gain/(loss) from foreign exchange, net	1,273	(2,762)
Leasing income	1,301	1,965
Government grants and subsidy	34,943	9,868
Others	6,755	1,441
Total	44,272	10,512

9. Operating expenses

	For the six month period ended 30 June	
	2014	2013
Staff costs:		
Salaries, bonuses and allowances	673,951	594,485
Social insurance	74,470	55,048
Housing fund	36,169	30,226
Staff benefits	32,029	35,660
Labor union expenditure and education costs	7,121	11,724
Early retirement benefits	3,786	3,073
Subtotal	827,526	730,216
General and administrative expenses	297,450	265,448
Business tax and surcharges	380,399	232,826
Depreciation and amortisation	166,838	131,540
Leasing expense	128,211	97,147
Others	186,560	131,821
Total	1,986,984	1,588,998

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

10. Income tax expense

(a) Income tax

	For the six month period ended 30 June	
	2014	2013
Current income tax	791,530	567,736
Deferred income tax	(121,793)	(59,164)
	669,737	508,572

(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%. 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	
	2014	2013
Profit before tax	2,663,864	2,093,481
Tax at the PRC statutory income tax rate	665,966	523,370
Items not deductible for tax purpose (i)	9,927	3,310
Non-taxable income (ii)	(16,900)	(18,678)
Underprovision in respect of prior years	13,582	1,504
Profits attributable to an associate	(2,838)	(934)
Tax expense at the Group's effective income tax rate	669,737	508,572

Notes: (i) Non-deductible items mainly represent non-deductible expenses.

(ii) The non-taxable income mainly represents interest income arising from the PRC 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 2014
(Amount in thousands of RMB, unless otherwise stated)

11. Dividends

	For the six month period ended 30 June	
	2014	2013
Dividends on ordinary shares declared and paid or proposed:		
Final dividend for 2013:		
RMB0.038 per share**		
(2012: RMB0.025 per share*)	417,833	171,675

(*): Based on the 2012 weighted average number of shares at RMB0.025 per share, distributed in cash.

(**): A cash dividend of RMB0.038 per share in respect of the profits for the year ended 31 December 2013 based on the total number of shares amounting to 10,995,600 thousand shares after the new issuance on 31 March 2014 was approved by the equity holders of the Bank at the Annual General Meeting held on 19 June 2014. As at 30 June 2014, none of such dividend was distributed. The undistributed portion was recorded in other liabilities (Note 28) as at 30 June 2014. Such dividend was distributed on 19 August 2014 after the appropriate withholding of individual and enterprise income taxes.

12. Earnings per share

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

	For the six month period ended 30 June	
	2014	2013
Earnings:		
Profit attributable to equity holders of the Bank	1,982,370	1,575,442
Shares:		
Weighted average number of ordinary shares in issue (in thousands)	9,621,250	8,246,900
Basic and diluted earnings per share (in RMB yuan)	0.21	0.19

Basic earnings per share was computed by dividing the profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

The Group had no potential ordinary shares for the six month period ended 30 June 2014 (2013: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

13. Cash and balances with the central bank

	Group	
	30 June 2014	31 December 2013
Cash and unrestricted balances with the central bank:		
Cash on hand	770,585	1,302,418
Mandatory reserves with the central bank (i)	37,017,170	34,780,277
Surplus reserves with the central bank (ii)	15,451,964	15,441,836
Fiscal deposits with the PBOC	29,468	27,558
Total	53,269,187	51,552,089

(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 2014 and 31 December 2013, 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 PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

14. Due from banks and other financial institutions

	Group	
	30 June 2014	31 December 2013
Nostro accounts:		
Banks operating in Mainland China	30,157,578	28,870,495
Other financial institutions operating in Mainland China	767,579	470,042
Banks operating outside Mainland China	383,646	130,655
	31,308,803	29,471,192
Less: Allowance for impairment losses	-	-
	31,308,803	29,471,192
Placements with banks and other financial institutions:		
Other financial institutions operating in Mainland China	-	4,400,000
	-	4,400,000
Less: Allowance for impairment losses	-	-
	-	4,400,000
Total	31,308,803	33,871,192

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

15. Financial assets held for trading

	Group	
	30 June 2014	31 December 2013
Debt securities	2,544,877	2,512,264
Debt securities analysed into:		
Listed in Mainland China	2,544,877	2,512,264

16. Reverse repurchase agreements

	Group	
	30 June 2014	31 December 2013
Reverse repurchase agreements analysed by counterparty:		
Banks	50,415,672	49,757,728
Other financial institutions	2,225,367	1,353,220
	52,641,039	51,110,948
Reverse repurchase agreements analysed by collateral:		
Securities	9,248,360	9,034,553
Bills	35,707,297	28,312,319
Trust beneficial rights	7,685,382	13,564,076
Loans	–	200,000
	52,641,039	51,110,948

As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. At 30 June 2014, the Group had no such received securities (31 December 2013: 403 million). As at 30 June 2014, none of these securities have been repledged under repurchase agreements (31 December 2013: Nil). The Group received notes with a fair value of approximately RMB9,429 million as at 30 June 2014 (31 December 2013: RMB9,133 million), of which, securities with a fair value of approximately RMB948 million have been repledged under repurchase agreements (31 December 2013: 5,104 million). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

17. Loans and advances to customers

	Group	
	30 June 2014	31 December 2013
Corporate loans and advances	73,357,665	63,538,241
Personal loans	44,902,363	40,498,599
Discounted bills	1,444,420	1,904,481
	119,704,448	105,941,321
Less: Allowance for impairment	(2,806,772)	(2,426,306)
	116,897,676	103,515,015

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

Group

	Individually assessed	Collectively assessed	Total
As at 1 January 2013	92,293	1,873,960	1,966,253
Exchange difference	(476)	(1)	(477)
Impairment loss:	27,303	490,414	517,717
Impairment allowances charged	30,463	490,414	520,877
Reversal of impairment allowances	(3,160)	–	(3,160)
Accreted interest on impaired loans	(7,801)	(28,368)	(36,169)
Write-offs	(38,075)	(24,831)	(62,906)
Recoveries of loans and advances previously written off	5,980	35,908	41,888
At 31 December 2013 and 1 January 2014	79,224	2,347,082	2,426,306
Exchange difference	(248)	(32)	(280)
Impairment loss:	57,552	334,751	392,303
Impairment allowances charged	66,114	334,751	400,865
Reversal of impairment allowances	(8,562)	–	(8,562)
Accreted interest on impaired loans (note 4)	(6,448)	(14,534)	(20,982)
Write-offs	–	(10,000)	(10,000)
Recoveries of loans and advances previously written off	12,807	6,618	19,425
As at 30 June 2014	142,887	2,663,885	2,806,772

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

17. Loans and advances to customers (Continued)

	Group	
	30 June 2014	31 December 2013
Loans and advances:		
Unimpaired loans and advances (i)	118,579,021	105,037,131
Impaired loans and advances to customers (ii)		
Individually assessed	363,357	190,910
Collectively assessed	762,070	713,280
	119,704,448	105,941,321
Less: Allowance for impairment losses		
Unimpaired loans and advances (i)	2,206,929	1,966,911
Impaired loans and advances to customers (ii)		
Individually assessed	142,887	79,224
Collectively assessed	456,956	380,171
	2,806,772	2,426,306
Net loans and advances:		
Unimpaired loans and advances (i)	116,372,092	103,070,220
Impaired loans and advances to customers (ii)		
Individually assessed	220,470	111,686
Collectively assessed	305,114	333,109
	116,897,676	103,515,015
Percentage of impaired loans and advances	0.94%	0.85%

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

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

18. Financial investments

	Group	
	30 June 2014	31 December 2013
Receivables (a)	42,360,812	43,528,672
Held-to-maturity investments (b)	19,330,509	17,080,814
Available-for-sale financial assets (c)	13,925,048	7,914,115
	75,616,369	68,523,601

(a) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

	Group	
	30 June 2014	31 December 2013
Certificate treasury bonds	106,460	183,715
Wealth management products issued by other financial institutions (i)	16,006,186	18,399,265
Trust fund plans (ii)	26,248,166	24,945,692
	42,360,812	43,528,672

(i) Wealth management products issued by other financial institutions are fixed term products. These include investments in trust beneficiary rights and trust loans.

(ii) The trust fund plans are purchased from trust companies, with no active market quotes, definite period lengths, interest rate is fixed or determinable. These include investments in trust loans and trust beneficiary rights.

(b) Held-to-maturity investments

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

	Group	
	30 June 2014	31 December 2013
Debt securities analysed into:		
Listed in Mainland China	19,330,509	17,080,814

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014
(Amount in thousands of RMB, unless otherwise stated)

18. Financial investments (Continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	Group	
	30 June 2014	31 December 2013
Debt securities analysed into:		
Listed in Mainland China	13,778,428	7,869,495
Unlisted:		
Equity investments at cost (i)	24,620	24,620
Wealth management products	100,000	–
Others	22,000	20,000
	13,925,048	7,914,115
Market value of listed debt securities	13,778,428	7,869,495

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

19. Investment in an associate

	Group	
	30 June 2014	31 December 2013
Investment in an associate	1,019,948	963,955

Details of the Group's associate are as follows:

Name	Percentage of equity/ voting rights		Place of registration	Principal activities
	30 June 2014	31 December 2013		
Unlisted investments directly held:	%	%		
Guangdong Huaxing Bank Company Limited ("Huaxing Bank")	16	16	Guangdong, PRC	Commercial Banking

Note: Though the Group controls 16% of the voting rights of Huaxing Bank, it is the second largest shareholder of Huaxing Bank and holds the positions of director and assistant governor, and is thus capable to exert significant influence on the operating and financial decisions of the investee. Accordingly, the Group classified it as an associate.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

19. Investment in an associate (Continued)

The following table illustrates the summarised financial information of the Group's associate:

	30 June 2014	31 December 2013
Assets	69,553,071	52,030,241
Liabilities	(64,428,399)	(47,255,524)
Net assets	5,124,672	4,774,717
Proportion of the Group's ownership	16%	16%
Share of the net assets	819,948	763,955
Goodwill on acquisition	200,000	200,000
Carrying amount of the investment	1,019,948	963,955
	For the six month period ended 30 June	
	2014	2013
Revenue	531,008	43,952
Continuing operation profit	93,541	31,212
Non continuing operation profit	747	–
Profit for the period	70,944	23,363
Group's share of profit	11,351	3,738
Total comprehensive income/(loss)	349,955	(16,993)
Dividends received	–	–

The financial information above was extracted from the financial statements of the associate.

As at 30 June 2014, contingent liabilities of the associate mainly include bank acceptances, guarantees issued and sight letter of credit. For the six month period ended 30 June 2014, the associate has no significant capital commitments (For the six month period ended 30 June 2013: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

20. Property and equipment

Group

	Properties and buildings	Construction in progress	Leasehold improve- ments	Office equipment	Motor vehicles	Total
Cost:						
At 1 January 2013	2,128,625	3,521,593	217,887	730,402	58,038	6,656,545
Additions	180,334	1,107,108	30,824	223,488	9,517	1,551,271
CIP transfers	206,954	(287,979)	23,951	16,457	–	(40,617)
Disposals	–	–	(4,731)	(4,314)	–	(9,045)
At 31 December 2013 and 1 January 2014	2,515,913	4,340,722	267,931	966,033	67,555	8,158,154
Additions	699	217,183	7,103	63,883	198	289,066
CIP transfers	150,460	(219,282)	15,784	15,551	–	(37,487)
Disposals	–	(289,400)	–	(60)	–	(289,460)
At 30 June 2014	2,667,072	4,049,223	290,818	1,045,407	67,753	8,120,273
Accumulated depreciation:						
At 1 January 2013	213,471	–	98,582	280,126	26,136	618,315
Depreciation charge for the year	71,912	–	12,651	132,585	9,417	226,565
Disposals	–	–	(1,332)	(336)	–	(1,668)
At 31 December 2013 and 1 January 2014	285,383	–	109,901	412,375	35,553	843,212
Depreciation charge for the period	38,455	–	21,297	79,686	5,358	144,796
Disposals	–	–	–	(57)	–	(57)
At 30 June 2014	323,838	–	131,198	492,004	40,911	987,951
Net carrying amount:						
At 31 December 2013	2,230,530	4,340,722	158,030	553,658	32,002	7,314,942
At 30 June 2014	2,343,234	4,049,223	159,620	553,403	26,842	7,132,322

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

20. 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 2014	31 December 2013
Held in China:		
Over 50 years	206,025	175,217
10 to 50 years	2,097,846	2,016,350
Less than 10 years	39,363	38,963
	2,343,234	2,230,530

As at 30 June 2014, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB660 million (31 December 2013: RMB637 million) was still in progress. Management was 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.

As at 30 June 2014, the carrying value transferred from construction in progress to other assets of the Group was RMB37,487 thousand (31 December 2013: RMB40,617 thousand).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

21. Deferred income tax assets and liabilities

(a) Analysed by nature

Group

	30 June 2014		31 December 2013	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible temporary differences	Deferred income tax assets
Deferred income tax assets:				
Allowance for impairment losses	1,545,480	386,370	998,776	249,694
Change in fair value of available-for-sale financial assets	188,520	47,130	242,748	60,687
Change in fair value of held-for-trading financial assets	(9,048)	(2,262)	39,640	9,910
Salaries, bonuses, allowances and subsidies payables	21,180	5,295	24,555	6,139
Early retirement benefits	13,164	3,291	15,371	3,843
Deductible tax losses	8,216	2,054	14,327	3,582
Others	850	213	–	–
Net deferred income tax	1,768,362	442,091	1,335,417	333,855

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

21. Deferred income tax assets and liabilities (Continued)

(b) Movements in deferred income tax

Group

	At 1 January 2014	Total (gains)/ losses recorded in profit or loss	Total gains recorded in other comprehensive income	At 30 June 2014
Deferred income tax assets:				
Allowance for impairment losses	249,694	136,676	–	386,370
Change in fair value of available-for-sale financial assets	60,687	–	(13,557)	47,130
Change in fair value of held-for-trading financial assets	9,910	(12,172)	–	(2,262)
Salaries, bonuses, allowances and subsidies payables	6,139	(844)	–	5,295
Early retirement benefits	3,843	(552)	–	3,291
Deductible tax losses	3,582	(1,528)	–	2,054
Others	–	213	–	213
Total	333,855	121,793	(13,557)	442,091

	At 1 January 2013	Total (gains)/ losses recorded in profit or loss	Total losses recorded in other comprehensive income	At 31 December 2013
Deferred income tax assets:				
Allowance for impairment losses	230,447	19,247	–	249,694
Change in fair value of available-for-sale financial assets	8,079	–	52,608	60,687
Change in fair value of held-for-trading financial assets	4,167	5,743	–	9,910
Salaries, bonuses, allowances and subsidies payables	4,409	1,730	–	6,139
Early retirement benefits	4,234	(391)	–	3,843
Deductible tax losses	6,978	(3,396)	–	3,582
Total	258,314	22,933	52,608	333,855

As at 30 June 2014, the Group did not have significant unrecognised deferred income tax assets and liabilities (31 December 2013: Nil).

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

22. Other assets

	Group	
	30 June 2014	31 December 2013
Interest receivable (a)	2,402,630	1,893,102
Land use rights	839	99
Accounts receivable and prepayments	450,841	257,383
Settlement and clearing accounts	352,312	267,007
Intangible assets	55,576	54,247
Others	7,980	5,741
	3,270,178	2,477,579

(a) Interest receivable

	Group	
	30 June 2014	31 December 2013
Banks and other financial institutions	240,954	115,728
Reverse repurchase agreements	473,679	227,098
Loans and advances to customers	723,309	875,613
Bonds and other investments	964,688	674,663
	2,402,630	1,893,102

As at 30 June 2014 and 31 December 2013, all interest receivables are due within one year.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

23. Due to banks and other financial institutions

	Group	
	30 June 2014	31 December 2013
Deposits:		
Banks operating in Mainland China	64,301,986	49,876,599
Other financial institutions operating in Mainland China	76,813	51,507
Banks operating outside Mainland China	3,826	3,144
	64,382,625	49,931,250
Placements:		
Banks operating in Mainland China	563,244	677,789
Other financial institutions operating in Mainland China	40	526
Banks operating outside Mainland China	220,327	1,303
	783,611	679,618
	65,166,236	50,610,868

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

24. Derivative financial instruments

The Group enters into interest rate related derivative financial instruments for trading.

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 market interest rates relative to their terms.

	Group					
	30 June 2014			31 December 2013		
	Contractual/ Notional amount	Fair value		Contractual/ Notional amount	Fair value	
	Assets	Liabilities		Assets	Liabilities	
Interest rate derivatives						
Interest rate swaps	1,779,455	–	850	–	–	–

25. Repurchase agreements

Repurchase agreements comprise the repurchase of bonds and bills.

	Group	
	30 June 2014	31 December 2013
Repurchase agreements analysed by counterparty:		
Banks	4,116,577	18,565,166
Other financial institutions	–	526,000
	4,116,577	19,091,166
Repurchase agreements analysed by collateral:		
Bonds	–	4,423,920
Bills	4,116,577	14,667,246
	4,116,577	19,091,166

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

26. Due to customers

	Group	
	30 June 2014	31 December 2013
Demand deposits:		
Corporate customers	73,428,120	79,909,581
Personal customers	31,362,248	33,789,153
	104,790,368	113,698,734
Time deposits:		
Corporate customers	82,915,857	76,894,539
Personal customers	47,559,625	33,584,853
	130,475,482	110,479,392
	235,265,850	224,178,126

27. Debt securities issued

	Group	
	30 June 2014	31 December 2013
Subordinated bonds issued	1,000,000	1,000,000
Financial bonds issued	2,500,000	2,500,000
	3,500,000	3,500,000

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

28. Other liabilities

	Group	
	30 June 2014	31 December 2013
Interest payables (a)	3,270,554	2,493,209
Wealth management products payable	32,515	136,753
Settlement and clearing accounts	645,227	193,752
Accounts payable from agency services	459,820	67,833
Salaries, bonuses, allowances and subsidies payable	323,744	420,781
Sundry tax payables	210,930	189,219
Deferred revenue	191,224	147,993
Dividends payable	457,666	41,802
Accrued expenses	22,162	21,339
Others	320,001	105,173
	5,933,843	3,817,854

(a) Interest payables

	Group	
	30 June 2014	31 December 2013
Due to the central bank	1,434	378
Deposits of banks and other financial institutions	929,233	394,058
Borrowings from banks	2,783	34
Due to customers	2,219,510	1,908,493
Repurchase agreements	69,724	114,787
Bonds payable	47,870	75,459
	3,270,554	2,493,209

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

29. Share capital

	Bank			
	2014		2013	
	Number of shares (thousands)	Nominal value (thousands)	Number of shares (thousands)	Nominal value (thousands)
Opening balance	8,246,900	8,246,900	7,560,198	7,560,198
Shares issued	2,748,700	2,748,700	–	–
Retained profits converted into share capital	–	–	686,702	686,702
As at 30 June 2014/31 December 2013	10,995,600	10,995,600	8,246,900	8,246,900

- (a) In May 2013, the Bank transferred RMB686,702 thousand of undistributed profit into share capital, resulting in an increase of 686,702 thousand shares in share capital of the Bank. RSM China Certified Public Accountants (LLP) has verified the capital injection, and issued the capital verification report (RSM Hei Yanzi 2013.No.11) on 8 June 2013.
- (b) In March 2014, 2,748,700 thousand ordinary shares with par value of RMB1 were issued at HK\$2.90 per share in an initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited. The premium arising from the issuance of new shares was recorded in capital reserve accounts. Ernst & Young Hua Ming Certified Public Accountants (LLP) Shanghai Branch has verified the capital injection and issued the capital verification report (Ernst & Young Hua Ming 2014 Yanzi No.60715519_B01) on 28 May 2014.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

30. Reserves

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserve

(i) *Statutory surplus reserve*

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

(ii) *Discretionary surplus reserve*

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.

(c) General reserve

From 1 July 2012, the Bank is required by the Ministry of Finance ("MOF") 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.

Upon approval of the equity holders of the Bank at the 2013 Annual General Meeting held on 19 June 2014, the Bank made appropriation to the general reserve amounting to RMB1,562,910 thousand (2013: RMB1,284,534 thousand).

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes of available-for-sale financial assets.

(e) Other reserves

Other reserves represent reserves of subsidiaries and share of reserves of an associate other than the items listed above.

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(Amount in thousands of RMB, unless otherwise stated)

31. Components of other comprehensive income

	Group	
	For the six month period ended 30 June	
	2014	2013
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income	43,806	12,673
Less: Transfer to the income statement arising from disposal	10,421	1,232
Income tax effect	(13,557)	(3,476)
	40,670	10,429
Share of other comprehensive Income/(loss) of an associate	44,642	(6,457)
	85,312	3,972

32. Analysis of balances of cash and cash equivalents

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

	Group	
	30 June 2014	30 June 2013
	Cash on hand (note 13)	770,585
Balances with the central bank (note 13)	15,451,964	13,191,589
Due from banks and other financial institutions	12,631,801	15,982,637
Reverse repurchase agreements	23,893,120	1,391,036
	52,747,470	31,599,698

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

33. Commitments and contingent liabilities

(a) Capital commitments

The Group had capital commitments as follows:

	Group	
	30 June 2014	31 December 2013
Authorised, but not contracted	25,239	4,747
Contracted, but not provided	1,433,036	1,432,616
	1,458,275	1,437,363

(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 2014	31 December 2013
Within one year	227,533	175,322
After one year but not more than five years	452,114	351,076
After five years	200,479	143,738
	880,126	670,136

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

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

	Group	
	30 June 2014	31 December 2013
Bank acceptances	37,800,620	42,654,802
Guarantees issued	3,292,296	1,821,053
Sight letters of credit	1,818,082	2,204,106
Undrawn credit card limit	816,410	1,238,232
	43,727,408	47,918,193

(d) Legal proceedings

As at 30 June 2014, there were no significant legal proceedings outstanding against the Bank and its subsidiaries (31 December 2013: Nil).

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FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

33. 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 2014, the Bank had underwritten and sold bonds with an accumulated amount of RMB1,914 million (31 December 2013: RMB1,620 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

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

(f) Risk fund rescue obligation

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

(g) Assets pledged as security

Financial assets of the Group including debt securities and bills have been pledged as security for liabilities or contingent liabilities which mainly arise from repurchase agreements and negotiated deposits. As at 30 June 2014, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB12,436 million (31 December 2013: RMB31,230 million).

34. Interest of unconsolidated structured entities

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

Structured entities sponsored by the Group

When conducting wealth management businesses, the Group established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 30 June 2014, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB43,653 million (31 December 2013: RMB29,608 million). For the six month period ended 30 June 2014, fee and commission income includes commission, custodian fee and management fee income from wealth management business that amounted to RMB201,530 thousand (for the six month period ended 30 June 2013: RMB149,494 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 and during the six month period ended 30 June 2014, the Group did not provide any financing to the unconsolidated wealth management products (for the six months period ended 30 June 2013: Nil).

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(Amount in thousands of RMB, unless otherwise stated)

35. Fiduciary activities

Designated funds and loans

	Group	
	30 June 2014	31 December 2013
Designated funds	13,137,570	11,821,990
Designated loans	13,131,330	11,821,990

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.

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

The Group provides custody, trust and asset management services to third parties. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position. Revenue from such activities is included in Net Fee and Commission Income set out in note 5 above.

36. Related party disclosures

(a) Significant related party disclosures

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

Name	Percentage of shares in the Bank	
	30 June 2014 %	31 December 2013 %
Harbin Economic Development and Investment Company	19.65	29.48
Fubon Life Insurance Company Limited	7.03	–
Harbin Kechuang Xingye Investment Company Limited	6.55	8.73
Heilongjiang Keruan Software Technologies Company Limited	6.55	8.73
Heilongjiang Xin Yongsheng Trading Company Limited	5.82	7.76
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	5.20	6.94
Heilongjiang Tuokai Economic and Trading Company Limited	4.75	6.34

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

36. Related party disclosures *(Continued)*

(a) Significant related party disclosures *(Continued)*

(ii) *Subsidiaries of the Bank*

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

(b) Related party transactions

(i) *Transactions between the Bank and the major shareholders*

	30 June 2014	31 December 2013
Balances at end of the period/year:		
Deposits	471	395
	For the six month period ended 30 June	
	2014	2013
Transactions during the period:		
Interest expense on deposits	11	11
Interest rate ranges during the period are as follows:	%	%
Deposits	0.39	0.35-0.50

(ii) *Transactions between the Bank and subsidiaries*

There are various related party transactions that occur between the Bank and its subsidiaries. These transactions are equitable and follow regular business procedures. The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements. In the opinion of management, the transactions between the Bank and its subsidiaries have no significant impact on profit or loss.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

36. Related party disclosures *(Continued)*

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) *Transactions between the Bank and key management personnel*

	30 June 2014	31 December 2013
Balances at end of the period/year:		
Loans	9,002	12,811
Deposits	14,590	6,245
	For the six month period ended 30 June	
	2014	2013
Transactions during the period:		
Interest income on loans	301	149
Interest expense on deposits	27	12
Interest rate ranges during the period are as follows:	%	%
Loans	4.59-6.55	4.20-7.21
Deposits	0.39-5.00	0.39-4.75

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

37. Segment information

(a) Operating segments

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

Corporate banking

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

Personal banking

The personal banking segment covers the provision of financial products and services to individual customers. The products and services include deposits, bank cards and credit cards, personal loans and collateral loans, and personal wealth management services.

Treasury operations

The treasury operations segment covers money market placements, investments and repurchasing, foreign exchange transactions, for the Group's own accounts or on behalf of customers.

Others

This segment represents businesses other than corporate banking, personal banking and treasury banking, whose assets, liabilities, income and expenses cannot be directly attributable to or cannot be allocated to a segment on a reasonable basis.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

37. Segment information *(Continued)*

(a) Operating segments *(Continued)*

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Six months ended 30 June 2014</u>					
External net interest income	910,355	881,469	2,307,389	–	4,099,213
Internal net interest income/(expense)	1,121,072	484,144	(1,605,216)	–	–
Net fee and commission income	171,668	69,363	590,750	–	831,781
Other income, net (i)	1,273	–	56,534	42,999	100,806
Operating income	2,204,368	1,434,976	1,349,457	42,999	5,031,800
Operating expenses	(883,098)	(495,233)	(598,752)	(9,901)	(1,986,984)
Impairment losses on:					
Loans and advances to customers	(187,235)	(205,068)	–	–	(392,303)
Operating profit	1,134,035	734,675	750,705	33,098	2,652,513
Share of profits of an associate	–	–	–	11,351	11,351
Profit before tax	1,134,035	734,675	750,705	44,449	2,663,864
Income tax expense					(669,737)
Profit for the period					<u>1,994,127</u>
Other segment information:					
Depreciation and amortisation	66,530	37,310	62,304	694	166,838
Capital expenditure	119,958	67,272	112,337	1,251	300,818
<u>As at 30 June 2014</u>					
Segment assets	97,848,760	75,250,114	169,078,367	1,965,249	344,142,490
Segment liabilities	162,514,015	80,156,788	72,142,299	1,174,812	315,987,914
Other segment information:					
Credit commitments	42,910,998	816,410	180,000	–	43,907,408

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

37. Segment information *(Continued)*

(a) Operating segments *(Continued)*

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Six months ended 30 June 2013</u>					
External net interest income	577,938	895,083	1,807,638	–	3,280,659
Internal net interest income/(expense)	820,526	279,025	(1,099,551)	–	–
Net fee and commission income	109,401	32,090	370,809	–	512,300
Other income, net (i)	(2,762)	–	151,712	13,274	162,224
Operating income	1,505,103	1,206,198	1,230,608	13,274	3,955,183
Operating expenses	(684,701)	(403,106)	(493,116)	(8,075)	(1,588,998)
Impairment losses on:					
Loans and advances to customers	(131,938)	(144,504)	–	–	(276,442)
Operating profit	688,464	658,588	737,492	5,199	2,089,743
Share of profits of an associate	–	–	–	3,738	3,738
Profit before tax	688,464	658,588	737,492	8,937	2,093,481
Income tax expense					(508,572)
Profit for the period					<u>1,584,909</u>
Other segment information:					
Depreciation and amortisation	52,393	30,846	48,008	293	131,540
Capital expenditure	153,411	90,317	140,571	858	385,157
<u>As at 31 December 2013</u>					
Segment assets	96,748,549	58,822,129	164,884,267	1,720,495	322,175,440
Segment liabilities	161,983,865	68,470,209	71,160,705	633,374	302,248,153
Other segment information:					
Credit commitments	47,700,560	217,633	180,000	–	48,098,193

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

37. Segment information *(Continued)*

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows:

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

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(Amount in thousands of RMB, unless otherwise stated)

37. Segment information (Continued)

(b) Geographical information (Continued)

	Mainland China					Total
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	
<u>Six months ended 30 June 2014</u>						
External net interest income	2,552,928	304,228	809,023	308,224	124,810	4,099,213
Internal net interest income/(expense)	(23,412)	90,565	(65,410)	(3,887)	2,144	–
Net fee and commission income	506,131	78,386	166,604	72,255	8,405	831,781
Other income, net (i)	67,813	3,649	9,012	2,030	18,302	100,806
Operating income	3,103,460	476,828	919,229	378,622	153,661	5,031,800
Operating expenses	(1,323,555)	(201,851)	(289,967)	(102,416)	(69,195)	(1,986,984)
Impairment losses on:						
Loans and advances to customers	(252,370)	(36,791)	(54,266)	(34,499)	(14,377)	(392,303)
Operating profit	1,527,535	238,186	574,996	241,707	70,089	2,652,513
Share of profits of an associate	11,351	–	–	–	–	11,351
Profit before tax	1,538,886	238,186	574,996	241,707	70,089	2,663,864
Income tax expense						(669,737)
Profit for the period						1,994,127
Other segment information:						
Depreciation and amortisation	110,163	16,260	25,944	7,539	6,932	166,838
Capital expenditure	187,222	28,451	54,512	22,514	8,119	300,818
<u>As at 30 June 2014</u>						
Segment assets	207,710,653	50,017,999	64,006,116	16,624,879	5,782,843	344,142,490
Segment liabilities	178,873,821	51,394,354	63,910,942	16,808,292	5,000,505	315,987,914
Other segment information:						
Credit commitments	3,032,380	13,912,280	16,654,434	7,196,969	3,111,345	43,907,408

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

37. Segment information (Continued)

(b) Geographical information (Continued)

	Mainland China					Total
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	
<u>Six months ended 30 June 2013</u>						
External net interest income	2,513,025	308,135	254,943	98,370	106,186	3,280,659
Internal net interest income/(expense)	(313,089)	89,480	121,634	108,914	(6,939)	–
Net fee and commission income	289,762	55,079	137,373	27,748	2,338	512,300
Other income, net (i)	109,916	10,010	42,298	–	–	162,224
Operating income	2,599,614	462,704	556,248	235,032	101,585	3,955,183
Operating expenses	(1,093,848)	(163,737)	(197,610)	(81,281)	(52,522)	(1,588,998)
Impairment losses on:						
Loans and advances to customers	(131,944)	(19,134)	(79,446)	(34,079)	(11,839)	(276,442)
Operating profit	1,373,822	279,833	279,192	119,672	37,224	2,089,743
Share of profits of an associate	3,738	–	–	–	–	3,738
Profit before tax	1,377,560	279,833	279,192	119,672	37,224	2,093,481
Income tax expense						(508,572)
Profit for the period						<u>1,584,909</u>
Other segment information:						
Depreciation and amortisation	86,970	13,776	21,697	5,648	3,449	131,540
Capital expenditure	253,152	45,058	54,168	22,887	9,892	385,157
<u>As at 31 December 2013</u>						
Segment assets	208,122,221	31,736,387	57,867,060	17,687,397	6,762,375	322,175,440
Segment liabilities	172,892,690	43,844,076	60,595,242	18,887,407	6,028,738	302,248,153
Other segment information:						
Credit commitments	3,827,681	16,808,359	15,449,918	9,963,760	2,048,475	48,098,193

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

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management

(a) Credit risk

(i) *Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

	Group	
	30 June 2014	31 December 2013
Balances with the central bank	52,498,602	50,249,671
Due from banks and other financial institutions	31,308,803	33,871,192
Financial assets held for trading	2,544,877	2,512,264
Reverse repurchase agreements	52,641,039	51,110,948
Loans and advances to customers	116,897,676	103,515,015
Financial investments		
– Receivables	42,360,812	43,528,672
– Held-to-maturity investments	19,330,509	17,080,814
– Available-for-sale financial assets	13,900,428	7,889,495
Others	2,958,407	2,210,562
	334,441,153	311,968,633
Credit commitments	43,907,408	48,098,193
Total maximum credit risk exposure	378,348,561	360,066,826

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) **Risk concentrations**

By industry distribution

The credit risk exposures of the Group mainly comprise loans and advances to customers and investments in securities. Details of the composition of the Group's investments in debt securities are set out in note 38(a)(iv) to the financial statements. The composition of the Group's gross loans and advances to customers by industry is analysed as follows:

	Group	
	30 June 2014	31 December 2013
Agriculture, forestry, animal husbandry and fishing	4,414,794	4,163,165
Mining	365,567	874,551
Manufacturing	11,679,024	13,603,698
Production and supply of electricity, gas and water	1,758,470	1,535,576
Construction	5,495,473	5,171,527
Transportation, storage and postal services	3,030,889	2,194,039
Information transmission, computer services and software	636,996	544,186
Commercial trade	24,900,352	21,778,908
Lodging and catering	2,797,659	1,234,045
Finance	20,200	20,000
Real estate	3,209,708	2,236,329
Leasing and commercial services	11,043,870	5,523,246
Scientific research, technological services and geological prospecting	265,640	179,898
Water, environment and public utility management and investment industry	2,375,270	2,543,580
Resident services and other services	423,013	992,222
Education	540,075	481,172
Health, social security and social welfare	219,800	264,400
Culture, sports and entertainment	180,865	180,325
Public administration and social organisations	–	17,374
Subtotal for corporate loans and advances	73,357,665	63,538,241
Personal business	18,036,478	15,380,484
Personal consumption	17,073,906	15,870,180
Loans to farmers	9,791,979	9,247,935
Subtotal for personal loans	44,902,363	40,498,599
Discounted bills	1,444,420	1,904,481
Total for loans and advances to customers	119,704,448	105,941,321

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers

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

	Group	
	30 June 2014	31 December 2013
Neither past due nor impaired	117,411,672	104,468,259
Past due but not impaired	1,167,349	568,872
Impaired	1,125,427	904,190
	119,704,448	105,941,321
Less: Allowance for impairment losses		
Collectively assessed	(2,663,885)	(2,347,082)
Individually assessed	(142,887)	(79,224)
	(2,806,772)	(2,426,306)
	116,897,676	103,515,015

Neither past due nor impaired

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 2014		
	High quality	Standard quality	Total
Unsecured loans	4,674,608	4,239	4,678,847
Guaranteed loans	42,851,958	223,757	43,075,715
Loans secured by mortgages	57,102,190	747,916	57,850,106
Pledged loans	11,807,004	–	11,807,004
	116,435,760	975,912	117,411,672
	31 December 2013		
	High quality	Standard quality	Total
Unsecured loans	4,812,762	28,689	4,841,451
Guaranteed loans	39,878,220	234,408	40,112,628
Loans secured by mortgages	45,176,272	322,952	45,499,224
Pledged loans	14,014,456	500	14,014,956
	103,881,710	586,549	104,468,259

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(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers (Continued)

Past due but not impaired

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

Group

	30 June 2014		
	Corporate loans and advances	Personal loans	Total
Past due for:			
Less than one month	570,252	47,843	618,095
One to two months	271,316	24,915	296,231
Two to three months	44,872	125,013	169,885
Over three months	5,149	77,989	83,138
	891,589	275,760	1,167,349
Fair value of collateral held	651,905	161,070	812,975

	31 December 2013		
	Corporate loans and advances	Personal loans	Total
Past due for:			
Less than one month	82,563	26,259	108,822
One to two months	218,683	16,399	235,082
Two to three months	69,178	13,304	82,482
Over three months	17,970	124,516	142,486
	388,394	180,478	568,872
Fair value of collateral held	265,519	34,532	300,051

Impaired

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

The fair values of collateral that the Group holds relating to loans individually determined to be impaired as at 30 June 2014 amounted to RMB358,972 thousand (31 December 2013: RMB245,996 thousand). The collateral mainly consists of land, buildings, equipment and others.

Notes to the Condensed Consolidated Interim Financial Information

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(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management (Continued)

(a) Credit risk (Continued)

(iv) Debt securities

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

Group

	30 June 2014				
	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held for trading	Total
Neither past due nor Impaired					
Governments and central bank	106,460	1,493,432	994,140	640,352	3,234,384
Policy banks	–	14,022,447	8,325,950	448,069	22,796,466
Banks and other financial institutions	16,006,186	929,150	122,000	–	17,057,336
Corporate entities	26,248,166	2,885,480	4,458,338	1,456,456	35,048,440
Total	42,360,812	19,330,509	13,900,428	2,544,877	78,136,626

	31 December 2013				
	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held for trading	Total
Neither past due nor Impaired					
Governments and central bank	183,715	1,492,417	769,728	623,126	3,068,986
Policy banks	–	12,294,323	3,741,432	441,190	16,476,945
Banks and other financial institutions	18,399,265	329,001	20,000	–	18,748,266
Corporate entities	24,945,692	2,965,073	3,358,335	1,447,948	32,717,048
Total	43,528,672	17,080,814	7,889,495	2,512,264	71,011,245

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(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments 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 2014

	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with the central bank	-	15,451,964	-	-	-	-	-	37,046,638	52,498,602
Due from banks and other financial institutions (*)	-	9,396,629	26,300,849	11,812,921	34,104,781	4,597,856	-	-	86,213,036
Financial assets held for trading	-	-	5,350	61,770	1,681,448	743,245	333,555	-	2,825,368
Loans and advances to customers (**)	619,204	-	10,445,855	13,822,627	54,704,898	28,113,263	36,362,266	1,680,093	145,748,206
Financial investments	-	-	2,510,268	3,810,170	22,894,172	40,087,733	22,475,852	22,000	91,800,195
Other financial assets	-	356,358	982	66,678	127,589	4,170	-	-	555,777
Total financial assets	619,204	25,204,951	39,263,304	29,574,166	113,512,888	73,546,267	59,171,673	38,748,731	379,641,184
Financial liabilities:									
Due to the central bank	-	-	118,005	103,219	1,441,642	21,163	-	-	1,684,029
Due to banks and other financial institutions (***)	-	195,421	19,319,117	15,179,492	30,069,061	7,797,456	-	-	72,560,547
Derivative financial liabilities	-	-	56	-	794	-	-	-	850
Due to customers	-	119,945,205	10,783,045	19,543,041	53,558,333	35,163,716	5,884,396	-	244,877,736
Debt securities issued	-	-	-	-	1,173,750	2,727,500	-	-	3,901,250
Other financial liabilities	-	1,106,295	42,366	16,371	267,682	24,151	698	-	1,457,563
Total financial liabilities	-	121,246,921	30,262,589	34,842,123	86,511,262	45,733,986	5,885,094	-	324,481,975

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

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38. Financial instruments risk management (Continued)

(b) Liquidity risk (Continued)

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

Group (Continued)
31 December 2013

	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with the central bank	-	15,441,836	-	-	-	-	-	34,807,835	50,249,671
Due from banks and other financial institutions (*)	-	3,556,382	35,948,196	18,138,493	18,721,775	12,386,415	-	-	88,751,261
Financial assets held for trading	-	-	127,820	277,464	491,863	1,522,342	512,669	-	2,932,158
Loans and advances to customers (**)	203,351	-	7,928,185	13,190,688	54,882,658	21,451,814	24,394,498	871,472	122,922,666
Financial investments	-	-	7,308,383	2,853,389	19,101,788	34,700,196	18,770,664	20,000	82,754,420
Other financial assets	-	267,007	-	15,281	34,508	664	-	-	317,460
Total financial assets	203,351	19,265,225	51,312,584	34,475,315	93,232,592	70,061,431	43,677,831	35,699,307	347,927,636
Financial liabilities:									
Due to the central bank	-	-	34,999	147,438	614,401	41,340	-	-	838,178
Due to banks and other financial institutions (***)	-	189,742	13,930,408	14,604,239	33,243,241	11,646,527	-	-	73,614,157
Due to customers	-	116,832,994	11,635,868	19,758,136	54,690,731	28,732,167	48,205	-	231,698,101
Debt securities issued	-	-	-	-	1,173,750	2,841,250	-	-	4,015,000
Other financial liabilities	-	262,109	136,753	36,747	44,558	23,326	18	-	503,511
Total financial liabilities	-	117,284,845	25,738,028	34,546,560	89,766,681	43,284,610	48,223	-	310,668,947

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management (Continued)

(b) Liquidity risk (Continued)

(ii) Analysis of credit commitments by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of the commitments.

Group

Group	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
30 June 2014								
Credit commitments	866,064	6,260,739	13,550,547	22,183,098	866,960	-	180,000	43,907,408
31 December 2013								
Credit commitments	1,240,113	7,385,350	14,385,233	24,905,064	2,433	-	180,000	48,098,193

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management (Continued)

(c) Market risk

(i) Currency risk

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

Group

30 June 2014

	RMB	USD (equivalent to RMB)	HKD (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Financial assets:						
Cash and balances with the central bank	52,473,650	24,888	64	-	-	52,498,602
Due from banks and other financial institutions	24,074,372	131,629	6,974,062	13,274	115,466	31,308,803
Financial assets held for trading	2,544,877	-	-	-	-	2,544,877
Reverse repurchase agreements	52,641,039	-	-	-	-	52,641,039
Loans and advances to customers	115,787,368	1,110,308	-	-	-	116,897,676
Financial investments	75,591,749	-	-	-	-	75,591,749
Other financial assets	2,949,010	9,394	-	-	3	2,958,407
Total financial assets	326,062,065	1,276,219	6,974,126	13,274	115,469	334,441,153
Financial liabilities:						
Due to the central bank	1,610,811	-	-	-	-	1,610,811
Due to banks and other financial institutions	64,852,811	274,785	-	38,640	-	65,166,236
Derivative financial liabilities	850	-	-	-	-	850
Repurchase agreements	4,116,577	-	-	-	-	4,116,577
Due to customers	234,626,667	557,094	2,110	9,994	69,985	235,265,850
Debt securities issued	3,500,000	-	-	-	-	3,500,000
Other financial liabilities	4,590,550	4,394	133,095	44	34	4,728,117
Total financial liabilities	313,298,266	836,273	135,205	48,678	70,019	314,388,441
Net position	12,763,799	439,946	6,838,921	(35,404)	45,450	20,052,712
Credit commitments	43,504,723	400,570	-	-	2,115	43,907,408

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments 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 2013

	RMB	USD (equivalent to RMB)	HKD (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Financial assets:						
Cash and balances with the central bank	50,222,534	27,082	55	-	-	50,249,671
Due from banks and other financial institutions	33,695,667	120,126	1,701	11,602	42,096	33,871,192
Financial assets held for trading	2,512,264	-	-	-	-	2,512,264
Reverse repurchase agreements	51,110,948	-	-	-	-	51,110,948
Loans and advances to customers	102,305,828	1,208,363	-	-	804	103,515,015
Financial investments	68,498,981	-	-	-	-	68,498,981
Other financial assets	2,205,201	5,358	-	-	3	2,210,562
Total financial assets	310,551,423	1,360,949	1,756	11,602	42,903	311,968,633
Financial liabilities:						
Due to the central bank	787,198	-	-	-	-	787,198
Due to banks and other financial institutions	49,928,032	655,012	-	27,824	-	50,610,868
Repurchase agreements	19,091,166	-	-	-	-	19,091,166
Due to customers	223,593,450	521,556	1,233	6,808	55,079	224,178,126
Debt securities issued	3,500,000	-	-	-	-	3,500,000
Other financial liabilities	2,992,893	3,793	-	-	34	2,996,720
Total financial liabilities	299,892,739	1,180,361	1,233	34,632	55,113	301,164,078
Net position	10,658,684	180,588	523	(23,030)	(12,210)	10,804,555
Credit commitments	47,693,012	404,281	-	-	900	48,098,193

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk

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

Group

30 June 2014

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Financial assets:						
Cash and balances with the central bank	52,498,602	-	-	-	-	52,498,602
Due from banks and other financial institutions	17,211,358	10,997,445	3,100,000	-	-	31,308,803
Financial assets held for trading	249,142	1,568,824	423,194	303,717	-	2,544,877
Reverse repurchase agreements	29,572,766	21,618,273	1,450,000	-	-	52,641,039
Loans and advances to customers	28,356,565	85,269,473	1,835,287	695,109	741,242	116,897,676
Financial investments	9,995,183	20,403,849	28,321,733	16,843,100	27,884	75,591,749
Other financial assets	-	-	-	-	2,958,407	2,958,407
Total financial assets	137,883,616	139,857,864	35,130,214	17,841,926	3,727,533	334,441,153
Financial liabilities:						
Due to the central bank	218,830	771,981	620,000	-	-	1,610,811
Due to banks and other financial institutions	29,978,241	28,337,995	6,850,000	-	-	65,166,236
Derivative financial liabilities	-	-	-	-	850	850
Repurchase agreements	4,116,577	-	-	-	-	4,116,577
Due to customers	149,791,675	52,202,202	28,616,419	4,500,000	155,554	235,265,850
Debt securities issued	-	1,000,000	2,500,000	-	-	3,500,000
Other financial liabilities	-	-	-	-	4,728,117	4,728,117
Total financial liabilities	184,105,323	82,312,178	38,586,419	4,500,000	4,884,521	314,388,441
Total interest sensitivity gap	(46,221,707)	57,545,686	(3,456,205)	13,341,926	N/A	N/A

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

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

Group (Continued) 31 December 2013

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Financial assets:						
Cash and balances with the central bank	50,249,671	-	-	-	-	50,249,671
Due from banks and other financial institutions	14,941,272	11,881,920	7,048,000	-	-	33,871,192
Financial assets held for trading	748,602	414,507	896,741	452,414	-	2,512,264
Reverse repurchase agreements	39,908,677	6,052,271	5,150,000	-	-	51,110,948
Loans and advances to customers	28,590,978	71,558,331	2,296,508	145,107	924,091	103,515,015
Financial investments	17,337,796	16,540,976	21,418,340	13,164,331	37,538	68,498,981
Other financial assets	-	-	-	-	2,210,562	2,210,562
Total financial assets	151,776,996	106,448,005	36,809,589	13,761,852	3,172,191	311,968,633
Financial liabilities:						
Due to the central bank	143,229	603,969	40,000	-	-	787,198
Due to banks and other financial institutions	16,415,123	23,851,745	10,344,000	-	-	50,610,868
Repurchase agreements	10,792,366	8,298,800	-	-	-	19,091,166
Due to customers	146,883,847	53,158,264	23,788,665	43,823	303,527	224,178,126
Debt securities issued	-	1,000,000	2,500,000	-	-	3,500,000
Other financial liabilities	-	-	-	-	2,996,720	2,996,720
Total financial liabilities	174,234,565	86,912,778	36,672,665	43,823	3,300,247	301,164,078
Total interest sensitivity gap	(22,457,569)	19,535,227	136,924	13,718,029	N/A	N/A

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management *(Continued)*

(d) Capital management

The Group's objectives on capital management are:

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

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

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

From 1 January 2013, the Group commenced to calculate the capital adequacy ratio in accordance with the "Capital Rules for Commercial Banks (provisional)" and other relevant regulations promulgated by CBRC and will continue to promote the disclosure of this content. The computation basis may materially differ from those applicable in Hong Kong or other countries. The CBRC requires that a commercial bank maintains its core tier 1 capital adequacy ratio above 5%, the tier 1 capital adequacy ratio above 6% and the capital adequacy ratio above 8%.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach.

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 complied in full with all externally imposed capital requirements.

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

38. Financial instruments risk management *(Continued)*

(d) Capital management *(Continued)*

	30 June 2014	31 December 2013
Core capital		
Share capital	10,995,600	8,246,900
Valid portion of capital reserve	7,491,164	3,988,869
Surplus reserve and general reserve	5,028,557	3,460,355
Retained profits	4,027,042	4,030,707
Valid portion of non-controlling interests	414,692	199,745
Core tier-one capital deductible items:		
Full deductible items	(57,630)	(58,659)
Net core tier-one capital	27,899,425	19,867,917
Net other tier-one capital	–	–
Net tier-one capital	27,899,425	19,867,917
Net tier-two capital	2,485,155	2,362,830
Net capital	30,384,580	22,230,747
On-balance sheet risk-weighted assets	165,299,999	149,754,123
Off-balance sheet risk-weighted assets	17,237,217	19,343,872
Credit risk-weighted assets	182,537,216	169,097,995
Market risk-weighted assets	3,290,781	3,589,682
Operational risk-weighted assets	13,326,841	13,326,841
Total risk-weighted assets	199,154,838	186,014,518
Core tier-one capital adequacy ratio	14.01%	10.68%
Tier-one capital adequacy ratio	14.01%	10.68%
Capital adequacy ratio	15.26%	11.95%

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

39. Fair value of financial instruments

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing 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 an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy:

Group

30 June 2014

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	2,544,877	–	2,544,877
Available-for-sale financial assets				
Debt securities	–	13,778,428	–	13,778,428
Wealth management products	–	100,000	–	100,000
Funds	–	22,000	–	22,000
	–	13,900,428	–	13,900,428
	–	16,445,305	–	16,445,305
<u>Financial liabilities measured at fair value</u>				
Derivative financial liabilities	–	850	–	850
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	42,356,201	42,356,201
Held-to-maturity investments	–	–	19,028,896	19,028,896
	–	–	61,385,097	61,385,097
<u>Financial liabilities disclosed at fair value</u>				
Subordinated bonds	–	–	1,001,721	1,001,721
Financial bonds	–	–	2,455,123	2,455,123
	–	–	3,456,844	3,456,844

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

39. Fair value of financial instruments (Continued)

Determination of fair value and fair value hierarchy (Continued)

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

31 December 2013

	Level 1	Level 2	Level 3	Level 4
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	2,512,264	–	2,512,264
Available-for-sale financial assets				
Debt securities	–	7,869,495	–	7,869,495
Funds	–	20,000	–	20,000
	–	7,889,495	–	7,889,495
	–	10,401,759	–	10,401,759
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	43,529,804	43,529,804
Held-to-maturity investments	–	–	16,176,542	16,176,542
	–	–	59,706,346	59,706,346
<u>Financial liabilities disclosed at fair value</u>				
Subordinated bonds	–	–	990,904	990,904
Financial bonds	–	–	2,371,372	2,371,372
	–	–	3,362,276	3,362,276

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

Notes to the Condensed Consolidated Interim Financial Information

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

(Amount in thousands of RMB, unless otherwise stated)

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

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

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

- (i) The receivables are not quoted in an active market. In the absence of any other relevant observable market, the fair values of receivables are estimated on the basis of pricing models or discounted cash flows.
- (ii) The fair values of held-to-maturity investments, subordinated bonds and financial bonds 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 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 reprised at current market rates frequently, are as follows:

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

40. Approval of the consolidated financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 19 August 2014.

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 supplemental financial information as follows:

(a) Liquidity ratio

	30 June 2014	31 December 2013
RMB current assets to RMB current liabilities	41.90%	41.94%
Foreign currency current assets to foreign currency current liabilities	72.49%	148.65%

These liquidity ratios are calculated based on relevant regulations provided by the CBRC and Chinese accounting policies.

(b) Currency concentrations

	USD	EUR	HKD	Others	Total
30 June 2014					
Current assets	1,282,831	5,587	6,975,610	224,876	8,488,904
Current liabilities	(836,273)	(948)	(135,205)	(117,749)	(1,090,175)
Net position	446,558	4,639	6,840,405	107,127	7,398,729
31 December 2013					
Current assets	1,369,949	4,094	3,013	121,613	1,498,669
Current liabilities	(1,180,361)	(1,015)	(1,233)	(88,730)	(1,271,339)
Net position	189,588	3,079	1,780	32,883	227,330

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

(c) Cross-border claims

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

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

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

	30 June 2014	31 December 2013
Due from banks and other financial institutions		
Asia Pacific excluding Mainland China	224,284	1,304
– of which attributed to Hong Kong	224,179	1,304
Europe	28,995	32,352
North and South America	130,367	96,999
Total	383,646	130,655

(d) Loans and advances to customers

(i) Overdue loans and advances to customers

	30 June 2014	31 December 2013
Amounts for overdue loans and advances to customers		
Between 3 and 6 months	80,362	28,352
Between 6 and 12 months	382,261	560,040
Over 12 months	651,905	346,902
As a percentage of the total gross loans and advances to customers		
Between 3 and 6 months	0.07%	0.03%
Between 6 and 12 months	0.32%	0.53%
Over 12 months	0.54%	0.33%
	0.93%	0.89%

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

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

(i) Overdue loans and advances to customers *(Continued)*

The definition of overdue loans and advances to customers is set out as follows:

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amounts of these loans and advances would be classified as overdue.

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

30 June 2014

	Overdue loans and advances to customers			Impaired loans and advances to customers		
	Gross amount	Individually assessed to be impaired	Individually assessed	Individually assessed to be impaired	Individually assessed	Collectively assessed
			allowance for impairment losses		allowance for impairment losses	
Heilongjiang region	1,337,904	286,278	116,598	307,408	125,743	1,485,342
Northeastern China	337,530	2,058	528	2,058	528	394,123
Southwest China	318,273	1,212	364	1,212	364	482,844
Northern China	193,466	39,030	10,019	39,030	10,019	211,307
Other region	24,822	9,379	6,597	13,649	6,233	90,269
Total	2,211,995	337,957	134,106	363,357	142,887	2,663,885

31 December 2013

	Overdue loans and advances to customers			Impaired loans and advances to customers		
	Gross amount	Individually assessed to be impaired	Individually assessed	Individually assessed to be impaired	Individually assessed	Collectively assessed
			allowance for impairment losses		allowance for impairment losses	
Heilongjiang region	1,029,051	129,491	65,458	140,192	67,598	1,341,927
Northeastern China	308,738	32,603	6,963	32,603	6,963	377,317
Southwest China	600	–	–	–	–	418,674
Northern China	22,041	11,336	2,267	11,336	2,267	149,343
Other region	14,918	6,779	2,396	6,779	2,396	59,821
Total	1,375,348	180,209	77,084	190,910	79,224	2,347,082

Unaudited Supplementary Financial Information

(Amount in thousands of RMB, unless otherwise stated)

(e) Overdue placements with banks and other financial institutions

As at 30 June 2014, there are no overdue placements with banks and other financial institutions in respect of principal or interest (31 December 2013: Nil).

(f) Exposures to Mainland China non-bank entities

	30 June 2014	31 December 2013
On-balance sheet exposure	118,296,028	104,036,840
Off-balance sheet exposure	43,907,408	48,098,193
Individually assessed allowance for impairment losses	142,887	79,224

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 Review 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

